NON-CONFIDENTIAL VERSION

Re : Proposed amalgamation of BPAY Group Holding Pty Ltd, BPAY Group Pty Ltd, BPAY Pty Ltd (together, BPAY), eftpos Payments Australia Limited and NPP Australia Limited

Statement in support of application for amalgamation by Commonwealth Bank of Australia

Signed by: Simon Birch, Executive General Manager Payments Service Utility

Date: 18 March 2021

This document contains confidential information which is indicated as follows:

[Confidential to CBA]

Contents

NON-CONFIDENTIAL VERSION

Exhibits

Non-Confidential Exhibits (Exhibit CBA-1)		
Tab No.	**Description**	**Paragraph**
1	CBA.600.002.0001 – Submission made by CBA, dated 22 February 2019, to the Australian Payments Council 2019 Consultation	3
2	CBA.600.002.0007 – Submission made by CBA, dated 19 October 2018, to the Council of Financial Regulators Review of Retail Payments Regulation	3
3	CBA.600.002.0021 – Submission made by CBA, dated 31 August 2011 to the RBA Strategic Review of Innovation in the Payments System: Issues for Consultation – June 2011	3
4	CBA.600.002.0049 – Submission made by CBA, dated 22 April 2015, to the RBA Consultation on Review of Card Payments Regulation – Issues Paper, March 2015	3
5	CBA.600.002.0130 – Submission made by CBA, dated 1 February 2016, to the RBA Review of Card Payments Regulation – Consultation Paper, December 2015	3
6	CBA.600.002.0057 – Submission made by CBA, dated 20 March 2018, to the Productivity Commission's Inquiry into Competition in the Australian Financial System	3
7	CBA.600.002.0136 – Submission made by CBA, dated 8 August 2016, to the Productivity Commission Inquiry on Data Availability and Use	3
8	CBA.600.002.0147 – Submission made by CBA, dated 30 November 2018, to the RBA New Payments Platform Functionality and Access Consultation	3
9	CBA.600.002.0148 – Submission made by CBA, dated 28 March 2019, to the RBA Consultation on the Operation of the Interchange Standards, February 2019	3
10	CBA.600.002.0152 – Submission made by CBA, dated 15 November 2019, to the RBA ISO 20022 Migration for the Australian Payments System – Responses and Options Paper	3
11	CBA.600.002.0156 – Submission by CBA, dated 31 January 2020, to the RBA Review of Retail Payments Regulation – Issues Paper	3

NON-CONFIDENTIAL VERSION

Non-Confidential Exhibits (Exhibit CBA-1)		
12	CBA.600.005.0001 – Submission by CBA, dated 22 January 2021, to the Treasury Review of the Australian Payments System	3
13	CBA.600.011.0001 – Submission by CBA, dated 18 December 2020, to the Senate Select Committee on Financial Technology and Regulatory Technology	3
14	CBA.501.002.0026, CBA.501.002.0033, CBA.501.002.0038, CBA.501.002.0041 – CBA's response to questions 42-45 of the House of Representatives Standing Committee on Economics Review of the Four Major Banks	3
15	CBA.600.011.0224 – CBA's FY2020 Annual Report	27
16	CBA.600.011.0034 – CBA's Profit Announcement for the Half Year Ended 31 December 2020	27
17	CBA.600.011.0017 – NPP QR Code Standard Version 1.0 dated 30 May 2019	95

Confidential Exhibits (Confidential Exhibit CBA-1)		
Tab No.	**Description**	**Paragraph**
1	CBA.501.001.3287 – Confidential Briefing Note dated May 2020	21(a)
2	CBA.501.001.3272 – Local Scheme Considerations presentation dated May 2020	21(b)
3	CBA.501.004.0246 – BPAY Scheme Rules Version 21.0 dated 1 January 2021	35(a)
4	CBA.501.004.0297 – BPAY Payments Rules Version 21.0 dated 1 January 2021	35(a)
5	CBA.501.004.0360 – BPAY Scheme Procedures Version 21.0 dated 1 January 2021	35(a)
6	CBA.501.004.0409 – BPAY Payments Procedures Version 21.0 dated 1 January 2021	35(a)
7	CBA.501.004.0500 – BPAY Scheme Continuing Member Acknowledgement	35(b)

Confidential Exhibits (Confidential Exhibit CBA-1)		
8	CBA.501.004.0026 – Confidential letter from BPAY to CBA dated 7 December 2017	35(b)
9	CBA.501.005.0805 – NPP Procedures Version 13.0 dated 18 November 2020	61(b)
10	CBA.501.005.1155 – New Payments Platform Participant Back Office Design Considerations Version 8.0 dated 18 November 2020	61(c)

A. INTRODUCTION

1 This document has been prepared in support of the application by Industry Committee Administration Pty Ltd for authorisation on behalf of the shareholders of BPAY Group Holding Pty Ltd (**BPAY**), the members of eftpos Payments Australia Limited (**eftpos**) and the shareholders of NPP Australia Limited (**NPPA**) who were members of Industry Committee at all relevant times, and by NewCo once it is incorporated, to acquire shares in NewCo and for NewCo to acquire shares in each of BPAY Group Pty Ltd and BPAY Pty Ltd, eftpos and NPPA (the **Application**). The Application relates to the proposed amalgamation of NPPA, BPAY and eftpos (the **Proposed Amalgamation**).

2 Exhibited with this statement are the following bundles of documents:

(a) A bundle of documents marked "Exhibit CBA-1".

(b) A bundle of confidential documents marked "**Confidential Exhibit CBA-1**". CBA claims confidentiality over all Confidential Exhibits.

This statement refers to documents by reference to the tab number that the document starts in the relevant bundle.

B. SUMMARY OF CBA'S VIEWS REGARDING THE PROPOSED AMALGAMATION[1]

The Proposed Amalgamation will enhance competition

3 CBA is committed to providing customers with choice and flexibility when it comes to how they are paid and want to pay. Competition within the payments system is a driver of innovation which enhances choices for customers. CBA believes that the Proposed Amalgamation will enhance competition in the Australian payments system to the benefit of Australian consumers.

[1] CBA has made a number of public submissions to various inquiries setting out its views regarding the Australian payments system. These submissions are provided in Tabs 1 – 14 of Exhibit CBA-1: CBA.600.002.0001 (Australian Payments Council 2019 Consultation), CBA.600.002.0007(Council of Financial Regulators Review of Retail Payments Regulation), CBA.600.002.0021 (RBA Strategic Review of Innovation in the Payments System: Issues for Consultation – June 2011), CBA.600.002.0049 (RBA Consultation on Review of Card Payments Regulation – Issues Paper, March 2015), CBA.600.002.0130 (RBA Review of Card Payments Regulation – Consultation Paper, December 2015), CBA.600.002.0057 (Productivity Commission's Inquiry into Competition in the Australian Financial System), CBA.600.002.0136 (Productivity Commission Inquiry on Data Availability and Use), CBA.600.002.0147 (RBA New Payments Platform Functionality and Access Consultation), CBA.600.002.0148 (RBA Consultation on the Operation of the Interchange Standards, February 2019), CBA.600.002.0152 (RBA ISO 20022 Migration for the Australian Payments System – Responses and Options Paper), CBA.600.002.0156 (RBA Review of Retail Payments Regulation – Issues Paper); CBA.600.005.0001 (Treasury Review of the Australian Payments System); CBA.600.011.0001 (Senate Select Committee on Financial Technology and Regulatory Technology); CBA.501.002.0026, CBA.501.002.0033, CBA.501.002.0038, CBA.501.002.0041 (House of Representatives Standing Committee on Economics Review of the Four Major Banks).

4 The Proposed Amalgamation will bring together each domestic entity's capabilities, resources, intelligence, capital and technology to provide the schemes with increased scale and enable the creation of more compelling offerings to customers, merchants and industry stakeholders.

5 Combining the domestic schemes will also lead to a more efficient use of their scarce resources. It will allow the schemes to prioritise initiatives and enable the agile deployment of expertise across the schemes to where and when it is needed.

6 In doing so, the domestic schemes will be better placed to compete more effectively with the international card schemes (which currently dominate the Australian payments system) as well as other international players of scale (particularly big tech) which are making inroads into payments, to the ultimate benefit of Australian businesses and consumers.

The payments sector is evolving with changes in technology, consumer preferences and new business models

7 The payments system is evolving rapidly. CBA has observed the following trends:

(a) Australians are continuing to switch to digital payment methods, a trend that has been driven by technological advances and new entrants, and accelerated by COVID-19.

(b) Customers want quicker, simpler and more efficient payments. Whether it is through quicker payments at the point of sale, faster access to funds, or online payments made anywhere, anytime, customers are demanding more from payment providers.

(c) Card payments are currently the primary source of retail payments but account to account (**A2A**) payment transfers are increasing in popularity.

8 All of these trends create the need for fast paced innovation in the payments sector. To compete in this market against a growing number of diverse new entrants, payments providers need to develop broader payments capability to meet consumer demands.

The Proposed Amalgamation will better equip the domestic schemes to meet consumer demands

9 Combining the three schemes has the benefit of creating an entity with a more holistic approach to payment solutions, in line with changing consumer demands. It creates an entity of larger scale that can draw on the expertise of each scheme which has traditionally focused on specific payment types.

10 Each of NPPA, BPAY and eftpos have historically operated in distinct areas:

(a) BPAY's core service is a bill payment service. It also operates the first New Payments Platform (**NPP**) overlay service known as 'Osko', which provides payment standards for a better near real-time payments experience over NPPA's infrastructure.

(b) eftpos' core service is point of sale transactions by debit card or digitally (via digital wallets).

(c) NPPA's two core services are near real-time A2A payments including (among other features) the ability to make payments to both eligible BSB / accounts and registered PayID and the PayID addressing service.

11 As payment solutions are multiplying, CBA has noted corresponding attempts by the payment schemes to diversify their offerings. As part of this trend, CBA is also observing increasing overlaps in the focus and strategic aims of the three domestic payment schemes. For example, between them the three schemes have developed more than one solution for peer to peer **[Confidential to CBA]**. BPAY had previously worked on a QR code solution and NPPA and eftpos have since made announcements regarding their own QR code solutions. Similarly, eftpos recently announced it is developing a digital identity (Digital ID) solution while last year BPAY stated in its submission to the Senate Select Committee on Financial Technology and Regulatory Technology that it is exploring the potential roles it could play in developing a Digital ID solution. Some of these examples are discussed further in section E below (see paragraphs 87 and following).

12 However, in the future, the current growth in digital wallets use is expected to continue, enabling consumers to increasingly use different payment methods interchangeably. As a result, the innovations being developed by the schemes using their individual payments rails will be less effective in this environment. In order to compete against the international schemes who are already positioning themselves as 'multi-rail' providers, the domestic schemes will need to join forces to enable hybrid solutions that potentially combine card, A2A and bill payments.

The Proposed Amalgamation will encourage a more efficient use of scarce payments resources

13 The resources needed to invest in the Australian payments system – in terms of funding as well as expertise – are scarce. Each of the three schemes develops its solutions in a silo. CBA is observing the following inefficiencies due to the three payments schemes being run as three unrelated legal entities:

(a) The three schemes are expending their own scarce resources on developing proposals that target the same (or similar) use cases in contexts where payments system stakeholders tend to coalesce around one solution.

(b) An increased burden on industry stakeholders to assist the schemes to develop multiple proposals and to decide where to dedicate scarce resources to support those proposals.

14 The existing siloed structure is resulting in inefficiencies and dampening the pace of innovation that can be carried out by the schemes. The scheme decision making structures are not conducive to the fast pace required for payments innovation.

15 CBA considers that the Proposed Amalgamation will resolve the inefficiencies created by the current structure and better enable the domestic schemes to develop innovative payment solutions that will benefit Australian merchants and consumers because:

(a) It allows for prioritisation, streamlined engagement with participants at the scheme level and better sequencing of delivery of payment solutions.

(b) It allows for the development of hybrid payment solutions through shared expertise and technology instead of solutions that only resolve part of a use case.

(c) It allows CBA (and other shareholders / stakeholders) to undertake a more targeted allocation of scarce investment funding by minimising duplication.

(d) It increases the ability to bring solutions to market by securing broad industry support to create the network effects that are necessary for successful payment solutions.

16 In this regard, the Proposed Amalgamation promises faster and more efficient innovation in delivering new initiatives and allocation of capital.

The Proposed Amalgamation will better equip the domestic schemes to compete against stronger international peers

17 The international card schemes dominate the Australian payments system. Other international operators – in particular big tech – are increasing their focus on payments. Those international players benefit from significant scale and an international network from which to draw expertise and in which to test payment solutions before they are rolled out in Australia.

18 In CBA's experience, the domestic schemes exert limited competitive pressure on these international players. CBA has observed that fragmented investment and resources spread across multiple solutions is limiting the ability of domestic schemes to generate any real competition against the international card schemes and big tech with superior financial resources. Combining resources and creating a single, unified investment agenda and

delivery roadmap will provide the domestic schemes with a greater opportunity to successfully compete with their international peers.

19 A strong domestic alternative is an important constraint on the fees charged by the international schemes to users of their payment rails. It also means that consumers will benefit from a strong domestic entity that is focused on developing payments solutions tailored specifically for the Australian context.

20 Ultimately CBA anticipates that the Proposed Amalgamation will benefit:

(a) consumers, through more targeted investment creating new functionality, enhanced solutions and choice;

(b) merchants, with efficiencies and competitive pressure potentially driving down the cost of acceptance; and

(c) scheme participants, offering a simpler touch point with a unified entity and a more co-ordinated investment agenda.

21 The following documents have been exhibited to this statement and set out CBA's considerations in May 2020 regarding the potential amalgamation of BPAY, eftpos and NPPA:

(a) **[Confidential to CBA]**.

(b) **[Confidential to CBA]**.

C. OVERVIEW OF CBA

22 CBA provides financial services to approximately 17 million customers,[2] including retail, business and institutional banking, funds management, superannuation, general insurance and broking services. Its operations are conducted primarily in Australia and New Zealand. In addition, it also operates in a number of other countries.

23 The Retail Banking Services division of CBA (**RBS**) serves the banking needs of personal customers, including by providing financial planning and general insurance products and services.

24 The Business Banking division of CBA (**Business Bank**) serves the banking needs of business, corporate and agribusiness customers across the full range of financial services solutions. It also provides equities trading and margin lending services through the CommSec business.

[2] As disclosed in Commonwealth Bank of Australia FY 2020 Annual Report, page 3 (Tab 15 of Exhibit CBA-1).

25 The Institutional Banking and Markets division of CBA serves the commercial and wholesale banking needs of large corporate, institutional and government clients across a full range of financial services solutions including access to debt capital markets, transaction banking, working capital and risk management through dedicated product and industry specialists.

26 RBS and Business Bank include the financial results of activities conducted under the Bankwest brand. This statement does not, however, provide information regarding the Bankwest business.

27 More information can be found here: https://www.commbank.com.au/about-us/. CBA's FY2020 Annual Report is at Tab 15 of Exhibit CBA-1 and CBA's Profit Announcement for the Half Year Ended 31 December 2020 is at Tab 16 of Exhibit CBA-1.

D. CBA'S INTERFACE WITH THE SERVICES OF BPAY, EFTPOS AND NPPA

28 The payment schemes rely on key stakeholders in the payments ecosystem, like CBA, to support their initiatives. This reliance is in large part due the market dynamics of payment systems, which are highly dependent on network effects.

29 **[Confidential to CBA]**. In relation to the three domestic schemes, CBA invests significant resources to support the proposals they pursue, in addition to ongoing routine maintenance and upgrades associated with delivery of scheme services. The extent of this support is described throughout this statement.

30 Each payment scheme along with the international card schemes also has its own rules and obligations that must be complied with. Scheme compliance obligations relate to security and stability of the payment system, consumer protection (e.g. scheme chargeback rules and mistaken payment processes), and commercial obligations (such as brand use expectations).

BPAY

CBA's relationship with BPAY

31 BPAY offers a payment service which allows consumers to make payments to participating businesses known as BPAY Billers. CBA processes payments made by consumer payers via BPAY over the telephone, on the CommBank app, NetBank or CommBiz (as a '**Payer Institution'**), and receives payments for the business payee via BPAY (as a '**Biller Institution**').

32 CBA is a shareholder in BPAY. It holds 712,500 (out of 3,183,332, so 22%) Class A shares and 133,333 (out of 200,000, so 67%) Class B shares in BPAY. CBA has 1 nominee director (chair) and an alternate director on each of the BPAY, BPAY Group Pty Ltd and BPAY Pty Ltd boards.

33 **[Confidential to CBA]**

(a) **[Confidential to CBA]**

(b) **[Confidential to CBA]**

(c) **[Confidential to CBA]**

(d) **[Confidential to CBA]**

(e) **[Confidential to CBA]**

34 In addition to BPAY's traditional payment service, CBA has been utilising BPAY's Osko Service 1 (**Osko1**) since February 2018. Osko is the first overlay service on the NPP infrastructure. Osko1 provides specific standards for customer experience in relation to an NPP payment single credit transfer. CBA is certified to send Osko1 payments via the CommBank app and / or CommBiz either by addressing the payment to a BSB and eligible account number or a registered PayID.

35 CBA's use of BPAY services is governed by an extensive set of rules and procedures that are primarily set out in the:

(a) **[Confidential to CBA]**; and

(b) **[Confidential to CBA]**.

CBA's investment in BPAY's initiatives

36 CBA has made substantial investments in payment innovations offered by BPAY, including in relation to BPAY View, which allows billers to send bills directly to the CommBank app or Netbank, and Osko1.

37 CBA has also invested funds as part of its enablement program for NPP in order to offer the Osko1 service to its customers.

BPAY bill payment – revenue and fees (flows between CBA ad BPAY)

38 **[Confidential to CBA]:**

(a) **[Confidential to CBA];**

(b) **[Confidential to CBA]**; and

(c) **[Confidential to CBA]**

39 **[Confidential to CBA]**

40 **[Confidential to CBA]**

BPAY bill payment – revenue and fees (flows between CBA and its customers)

41 CBA does not charge customers a specific fee for making a payment through retail channels (such as Netbank) using BPAY.

42 CBA charges a per transaction fee to business customers who initiate a BPAY payment via CommBiz. This is a standard fee that is published in the CommBiz Terms and Conditions (16 January 2021, page 64) on the CBA website.

43 CBA also charges a per transaction fee from its biller customer for each BPAY payment it receives on behalf of that customer.

Osko1 – Revenue and fees

44 CBA does not charge retail customers a specific fee for using Osko1.

45 CBA charges a per transaction fee to business customers who initiate a Fast Payment which can include an Osko1 payment via CommBiz Web. This is a standard fee that is published in the CommBiz Terms and Conditions on the CBA website. **[Confidential to CBA]**.

eftpos

CBA's relationship with eftpos

46 eftpos operates and manages a payment network and scheme that allows consumers to make real time digital payments at the point of sale using their debit card or digitally (via digital wallets, e.g. via Apple Pay and Samsung Pay).

47 CBA is a member of eftpos and has an alternate director on the eftpos board.

48 **[Confidential to CBA]**.

49 CBA participates in the eftpos scheme as both:

(a) an '**Issuer'**, issuing to customers:

i dual network Mastercard debit cards (with eftpos functionality) and dual network Visa debit cards (with eftpos functionality);

ii Mastercard or Visa credit cards (which can be linked to a bank account for eftpos functionality); and

iii Eftpos 'Keycards' (with Cirrus functionality).

(b) An '**Acquirer'**, enabling business customers to accept eftpos payments through merchant terminals. CBA also accepts eftpos cards at CBA's Automated Teller Machines (**ATMs**).

50 CBA's use of eftpos' services is governed by an extensive set of rules and procedures that are primarily set out in the eftpos Scheme Rules and eftpos Technical Operational and Security Rules.

CBA's investment in eftpos' initiatives

51 CBA has invested significantly in the development and maintenance of eftpos architecture as well as various transformation activities. These include:

(a) **eftpos eHub project.** The project migrated the then existing decentralised eftpos system, where all banks and self-acquirers were linked to each via separate bilateral connections, to a centralised switching platform (known as the eHub). The eHub caters for high volume point-of-sale debit card transactions and ATM cash withdrawals. The project was important for future eftpos product development, including contactless, internet and mobile payment capabilities, and eftpos' viability as a domestic scheme in Australia.

(b) **Least cost routing.** In July 2019, CBA began offering the capability for merchants to route contactless scheme debit transactions in the way that is preferential to their business. Least Cost Routing ("**LCR**") capability enables merchants to choose to route dual scheme contactless card transactions to the network (i.e. eftpos or international card scheme) of their choice. Prior to the development of contactless capability by eftpos, all contactless debit transactions on dual cards were routed to the international schemes as per the priority set on the card chip.

(c) **eftpos chip and contactless.** To enable all cards with a chip and contactless capability.

(d) **eftpos mobile payment.** Ensures that all customers can make mobile payments with their phone. CBA customers can make eftpos payments using Apple Pay and Samsung Pay.

(e) **eftpos digital.** Supports 'card not present' transactions as well as new functionalities around deposits and withdrawals. The work on eftpos digital is ongoing. **[Confidential to CBA]**.

Issuing - revenues and fees

52 CBA, as an Issuer, receives interchange fees from the retailer (where they are the '**Self-Acquirer**') or the retailer's financial institution (the '**Acquirer**'), in accordance with the eftpos Scheme Rules and RBA regulations. CBA, as an Issuer, also pays interchange fees in relation to cash out transactions. These fees are set by eftpos.

53 **[Confidential to CBA]**.

Acquiring - revenues and fees

54 CBA, as Acquirer, charges its business customers a range of bundled and negotiated pricing arrangements. The pricing arrangements incorporate the interchange fees CBA, as Acquirer, pays to the merchant's customer's financial institution (as Issuer) in accordance with the eftpos Scheme Rules.

55 **[Confidential to CBA]**.

56 **[Confidential to CBA]**.

NPPA

CBA's relationship with NPPA

57 NPPA develops and maintains the NPP, which, enables near real-time clearing and settlement of payments addressed to a BSB and eligible bank account or a registered PayID. NPP also offers the PayID addressing service which allows users to link other identifiers (such as a phone number of email address) to their account, so that payments can be addressed using those identifiers, instead of a BSB and account number. **[Confidential to CBA]**.

58 CBA **[Confidential to CBA]** has 1 nominee director and alternate director on the NPPA board.

59 **[Confidential to CBA]**

(a) **[Confidential to CBA];**

(b) **[Confidential to CBA]**:

(i) **[Confidential to CBA]**;

(ii) **[Confidential to CBA]**;

(iii) **[Confidential to CBA]**;

(iv) **[Confidential to CBA]**;

(v) **[Confidential to CBA]**.

60 CBA is a direct participant in the NPP, allowing CBA customers who hold an eligible bank account to make or receive NPP payments as single credit transfer or an Osko1 payment.

61 CBA's use of the NPP is governed by an extensive set of rules and procedures that are primarily set out in:

(a) the NPP Regulations, a copy of which is available at: https://nppa.com.au/wp-content/uploads/2020/12/NPP-Regulations-v8.0_public-version.pdf;

(b) **[Confidential to CBA]**; and

(c) **[Confidential to CBA]**.

CBA's investments in NPPA's initiatives

62 CBA has played a central role in building the NPP. It has made significant investments in the NPP to increase its functionality and volumes.

(a) **[Confidential to CBA]**.

(b) **[Confidential to CBA]**.

63 CBA launched the NPP to the public in February 2018 with a minimum viable product, and has continued to invest in the NPP as it has expanded its capabilities, including investments in:

(a) compliance and risk reduction activities, including ongoing compliance with mandates, providing for scalability of NPP payment volumes and uplifting other compliance frameworks to allow for real time screening of NPP payments;

(b) expanding the channels from which CBA customers can send payments via NPP; and

(c) the Development of the 'mandated payments service' (***MPS***) to support near real-time 'debit-like' payments on the NPP payment rails.

NPPA – revenue and fees

64 **[Confidential to CBA].**

65 CBA does not charge customers for NPP transactions initiated via CommBank App or Netbank (channels used by Retail customers and small business customers). Payment recovery, destination trace and remitter trace fees may be charged.

66 CBA charges a fee to business customers who utilise the NPP fast payment service via CommBiz. Payment recovery, destination trace and remitter trace fees are charged in accordance to the CommBiz T&Cs.

67 The RBA also charges the relevant financial institutions $0.005 for each NPP transaction it settles in real time, which amounts to $0.01 for each two-bank transaction.

68 Where CBA is the only bank involved in the transaction (an 'on us' transaction), CBA is not subject to this $0.005 fee.

E. CBA'S INVESTMENT IN SCHEME PAYMENT SOLUTIONS

69 The payment schemes rely on key stakeholders in the payments ecosystem, like CBA, to support their initiatives. This support comes in the form of financial assistance to fund the development and roll out of initiatives by adopting the particular payments solutions and making the necessary changes and investments in CBA's operational and technological systems so that customers can benefit from the solutions.

70 The initial investment funded by capital calls **[Confidential to CBA]** represents only a portion of the total funding and resources required by CBA to bring a new solution to market. New innovations require substantial internal investment and work to enable customers to access a new solution. In addition to the need to secure investment and access specialised payments expertise, the delivery and ultimate success of new innovations in payments is highly dependent on widespread adoption by users to create the necessary network effects. Successful payments innovation relies on sufficient adoption of the solution by banks, merchants and consumers.

71 Like any organisation, CBA has finite funds and resources. Investments in solutions proposed by the payment schemes comprise only a small proportion of the total investment that CBA is required to make in change projects across the CBA Group. To ensure an appropriate use of its finite resources, CBA undertakes a detailed evaluation of any payments system investment proposal before deciding to make the necessary investment. There are multiple layers to how CBA reaches its investment prioritisation decisions.

Types of investment

72 In relation to investment proposals put forward by the payment schemes, there are two broad categories of 'investment':

(a) **Capital calls.** These are calls for funding by the payment schemes to support specific investment in the schemes.

(b) **Internal investments.** These are the investments CBA needs to make in its internal processes in order to support a payment scheme's initiative. This includes adapting or building IT systems to integrate the solution, developing operational support (eg, disputes, fraud, financial crimes) for the solution, creating interfaces for customers, access and promoting and marketing the solution. This requires investment in terms of funding as well as resources.

CBA's investment allocation process

73 An investment proposal from a payment scheme will go through multiple layers before CBA will make the decision to support the proposal and dedicate the necessary resources to bring the proposal to fruition. At a general level these layers consist of:

(a) Development of the proposal at the scheme level with input from CBA in its role as shareholder in the scheme, stakeholder in the payments ecosystem and potential user of the proposal.

(b) Consultation within CBA to determine the merits of allocating resources to the proposal.

(c) Decision by CBA to dedicate resources to the proposal that is taken at an appropriate level of seniority.

Development of the proposal at the scheme level

74 The assessment of the merits of a proposal starts at the payment scheme level. The payment scheme will devise a proposal and then test it with the banks and other key stakeholders. This allows the payment schemes to assess the feasibility of their proposals and determine the level of support from industry stakeholders. **[Confidential to CBA]**.

75 **[Confidential to CBA]**.

76 This feedback loop provides the payment schemes with a sense as to whether its solution is viable, whether CBA (as well as other stakeholders) is likely to dedicate further resources to and adopt the solution and what changes may be advisable.

77 CBA dedicates significant resources to supporting this feedback loop. Consultation by the schemes strains the limited payments resources at CBA **[Confidential to CBA]**.

78 CBA anticipates that many of the benefits of amalgamation will accrue at this stage. By comparing proposals and together prioritising at the scheme level which solutions should be put to members for consideration, wasted effort on the side of both schemes and their stakeholders will be avoided.

Consultation within CBA

79 CBA undertakes an extensive internal assessment process before dedicating resources to a particular scheme proposal. This consists of consulting with key internal stakeholders regarding the practical viability of a proposal and its commercial potential. Consultation occurs across relevant business units and is facilitated by a central team. Significant efforts are taken to test the viability of a proposal before investment is sought at senior levels of CBA.

Decision by CBA to dedicate resources

80 **[Confidential to CBA]**.

81 **[Confidential to CBA]**.

82 **[Confidential to CBA]**:

(a) **[Confidential to CBA].**

(b) **[Confidential to CBA]**.

(c) **[Confidential to CBA]**.

(d) **[Confidential to CBA]**.

(e) **[Confidential to CBA]**.

(f) **[Confidential to CBA]**.

(g) **[Confidential to CBA]**.

83 In the context of the decision making environment outlined above, the international cards schemes are able to put forward strong business cases for investment, having tested and proven their innovations in other markets globally. In contrast, investment requests from the domestic schemes often do not have the same supporting track record and are disadvantaged because of the uncertainties associated with their proposals.

The need to prioritise between payment scheme requests

84 The request for investment in change exceeds CBA's finite capacity to resource, deliver and absorb change, and also CBA's ability to fund that change. **[Confidential to CBA]**.

85 As a result, CBA must make trade-offs and prioritise between internal requests. This can include prioritising between multiple requests made by the one scheme and between requests made by different schemes.

86 Traditionally each of the three payment schemes have had distinct focusses. There have, however, been instances where payment scheme proposals overlap to a certain degree. For example, proposals may address aspects of the same use case. This further complicates investment decision making as CBA is required to evaluate the comparative advantages of each solution. Further, aspects of different solutions can be complementary, particularly where they involve one scheme developing a solution using another's rails. In those cases, the sequencing of investments can be relevant to ensure the optimal solution can be delivered to customers.

87 One example of this type of scenario is recent initiatives from the payment schemes to support real time recurring debit payments (such as scheduled bill payments).

88 **[Confidential to CBA]**. Osko 3 would require the payer to authorise every payment request as opposed to being a standing authorisation to debit the customer's account automatically upon the payer bank's receipt of the payment request.

89 The NPP separately developed its 'Mandated Payments Service' (***MPS***) (initially known as the 'Consent and Mandate Service') which provided a solution for establishing real time recurring or one-off debit like payments. This solution had the support of the RBA.

90 eftpos separately sought to develop its own recurring debit solution using 'card on file' or ‘account on file’.

91 **[Confidential to CBA]**.

92 **[Confidential to CBA]**.

93 **[Confidential to CBA]**.

94 An amalgamated entity would have enabled BPAY, NPPA and eftpos to work together to compare their various proposals and identify the most viable solution to present to participants (or even possibly create a superior multi-scheme solution). A single proposal would have allowed for a quicker investment decision and more effective use of scarce specialists by reducing the burden on both sides to engage separately on each proposal.

95 A current focus of the payments sector is the development of QR Codes for in person payments. eftpos and the NPPA are both in the process of developing separate QR Code capabilities. The NPPA has been developing a QR Code functionality for a number of years and released an NPP QR Code standard in May 2019, a copy of which is at Tab 17 of Exhibit CBA-1. More recently, on 25 February 2021, eftpos announced that it would roll out a national QR Code payment system for online shopping. BPAY had also previously developed a QR Code solution.

96 **[Confidential to CBA]**.

97 If the NPPA and eftpos were to work together they may be able to build a QR Code solution that caters for both account payments and card payments, resulting in a better outcome for merchants and customers, and with fewer demands on participants.

F. CBA'S OBSERVATIONS REGARDING THE PAYMENTS INDUSTRY

98 The payments landscape continues to evolve with changes in technology, consumer preferences and new business models. Payment methods have continued to shift from cash and cheques to card and other newer payment methods.

99 Australians are continuing to switch to digital payment methods, a trend that has been accelerated by COVID-19. CBA has observed a greater acceleration of digital payment adoption at the expense of cash, cheques and physical cards, with particularly strong growth in e-commerce and in-app payments amongst older Australians, who have historically low adoption of non-cash payments. This shift to digital is driving up merchants' payments-acceptance costs.

100 The use of mobile devices to make payments is also increasing. For example, the use of mobile devices is gaining ground in ecommerce, overtaking desktop computers as the second most preferred device to make online purchases.

101 Customers are demanding quicker, simpler and more efficient payments. Customers are expecting more from payment providers at the point of sale, when accessing funds and paying online. Customers are also expecting value beyond just the 'payment' such as additional rewards or benefits.

102 This customer demand has translated into a significant increase in the ways in which customers can pay. Non-traditional players (responding to customer preference and expectations) are leveraging a combination of new technology (eg, Apple, Google, Amazon) different business and economic models (eg, PayPal, Afterpay, Transferwise, Alipay), and mono-line specialisation (eg, Square, Stripe, Xero) to deliver payment services and value-added experiences pre and post-transaction.

103 There has also been strong growth in contactless card payments as a result of widespread adoption of this functionality by consumers and merchants. The share of in-person payments made by tapping a debit or credit card on a card terminal increased to 50 per cent in 2019, from 10 per cent in 2013.

104 The multitude of payment methods and players make for a highly dynamic sector where innovation is paramount.

105 The trends described above have transformed a linear payments value chain that historically involved predominantly financial institutions into a payments ecosystem of greater complexity and scale. New and diverse payment providers are not subject to stringent financial or banking regulations. Many operate outside of industry self-regulation and use the existing payments infrastructure without contributing to the maintenance or modernisation of these payment rails. As a result, traditional participants such as the three domestic schemes face growing competition in an increasingly unequal regulatory environment.

106 Looking forward there is likely to be an increasing convergence of different payment methods with the proliferation of digital wallets that utilise devices such as mobile phones and wearables. Following the introduction of ApplePay in January 2019, CBA saw the number of digital wallet transactions linked to a debit or credit Mastercard almost triple by April 2019. In contrast to physical cards, digital wallets enable initiation and authentication using the same device. From the customer's perspective, alternating between card and A2A payments is seamless as they use the same device to access all types of solutions. In the long term, physical 'cards' are likely to be replaced by digital payment credentials that are pushed out electronically to digital devices such as phones and wearables.

107 The seamless interchangeability of different payment methods on a single device or 'form factor' will place further pressure on card schemes in the payments market. Overseas, A2A payments are now available from merchants at point of sale - in a space that has traditionally been dominated by card payments. In Europe and the UK A2A payments are already starting to erode the market share of card schemes.

108 Consistent with the generally recognised shortage of technology skills in Australia, Australian entities compete with each other for skilled payments expertise from a very limited pool of domestic talent when compared to its global competitors. This is an important challenge to delivering on the innovation agendas of domestic players, be that the schemes or the banks. International players working across many jurisdictions have comparatively greater access to talent.

G. CBA'S VIEW OF THE POTENTIAL BENEFITS FROM THE PROPOSED AMALGAMATION

The Proposed Amalgamation will better equip the domestic schemes to meet consumer demands

109 It is CBA's view that bringing together each domestic entity's capabilities, resources, intelligence, capital and technology will provide the schemes with increased scale and enable the creation of more compelling offerings to customers and industry stakeholders.

110 One of the key benefits of the Proposed Amalgamation is the combination of the three schemes' expertise to enable product differentiation from the international card schemes. In particular, eftpos has tended to replicate solutions that have already been brought to market

much earlier by the international card schemes - for example card not present transactions, the capability to make contactless payments at point of sale and tokenisation for mobile payments.

111 CBA anticipates that the Proposed Amalgamation will enhance innovation by enabling simplified payment solutions for merchants that still give customers choice in the ways that they pay. The proliferation of new payment methods has increased complexity for merchants who need to engage with a range of providers to offer multiple solutions to meet the expectations of the many ways Australian consumers want to pay. Merchants will benefit from competitively priced integrated solutions that streamline their ability to offer their customers' multiple payment options. Instead of replicating existing solutions, CBA anticipates that the combination of the resources of the three schemes will enable new and enhanced payment options for both merchants and consumers across card and non-card rails.

112 It is CBA's view that the consolidation of the domestic schemes will also enable greater differentiation from international competitors because of their focus on the domestic market. Domestic schemes can develop niche local solutions that are tailored to the needs of consumers and stakeholders of the Australian payments system. By contrast, the international players have the incentive to roll out initiatives at scale across their international network without an inherent focus on the needs of the Australian market. End users will therefore benefit from payment solutions that are designed for the Australian context.

The Proposed Amalgamation will encourage a more efficient use of scarce payments resources

113 In CBA's view the Proposed Amalgamation will lead to increased innovation through more efficient and effective development and delivery of payment initiatives by the domestic schemes. These benefits will come in the form of:

(a) **More efficient use of the schemes' scarce resources.** The payment schemes' access to resources, including to specialist payments expertise, is limited. Pooling the talent and skills of the three organisations will create an environment that is conducive to innovation. As the three schemes will be able to prioritise initiatives, combining their resources will enable agile deployment of expertise across the schemes to where and when it is needed. In particular, it will avoid resources being duplicated on overlapping solutions.

(b) **Reinvestment of capital in innovation.** New Co is intended to be a non-profit maximising profit organisation. Any gains earned by New Co can be reinvested into innovation and projects developed by the three schemes.

(c) **More efficient and effective engagement from stakeholders.** It is CBA's expectation that New Co will assist in the prioritisation of proposals with overlapping functionality, thereby simplifying consultation by alleviating the need for stakeholders to do so. More streamlined stakeholder engagement will in turn enable quicker investment decisions, which will ultimately shorten the time to market for innovation. It will also reduce the burden on shareholders, like CBA, who dedicate significant resources to supporting each of the schemes and their individual initiatives.

(d) **Securing broader stakeholder support for initiatives.** Importantly, more targeted requests for investment support will allow schemes to more effectively garner broad support among stakeholders for their proposals. For CBA to be able to confidently offer a payment solution to customers, it needs certainty that the solution will work for (and be adopted by) a sufficiently wide group of payers and payees. Key to this consideration is whether the solution is supported by a range of payer and payee financial institutions and their customers. If there is a gap in stakeholder support, CBA's payers may not be able to reach a sufficiently wide group of payees, or vice versa (its payees may not be able to receive payments from a sufficiently wide group of payers). In this regard, achieving network effects and ubiquity is important to the likely success of any payment solution.

114 CBA's view is that the Proposed Amalgamation will allow for collaboration between the three schemes and create a governance structure that is more conducive to efficient and fast paced innovation.

Better ability to compete with international players through increased functionality and differentiation

115 The international card schemes have a higher share of the Australian payments system than the domestic schemes. As a result, it is CBA's view that the level of competitive constraint currently imposed by the domestic schemes on the international card schemes and big tech players is limited.

116 The international card schemes operate at international scale. They have the ability to develop solutions and roll those out across their international networks while consistently making improvements.

117 The acquisitions made by Visa and Mastercard over the past few years demonstrate that they are building broader capability across payment types, and appear to be positioning themselves as general payments providers, rather than just cards-based payments companies. For example, the international schemes are already facilitating real-time A2A payments in other markets, and are entering the bill payments space. In contrast, eftpos's payments solutions continue to be primarily card-based. As the different payment methods

converge on single 'form factors' eftpos will find it increasingly difficult to withstand further erosion of market share to A2A payments with a 'cards only' strategy.

118 In addition, the domestic schemes face competitive pressure from other international players that are entering the payments sector. Google, Apple, Facebook and Amazon are increasingly incorporating payments functionality into their service offerings. These technology giants enjoy significantly more resources, higher brand recognition and an existing and extensive customer base. Further, they are not subject to the same regulatory burden as the domestic schemes.

119 It is CBA's expectation that a strong domestic scheme will drive down payment processing costs by reducing the disparity in bargaining power between Australian financial institutions compared to the international schemes and big tech payments providers. The availability of viable alternative services to the international card schemes by an amalgamated entity will increase pricing pressure on the international players and strengthen the negotiating position of scheme users. In this regard, it is in CBA's interests to maintain eftpos' services whilst card usage remains strong to provide an alternative to the international card schemes' current offerings and improve our ability to negotiate better terms and conditions. Amalgamation will enable eftpos, together with NPPA and BPAY to continue to provide a viable and effective alternative to the international card schemes in the long term if card usage declines, by building scale and a multi-rail approach to counter similar moves to diversify by the international card schemes.

120 The Proposed Amalgamation will also position the schemes to develop stronger brand recognition among Australian consumers. The domestic schemes tend to have weaker brands than the international card schemes (Visa and Mastercard) and the big tech entities who are present in the payments system (eg, Apple Pay and Samsung Pay). Stronger brand recognition will assist the consumer uptake of solutions developed by the payment schemes.

121 Finally, the enhanced competitive position of a consolidated domestic scheme will also reduce reliance on regulatory intervention to create competitive pressure between domestic and international schemes, for example RBA's 'suasion' and pressure on industry participants to implement least cost routing.

Signed on behalf of Commonwealth Bank of Australia by

Name	Simon Birch, Executive General Manager Payments Service Utility
Date	18 March 2021

TAB 1: Exhibit CBA-1

CommonwealthBank
Commonwealth Bank of Australia
ABN 48 123 123 124

Level 6
201 Sussex Street
Sydney NSW 2000
Australia

GPO Box 2719
Sydney

22 February 2019

Chairman
Australian Payments Council
Level 23, 3 International Towers
300 Barangaroo Ave
Sydney NSW 2000

By Email to: *submissions@australianpaymentscouncil.com.au*

Dear Chairman,

Re: Australian Payments Council 2019 Consultation

The Commonwealth Bank of Australia (CBA) appreciates the opportunity to contribute to the first triennial review of the Australian Payments Plan.

This submission will focus on proposed areas for prioritisation and industry collaboration. CBA believes the decline of cash, social inclusion, and system resilience should be priority areas of focus to help ensure that the payment system continues to meet the changing needs of Australians. These issues are interrelated, evolving at pace, and are unlikely to be resolved without co-ordinated industry, regulator and government collaboration.

Financial crime continues to be an important issue for all Australian financial institutions, and we believe enhanced and structured industry cooperation could offer potential benefits for the wider economy.

The APC's co-ordination of industry activity will need to consider the number of important initiatives already underway in the payments industry to ensure successful outcomes from current as well as future projects.

Answers to consultation questions

1. ***What are your views on the trends outlined on pages 4 to 8? Are there other factors or issues to consider?***

The trends outlined are consistent with CBA's observations of our customers' preferences and behaviours. Jurisdictional and demographic differences will mean some of the developing country trends will not be as relevant in Australia. Thematically, customers expect greater convenience and security when making payments. However consumer shifts can be slowed or halted. In our experience, if customers find a new application unreliable or undergoes a negative digital experience (such as fraud or system outages), they will quickly revert back to traditional payment methods.

2. What are some other interesting international trends?

There has been an exponential proliferation in the way customers can choose how to pay. Non-traditional players (responding to changes in customer preference and expectations), are leveraging a combination of new technology (e.g. Apple, Google, Amazon) different business & economic models (e.g. Paypal, Afterpay, Transferwise, Alipay), and mono-line specialisation (e.g. Square, Stripe, Xero) to deliver payment services with value-added experiences pre and post-transaction.

3. Is digitisation changing the way we view payments?

Payments are becoming less visible to the customer as consumers shift purchases to online and mobile channels. Seamless payment experiences that are embedded in product and service use is leading to increasingly 'invisible' payments. Customers are also expecting value beyond just the 'payment' such as additional rewards or benefits. However while there is substantial growth in the range of front-end channels to make a payment, the underlying infrastructure and process (outside of NPP) has largely remained unchanged.

4. Within the four user-groups (individuals, business, community groups and government), what sub-groupings have special needs or requirements that we should consider?

Within the user-group of 'individuals' there are a number of vulnerable cohorts that face particular challenges in relation to payments. The needs and preferences of individuals with a disability, low English proficiency, rural and remote residents, older individuals, individuals from a migrant or refugee back ground and people on low incomes should be considered.

5. Do Resilience, Efficiency, Accessibility and Adaptability remain appropriate characteristics for our vision of an effective payments system?

The characteristics listed continue to be relevant and appropriate for an effective payments system. 'Resilience' in particular will become increasingly important as the payments system becomes more digital and expectations of security and reliability are heightened. For an effective payments system an equilibrium must be achieved between these characteristics that balances innovation and competition with stability and security.

6. Should digitisation change our vision for an effective payments system? If so, how?

New ethical considerations are likely to arise from new technologies that are not captured by existing consumer protection frameworks. For example, wider availability of richer payments data could create opportunities for misuse. Trust in the system is essential for widespread adoption of digital payment methods. The APC should consider incorporating an additional characteristic to its vision that covers ethical use of the payments system.

7. Do the identified topics represent appropriate focus areas for the APC, given our vision of an effective payment system?

The Decline of Cash

CBA supports the RBA's view that the progression towards a cashless society is a positive development that brings benefits of reduced cost, increased efficiency and choice, and an opportunity to better manage fraud in payments.

However, as the RBA Governor has noted, this transition is occurring relatively quickly and organically. CBA considers that the decline of cash needs to be actively managed to ensure a successful and inclusive transition.

To do this, the social and economic impacts of a less cash society need to be well understood to enable the development of solutions to maintain cash access, provide appropriate skills, support and confidence to use digital payments and ensure a secure and reliable payments system.

Such an approach is a natural progression of the APC's work on the transition away from cheques and can be guided by the RBA's triennial Consumer Payments Survey that will be conducted later this year.

Social *Inclusion*

Social inclusion is a critical consideration in the decline of cash. A significant reduction in cash use is a fundamental economic and societal change that poses a number of risks and issues. The people who currently use cash most heavily, or are least digitally-active, are often those in potentially vulnerable circumstances. The RBA 2016 Consumer Payments survey revealed cash usage was greater amongst older Australians and lower income households. The 2018 Digital Inclusion Index shows that in general 'Australians with low levels of income, education, and employment are significantly less digitally included'.

The CBA's Customer Advocacy team has found that customers with low English proficiency have greater difficulty understanding and making digital payments when compared to cash, and often have lower access to and use of smartphones. Regional and remote communities, and Indigenous people in particular also face structural barriers to switching to digital payments.

As noted in the Black Economy Taskforce, 'the more socially inclusive Australia's digital transformation is, the stronger our economy will be.' As traditional commercial models that currently supply cash become less viable, a solution to meet the needs of vulnerable segments is more likely to arise through industry collaboration than market competition.

System Resilience

The RBA has already identified the need to ensure that retail payment systems are more resilient and secure as we rely less on cash. A successful transfer to digital payments is dependent on customer confidence in the security and reliability of electronic payment systems.

System resilience is an integral part of planning for, and actively managing, the decline of cash. The shift in customer preferences from cash to card, in context payments and other electronic payments will place additional pressure on existing payment infrastructure.

CBA in principle supports the APC's suggestion of systemic resilience as an area that is suited to industry collaboration. The highly interconnected nature of payments means that all users and stakeholders in the payments system stand to benefit from a universal uplift in practices.

Financial Crime

With the demise of cheques and the increase in near real time payment channels like NPP, the speed of payments is accelerating. This evolution is preceding improvements in the existing mandatory screening and monitoring undertaken by individual banks to comply with AML/CTF and Sanctions requirements. A central utility may both provide much greater industry efficiency at the individual level by centralising core investment and effort, as well as potentially unlocking insights available through compiling and comparing data across institutions.

Payment Interoperability: Global and Domestic Dimensions

Collective industry action is required to develop solutions for the interoperability of dissimilar systems. CBA considers that AusPayNet, as the industry self-regulator has the existing committee structures in place for the industry to collaboratively develop common standards for greater harmonisation with other jurisdictions. This is an issue that is likely to be considered as part of AusPayNet's work to create a vision and roadmap for Australian payment clearing systems.

5G, Hyper-Connectivity and the Internet of Things

As the Internet of Things converges with artificial intelligence, a growing population of smart, connected devices will eventually operate autonomously, creating new business models and new value in the process.

Digitised business assets connected to the Internet of Things (IoT) and managed with smart contracts and blockchain technology – or 'smart assets' – are predicted to become commonplace in many industries of the future. CBA's Smart Assets Experiment has been trialling the use of Internet of Things and blockchain technology to help business clients more efficiently buy and manage expensive assets such as farming equipment.

There may be benefit in understanding the impact of these technologies on current payments infrastructure to enable the development of industry frameworks.

8. Are there other potential focus areas that we have not identified?

Cyber Risks will correspondingly increase with new payment technologies. With more activity moving online, more connected devices and the dissolution of the enterprise perimeter through mobile, cloud, and reliance on third parties, the "attack surface" for both individuals and organisations is larger and more disperse than ever.

9. How do you think we should prioritise our work within these focus areas?

Work should be prioritised based on the pace of change occurring in the identified focus areas, and the level of influence industry collaboration could have on the issue. CBA believes the decline of cash, social inclusion, and system resilience are high priority areas. The findings of this consultation may help to better understand and assess the immediacy and scale of impact of the various focus areas.

10. Can you provide any information on emerging technologies that may impact our work?

The APC will need to monitor the impacts on the payments landscape of new technologies like artificial intelligence and machine learning as they become more widely available.

11. Can you provide any information on any other ongoing strategic work within these focus areas? Including industry, government, academia, NGOs, etc.?

There are a number of complementary industry initiatives that relate to 'Social Inclusion':

- The 'Accessibility Principles for Banking Services' by the Australian Banking Association is an industry-wide plan to improve accessibility of banking products and services for customers and communities.
- Good Shepherd Microfinance's Financial Inclusion Action Plan program in partnership with the Australian Government, EY and the Centre for Social Impact supports organisations to improve financial inclusion in Australia.
- The *CBA-MI Financial Wellbeing Scales* created by CBA in collaboration with the Melbourne Institute seeks to provide a new measure of financial wellbeing to better understand the financial health of Australians.

As the APC has already noted, Treasury's Black Economy Taskforce has been considering aspects of the decline of cash. The UK Access to Cash Review may provide insights on societal concerns of a rapid decline in cash use.

As a member of the APC, CBA is committed to the objectives of the Council. Representatives of the Bank will be happy to discuss this submission with the APC at a stakeholder forum or otherwise. Please contact the undersigned or Gulshan Singh (Gulshan.Singh1@cba.com.au or (0468 548 299) to discuss any aspect of this submission.

Yours sincerely

Michael Baumann
Executive General Manager, Everyday Banking

TAB 2: Exhibit CBA-1

19 October 2018

Manager
SVF Submissions
Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

Via Email: svfsubmissions@rba.gov.au

EXECUTIVE SUMMARY

The Commonwealth Bank welcomes the opportunity to provide a submission to the Council of Financial Regulators (CFR) Review of Retail Payments Regulation.

The Commonwealth Bank believes a highly competitive banking system that is stable, fair, efficient and safe through the economic cycle is good for customers, shareholders and the Australian economy. It is working hard to create a better, stronger bank that focuses on customers' wellbeing, leads on operational standards and compliance, drives industry innovation, and contributes to communities and the economy in ways that reflect its size and heritage.

The predominant reasons for regulation of stored value facilities (SVFs) should be to protect consumers' stored value and data, and to safeguard the stability, efficiency and integrity of the broader payments system. Regulatory controls that ensure security, efficiency and confidence will promote competition, innovation and uptake of new services. Therefore, the Commonwealth Bank supports a proportionate approach to regulation based on the maturity of the organisation, as well as the nature of risk that a new payment service may introduce into the payments system.

The Commonwealth Bank has had the opportunity to consider the submission produced by Australian Payments Network (AusPayNet), and is supportive of AusPayNet's positions

1. What is the outlook for stored-value facilities in Australia?

The payments system has changed significantly in recent years and the pace of change is accelerating. Australians are embracing the convenience of contactless cards, online shopping continues to grow and mobile payments are gaining traction. Australia's payments mix is becoming increasingly digital, with the decline of consumer use of cheques and cash as payment methods. There has been stronger growth in debit versus credit over the last decade that favours SVFs. Hence it is anticipated that Australian consumers will rapidly adopt new payment methods such as SVFs.

A number of new payments services have been enabled by technological advances such as third party wallets and 'buy now, pay later' applications that have the potential to store value. It is expected an increasing number of non-traditional providers will continue to enter the market. Internationally, a number of non-financial institutions such as ride hailing services and retailers have merged e-wallet capabilities into their core offering. These new payments providers may fall outside of existing regulatory frameworks, presenting risks to the system as a whole.

Commonwealth Bank provides customers with the choice of their preferred digital payment method and currently supports Google Pay, Samsung Pay, Fitbit Pay and Garmin Pay in addition to our own solution. These payment options will only increase in the future as more solutions come to market. We have observed a corresponding increase in the level of fraud targeted at these new applications.

2. How do you view the environment in relation to innovation and competition?

New market entrants and emerging business models have contributed to today's highly competitive financial services sector with numerous, diverse providers ranging from traditional financial institutions, fintech start- ups and a growing range of global technology businesses.

New entrants to the market continue to find creative ways to offer consumers alternative value propositions to traditional financial services providers. Some new competitors take advantage of business models that are not subject to the same level of regulatory oversight as traditional business models. Based on the international experience it is likely that many of these may consider expanding and differentiating the services they offer in the future.

New technologies are expected to continue to stimulate innovation and competition in payments. Smartphones alone have significantly increased the frequency of payments related innovations. Strong controls and standards are essential to encourage the uptake and success of new technologies and payment solutions. In our experience, if customers find a new application unreliable or undergoes a negative digital experience (such as fraud), they will quickly revert back to traditional payment methods.

3. How can regulation appropriately balance consumer protection aims while supporting an innovative and competitive industry?

The Commonwealth Bank considers there should be uniform best practice standards relating to fraud management and security for consumers to maintain trust in the payments system and promote uptake of SVFs. Adequate consumer protections will improve the likelihood of success of new entrants by building confidence in new products and services. The ePayments Code - if updated to reflect technological advances – could be an appropriate means to outline the expected standards.

The Commonwealth Bank, as a long term subscriber to the ePayments Code, supports making the ePayments code mandatory for all participants in the payments ecosystem, including SVFs.
The Commonwealth Bank supports recommendation 17.3 in the Final Report of the Productivity Commission Inquiry into Competition in the Australian Financial System that in addition to updating and mandating the Code, ASIC should more clearly define the liability provisions for unauthorised

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transactions when third parties are involved, including participation in financial dispute resolution schemes.

New participants in the payments system should also be subject to consumer data privacy and security obligations to ensure consumer information is handled appropriately. To the extent possible, this should align with safeguards arising out of the Consumer Data Right and Open Banking, to reduce complexity for both consumers and participants.

4. Is there potential to clarify the definition of stored-value facilities and the intended coverage of stored-value regulation?

A simpler, technologically neutral definition of SVFs would be of benefit to capture the wide range of payments service providers involved in different stages of the payments process. The definition would need to be sufficiently broad so that regulations would be applicable to both existing as well as potential SVFs. It may be helpful to harmonise terminology with international jurisdictions. In Singapore the operation of stored value facilities will soon be regulated as e-money issuance with an expanded definition.[1] The UK[2] and EU[3] also use the term 'e-money' to describe electronically stored monetary value.

5. What regulatory boundaries or thresholds for stored-value facilities are appropriate?

SVFs should comply with AML/CTF obligations as a baseline requirement to protect and maintain the stability and integrity of the payment system. The Hong Kong Monetary Authority and more recently the Financial Conduct Authority has recognised that SVFs are vulnerable to similar AML/CTF risks as other retail payment products and services.[4]

Purely numerical or volume based thresholds may not be sufficient to ensure appropriate regulatory oversight.
The AUSTRAC risk assessment of stored value cards (SVCs) found that the risk level of individual SVCs varied significantly depending on the features of the specific product, regardless of the applicable thresholds.[5]

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[1] http://www.mas.gov.sg/~/media/resource/publications/consult_papers/2017/Consultation%20on%20Proposed%20Payment%20Services%20Bill%20MAS%20P0212017.pdf

[2] https://www.fca.org.uk/firms/payment-services-regulations-e-money-regulations

[3] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/consumer-finance-and-payments/payment-services/e-money_en

[4] http://www.mas.gov.sg/~/media/resource/legislation_guidelines/aml/PSOAN02%20Revised%20Notice%20to%20Holders%20of%20SVF%20Final.pdf
(HK) https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/aml-cft/Guideline-on-AMLCFT-(for-SVF)_English.pdf

[5] http://www.austrac.gov.au/stored-value-cards

The regulatory framework should reflect the level of risk that the new service introduces into the payments system. Given the networked design of the payments system, participant failure could raise liquidity, credit and reputation risks for other participants. New payment services that require access to core payments infrastructure or intersect with traditional payments products should be subject to a higher standard of regulation due to the potential for flow on effects. For example, a domestically based 'closed loop' system or a 'single purpose' SVF (used for payment only of goods or services provided by the holder of that stored value facility) is less likely to pose a risk to the broader financial system. The Proposed Payment Services Bill in Singapore seeks to calibrate regulation according to the activities undertaken by the payments provider and the related risks.[6]

6. Are there other criteria that could be used to define regulatory boundaries for stored-value facilities?

The Commonwealth Bank sees a need to differentiate new entrants that are 'start ups'- who may benefit from additional support to create a level playing field - from established organisations that are simply entering a new market. Such a criteria should align with and compliment ASIC and APRA's eligibility requirements for the sandbox and Restricted ADI (RADI) respectively. For example, APRA envisaged that the RADI licence would apply to start-ups with limited financial resources that that require the time to build resources and capabilities in order to meet the prudential framework.[7]

Interoperability measures may need to be considered as payment providers reach scale to prevent fragmentation of payment services that could reduce the efficiency and user experience of the payment system in the long term.

7. What are your views on a 'tiered' approach to prudential supervision for stored-value facilities?

A graduated approach to regulation is preferable to a 'tiered' regime. A two-tier regime risks creating an uneven regulatory environment that introduces risk to the payment system and lowered levels of consumer protection on a permanent basis.

The Commonwealth Bank is supportive of a graduated regulatory framework for purchased payment facilities (PPFs) and SVFs that allows for prudential regulation proportionate to the maturity of the organisation and the relative risk to the broader payments system that can be progressively upgraded to ensure a level playing field.

A graduated framework should provide an interim step to facilitate entry into the payments system by supporting new and innovative businesses to navigate the regulatory environment. A graduated framework is consistent with other measures to foster competition and innovation such as APRA's phased licensing framework for new ADIs and ASIC's regulatory sandbox for fintech start-ups.

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[6] http://www.mas.gov.sg/News-and-Publications/Consultation-Paper/2017/Consultation-Paper-on-Proposed-Payment-Services-Bill.aspx

[7] https://www.apra.gov.au/sites/default/files/phased-licence-response-paper-20180504.pdf

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8. What is the appropriate regulatory approach to emerging products and services?

Any new risk and associated cost imposed upon the payments system is borne by its existing users and participants. Regulators must be vigilant in managing the risks introduced to the payments system by new and innovative payment offerings. Emerging products and services also need to be supported by appropriate consumer protection measures to prevent poor customer outcomes deterring widespread adoption of new and innovative solutions.

The framework may need the flexibility to adapt to growing and evolving payment services. For example, the Octopus Card in Hong Kong expanded from a transport payment card into small-value payments in the retail sector, government road tolls, parking, access control for residential and commercial building, support for various facilities in schools and self-service kiosks. 8

Regulatory design needs to be forward looking to accommodate future innovation. Just as smart phones have created opportunities for rapid innovation in payments, advances in automation, the internet of things and AI may create new opportunities that are not yet on the horizon.

A register of emerging payment products and services that sit outside of regulatory boundaries and thresholds (similar to the Financial Conduct Authority's register for 'small electronic money institutions' in the UK[9]) may be useful to allow regulators to monitor and prepare for emerging risks.

9. How could the transparency and communication of regulation be improved?

A single regulator model would minimise confusion by reducing regulatory overlap and streamline the regulatory process. Consistency and co-ordination with other payments regulation is also desirable.

Where possible, alignment of definitions and approaches between domestic financial regulators such as eligibility requirements would also help to reduce complexity. Harmonisation with international terminology may also simplify the process for foreign entrants.

AusPayNet, in their capacity as a self-regulatory body for the payment system has observed significant payment knowledge gaps in new and potential entrants into the payments industry that may provide insights on how to enhance communication for new participants.

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[8] https://www.octopus.com.hk/en/consumer/octopus-cards/about/index.html

[9] https://www.fca.org.uk/firms/authorisation-registration-emoney-payment-institutions

Can

The Commonwealth Bank would welcome the opportunity to discuss this submission with you.

Contact Information

Lynda McMillan

Head of Payments Representation

Commonwealth Bank of Australia

Lynda.McMillan@cba.com.au

TAB 3: Exhibit CBA-1

CommonwealthBank
Commonwealth Bank of Australia
ABN 48 123 123 124

Level 6
201 Sussex Street
Sydney NSW 2000
Australia

GPO Box 2719
Sydney

Telephone (02) 9118 6545

Representation
Business Products and Development

31 August 2011

Dr Chris Kent
Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

By Email to: *pysubmissions@rba.gov.au*

Dear Dr Kent,

Strategic Review of Innovation in the Payments System: Issues for Consultation - June 2011

The Commonwealth Bank (the Bank) is pleased to lodge the attached Submission to the Reserve Bank of Australia (RBA) in response to the RBA's "*Strategic Review of Innovation in the Payments System: Issues for Consultation - June 2011*" Consultation Paper, released 30 June 2011.

Our Submission is comprised of three parts (attached), viz-

- Part A - General overview of key themes relevant to a discussion of innovation in payments
- Part B - Answers in response to the questions posed in the Consultation Paper
- Part C - Confidential Addendum

Please note that Part C attached is not for publication; Parts A and B will, we understand, be published on the RBA web site.

Thank you for the opportunity to contribute to this important debate. We look forward to meeting with you shortly to continue our dialogue around issues addressed herein.

Yours sincerely

[Signed]

Stuart Woodward
General Manager
Representation

ATTACHMENT

Response to Strategic Review of Innovation in the Payments System: Issues for Consultation - June 2011

PART A

This Part A of the Bank‟s response to the "*Strategic Review of Innovation in the Payments System: Issues for Consultation - June 2011"* document provides a general overview of key themes relevant to a discussion on innovation in payments.

At the outset, we wish to acknowledge both the importance of innovation in payments, and the Commonwealth Bank‟s[1] (the Bank‟s) involvement therein. The Bank has often been at the forefront of proprietary level innovation, as well as being a keen proponent of broader, systemic, innovations and we approach this current consultation in the expectation that this will continue.

1. Payment Innovation

For most of our customers, payments are a part of everyday life that is taken for granted - necessary and generally ubiquitous. The ability to make trusted secure payments is one of the foundations on which the Bank functions. We understand that this affords us an opportunity to make an impact on our customers‟ lives by making payments faster, simpler and more efficient through innovation. This requires a mix of "systemic" and "proprietary" effort.

Innovation enriches our customers‟ lives and offers challenges and opportunities to those who participate in the payments industry. A few key themes are emerging that we believe will shape the future of payments in this market.

1.1. <u>Technology</u>
Technology will continue to drive payment innovation at both a network and a proprietary level. This will result in faster, simpler payments for our customers, and provide efficiencies for payment providers. It will also contribute to the decline in less efficient payment forms such as cheques and cash.

1.2. <u>Security</u>
Customers want trusted payment services. EMV (Europay, MasterCard and Visa "chip" based technology) has provided increased security of card payments, while online banking transactions are made more secure through two-factor authentications such as SMS. Additionally, customers want to know that their personal data is secure and protected. Intelligent monitoring of a customer‟s payment activity can help to alert customers to any security issues. The value of a secure payments system to a customer cannot be underestimated and payment providers will need to continue to invest in secure systems to support payments.

[1] This submission is from the Commonwealth Bank only. Bankwest is making a separate submission.

1.3. Customer Convenience

Customers want quicker, simpler and more efficient payments. Whether this is through quicker payments at point of sale (e.g. contactless and quick payment service), faster access to funds, or online payments made anywhere, anytime, customers are demanding more from payment providers.

1.4. Convergence of form factors

Customers are increasingly using non-traditional devices for payments. Online payments for example, once used to be made on a PC, largely during working hours. Increasingly, we are seeing payments on iPhones or iPads (or similar) out of regular working hours – 25% of the Bank‟s NetBank logins are now via mobile/tablet devices. Additionally, the Bank believes that, in the near future, mobile smartphones will start to replace card „plastics" as a generally accepted form factor.

It is imperative that developments in the payment landscape, like those mentioned above, are customer led. Having said that we are often reminded of the famous Henry Ford quote (when he was asked about the first car he built):

"If I‟d asked my customers what they wanted, they‟d have said a faster horse."

Customers don‟t always know what is possible – they know what they want – they just don‟t know how to get there. So payment providers have the opportunity to show them what we can do and lead them on this journey - as we make payments quicker, easier, more convenient and simply more efficient.

Payments innovation does not happen overnight and is often faced with challenges such as:

- The scale of investment required for innovation;
- Complexities in trying to co-ordinate industry norms and standards;
- An increasingly interwoven and fast-moving world;
- The need for genuine network effects where both payers and receivers benefit; and
- Risks on both sides of the market that need to be managed.

Notwithstanding these challenges, customers will continue to want convenience, security and value for money in payments and it is important that we as an industry continue to drive innovation in payments.

It is important to call out that innovation is frequently risky. There is the old saying that only one idea out of 100 finally makes it to market - and that one idea has no guarantee of commercial success. As custodians of our shareholders" and customers" funds, we need to ensure we innovate for the right reasons such as customer value, rather than because a government or a regulator says we should. What we seek from a government or regulator is creation of, and support for, an environment under which innovation can flourish and under which viable and sustainable customer value propositions and business cases can drive competitive innovation.

2. Innovation at The Commonwealth Bank

The Commonwealth Bank has a strong history of innovation in the Australian payments landscape, leading the market on a number of fronts in payment innovation, including -

2.1. Contactless
The Commonwealth"s contactless journey began in 2006 with the progressive rollout of MasterCard Paypass cards. Today we have around 2.5 million contactless credit and 2.6 million contactless debit cards on issue. The Bank"s recent focus has been on our merchant terminal fleet. Commencing with the small to medium enterprise market in late 2009, we now have nearly 25,000 contactless terminals conducting over 500 milion transactions per month.

While we are pleased to be leading the way in Australia, the benefits of contactless payments can only be realised through ubiquity and we are looking forward to the time when the Bank"s share of contactless cards and readers across the market is not quite so dominant. Payments are a network business and contactless payments are no different.

2.2. Online Banking – Australia"s Number One Online Bank
The Commonwealth Bank has always led the market in online banking innovation.

NetBank is Australia"s leading online banking site with over 5.5 million registered users. Recently, we launched our purpose built NetBank for tablet application and a refreshed CommBank app for iPhones and Android mobile phones. The Bank"s latest digital offerings provide a new kind of service experience for this increasingly popular channel. Both apps are the next generation in mobile banking and cater to everyday banking needs while delivering new functionality.

CommBiz is the Commonwealth Bank"s premium, multi-award-winning online banking platform for business. CommBiz handles massive numbers of complex transactions with ease, including payroll, third-party payments, international money transfers and foreign currency trades. Our online security leads the world - we are the first bank in Australia to provide world-best practice online banking security via NetLock, a USB device that creates a closed system to keep malicious code at bay.

CommSec is Australia"s number one online broker, the first in Australia to launch an integrated cash management and online trading account as well as Australia"s first iPhone trading platform.

2.3 Leading Payments Technology

Core Banking Platform
In 2010, the Bank successfully introduced its new core banking platform for retail deposit and transaction account customers. This year, we will move our business customers over to the new platform. The new platform enables our customers to experience a range of benefits including new product features, flexible pricing options and real time banking.

The background to this investment is that the Bank"s legacy systems had become heavily siloed and inflexible. This led to the decision to update our infrastructure in order to meet future needs and remain competitive in a changing marketplace, resulting in a $1.1billion Core Banking Modernisation program which began in 2007 and which is targeted to draw to a close in 2012.

Payments Hub
Many banks are examining internal payment hubs as a solution for modernising payments infrastructure to remain competitive and mitigate regulatory concerns over resiliency and compliance. The Bank has implemented such a hub.

The Bank"s move to a payments hub-based strategy was an adjunct to the larger core banking system infrastructure modernisation program.

The Bank"s payments hub strategy evolved from a realisation that the interaction between the Bank"s payments systems and the core infrastructure, required a similar modernisation effort given that the payment infrastructure had grown to more than 70 payments related systems, including assembler mainframe applications written in COBOL, and numerous applications rapidly approaching end-of-life, dating back as many as 40 years. Multiple point to point integrations had scattered payments logic across channels, integration layers and product systems, and changes necessitated significant regression testing - frequently costing more than the development effort itself. Our investment in the payments hub will address these issues.

eVolve
eVolve is the Bank"s market leading on-line card payment solution for Australian businesses. eVolve provides easy to use technology to enable our merchant customers to offer more ways to pay by card; including online, by phone, in-person,via post, email, fax, or enrolling in a subscription or pay by instalment plan. Additionally, merchant customers are provided with an instant online store and the ability to take payments online - the first such offering in Australia.

Mobile Payments
Recently, PT Commonwealth Bank Indonesia launched the country"s first mobile banking application. The application represents breakthrough technological, investment and security features, which make it simple and easy for the bank to interact and engage with its customers. The innovative application is the first of its kind to include investment features, which will enable customers to purchase mutual funds and open time deposits (term deposits) anytime, anywhere, safeguarded by a priority security system.

3. Early Priorities

The Bank notes the Payments System Board"s view, as per Chapter 7 of the Consultation Document, of some immediate priorities in the payments system.

3.1. Governance Structure
The Bank supports both the need for change in payments industry governance and the work underway within APCA to explore enhancements to existing governance structures.

The Bank has been closely involved in the APCA Governance Review and the recent governance developments such as the ongoing work of the Australian Payments Forum (APF) and the establishment of a new stakeholder forum.

3.2. Payments Infrastructure
Several comments provided in Part B in response to specific questions raised in the Consultation Document relate to matters of payments infrastructure. In summary, while we understand the role of, and need for, collaborative effort, we believe that such effort needs to be directed to support competitive initiatives by payment system participants. Collaboration and co-ordination of standards is needed at a systemic level, however,

each payment provider should be able to take those standards and develop their own competitive products and services.

3.3. Intra- Day Settlement

The Bank is supportive of the evolution of settlement arrangements for low value payments. We see this as a significant systemic innovation in the Australian payments landscape. Real time banking is a key feature of the Bank"s newly implemented Core Banking system and we see improved access to payments over weekends and public holidays as a natural flow on.

The Bank remains committed to the development of an intra-day settlement model for low value payments. The Bank is an active member of the APCA working group looking at Settlement Evolution across low value payments. While we have some reservations about moving to a 7 day Bulk Electronic Clearing Stream exchange cycle at this point in time (because doing so would result in large unfunded and outstanding settlement positions whilst the money markets are closed and would require significant operational and system changes for all participants), we remain willing to explore alternatives.

In an increasingly 24/7 world, we completely understand that a 7 day direct entry exchange cycle would have much consequential customer appeal and accordingly we support the APCA settlement working group considering this.

3.4. Funds Availability to Customers

The Commonwealth Bank posts funds shortly after direct entry file exchanges. That is, once another financial institution sends us inward payment instructions, we credit our customer"s account with the funds.

Additionally, for payments through the real time gross settlement system, payments to customers" accounts are processed within minutes, subject to straight through processing and Anti Money Laundering approvals.

3.5. Additional Data with Payments

The Bank supports efforts to promote transmission of richer, remittance information with payments. We see this as a necessity to drive down cheque usage by business and governments and to provide enhanced customer functionality.

3.6. Message Standards

The Bank is supportive of the development and use of more consistent message standards and supports the adoption of the ISO 20022 message standard. This will enable the carriage of data with payments through the payments system. The Bank agrees with the Board"s view that the development of this Standard should be accelerated. We are a member of the APCA Standards Working Group, and at the same time, we are reviewing our own direct entry systems to cater for ISO 20022.

3.7. MAMBO

We note that the development of MAMBO is no longer progressing.

MAMBO had a powerful vision for making payments easier for consumers, business and government. It would have delivered faster and more secure payments.

As an industry vision, MAMBO required the participation of all the major banks. Unfortunately, over the recent past, despite initial commitments, some banks have decided that this customer vision is not important, in some cases citing competing technology priorities within their banks.

Customer satisfaction is extremely important to Commonwealth Bank. Therefore, the Bank remained willing to continue to commit the necessary resource to MAMBO, even while in the midst of a major, and globally leading, overhaul of its core banking platform.

The Bank is naturally very disappointed that other participants in MAMBO no longer supported this vision for making payments easier for all customers, making the project untenable.

However, the Bank is committed to continuing with its own investments to improve the ways that our customers can manage their finances.

4. Regulatory Certainty

For a payments system to function efficiently and effectively, regulatory certainty is needed. With new payment innovations, payment providers need certainty to ensure investment costs can be recouped. When there is uncertainty of regulation in the payments marketplace, risks increase and this can create an environment where innovation is discouraged.

Throughout the Reserve Bank‟s recent process of regulating the Australian payments system, the Bank has adhered to a list of principles in forming its position[2]. One of these principles is directly related to regulatory certainty; it states:

> *Regulator Intervention - Regulator intervention should only occur when there has been demonstrated market failure. Where there is evidence of market failure, any regulation should be transparent and provide certainty given the impact on innovation, ongoing maintenance investment and the cost of implementing regulated change.*

This principle remains valid and is particularly relevant to instances of regulated innovation. Regulation can result in market uncertainty. Where that regulation relates to innovation, the resulting uncertainty can destroy the competitive market process of organic customer-focussed innovation. This can be extremely damaging to the prospects of a functional industry, and undermine the potential gains to society from a competitive market for payments. For this reason, regulation of innovation should be exceptional.

5. Reward for Innovation

Rather than regulate or penalise payment providers for perceived failure to innovate, the Reserve Bank should look to reward or incentivise payment providers for innovation. Margins in payments are very thin and so regulating or forcing systemic upgrades can increase the cost to payment providers, and risks redirecting funds from true innovation.

Equally, we do not believe that regulating the level of interchange fees is an effective way to drive innovation in payments.

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[2] Refer http://www.rba.gov.au/payments-system/reforms/review-card-reforms/pdf/cba-31082007.pdf for the initial discussion of these principles.

Response to Strategic Review of Innovation in the Payments System: Issues for Consultation - June 2011

PART B

Introduction

The "*Strategic Review of Innovation in the Payments System: Issues for Consultation – June 2011*" document poses a number of "issues for discussion" in Chapters Four to Six. These are discussed, seriatim, below.

Chapter 4: The Decline of Traditional Payment Methods

4.1 The Decline of Cheques

1. Are there aspects of cheque usage that are unlikely to be dealt with by industry initiatives currently underway or likely to be undertaken in the next five to ten years?

- We fully support APCA"s review of the future of cheques. We strongly believe that the decline in cheque usage must be managed by the industry in a co-ordinated and consultative fashion. APCA"s consultation process (underway) will identify user groups who continue to pay by cheque, and the reasons behind their behaviour.
- We expect competitive market pressure; both at the systemic and proprietary level will continue to drive the industry to develop alternative payment methods suitable for cheque users.
- Regulatory assistance may be needed to endorse and co-ordinate any substantial changes made by the industry, thereby minimising any disruption to end users. In addition, the regulator could play a vital role in encouraging the Government, in its role as both an end user and legislator, to lead the transition from payment by cheque to other substitutable instruments.
- The decision by the UK Payments Council to reverse its decision to phase out cheque usage is surprising and disappointing. However, the UK public backlash against the initial decision may have been a response to the consultation process and unfounded fears about a lack of substitute payment methods, rather than any insurmountable impediments to phasing out the use of cheques. We expect the Payments Council will continue to pursue enhancements to the efficiency of the UK payments system, including cheques.

2. Could the decline in cheques be managed by pricing cheque use in a way that provides better signals to users?

- Given the cost to an FI of each cheque written is $4.30[3], passing on the full cost of cheques to end users is not feasible, and media commentary would be problematic for any FI attempting to do so. However, greater alignment of costs with price signals is an essential consideration when assessing the future of cheques.

[3] Table 7, *Payment Costs in Australia: A Study of the Costs of Payment Methods*, Reserve Bank of Australia, 2007. This cost does not include user costs estimated at $3 per unit by the RBA Payments Costs in Australia 2007.

- Pricing of cheques to end users would, however, become more feasible to FIs if considerable cost savings could be achieved to make cost-based pricing a possibility. This would, however, require investment in a payment method that is in decline. In addition, the industry‟s ability to collectively address cheque usage via price signals remains somewhat constrained by competition law.
- FI‟s need to be sensitive to the considerations of cheque users when setting usage prices. Cheque usage is high amongst elderly pensioners and rural customers, who could be financially disadvantaged if pricing was used as the exclusive means of discouraging payment by cheque.
- If cheque usage in Australia is to be actively discouraged, price signals will be a necessary component of a broader programme. Any such programme will need to be coordinated by the industry to deliver the best possible experience for cheque users.
- A mandate on the future of cheques handed down by the regulator is undesirable on its own. However, as noted in Question 1 above, the regulator may need to play a key supporting role as part of an industry programme.
- At some point, when cheque volumes decline far enough, the cheque payment system will become uneconomic for all users. The future of cheques needs to be well managed to address this.

3. Can a case be made for reforms to make cheque processing more efficient and therefore sustainable at lower cheque volumes?

- Cheque usage is undergoing an irreversible long term decline in usage. Each FI has an incentive to make its own processes as efficient as possible, in order to cope with declining cheque volumes.
- Cheque processing costs for individual FIs could be reduced if the industry agreed to certain changes. In particular, we endorse the practice of cheque truncation whereby captured cheques are imaged and this image is exchanged, and the original paper cheque is destroyed. Cheque truncation saves FI‟s the expense of transporting paper cheques and keeping them in storage. We propose that cheque truncation is endorsed as an industry standard as soon as feasible. Any assistance from the Reserve Bank to encourage the industry to move quickly to adopt this technology would be valuable.
- Any regulation impacting cheques must ensure cheque usage is not encouraged; otherwise, the regulation will not be improving the efficiency of the overall payments system. Cheques are a high cost payment instrument, and increased levels of usage would undermine the overall efficiency of the payments system.
- Investment in improvements to cheque processing will require a viable business case and it will be challenging to justify investment in a declining payment instrument.

4. Could institutions unilaterally withdraw from the cheque system, leading to specialisation by a small number of institutions?

- FI‟s universally withdrawing from the cheque system is not a possibility, as customers who receive a cheque will still wish to bank it. Furthermore, the Commonwealth Bank, and other large Australian banks, endeavour to provide their customers a full service offering.
- Niche financial service providers frequently struggle to be economic, especially if they are based on a single product offering. Such institutions are likely to struggle to establish a sustainable business model for cheque processing.

5. Is there a case for phasing out cheque clearing over time? How could that be managed while ensuring that satisfactory alternatives are developed?

- Subject to the availability of sustainable alternatives, ending cheque use would greatly improve the efficiency of the Australian payments system. This is a desirable outcome from the perspective of the overall efficiency of the payments system, FI"s and most end users.

- Phasing out of cheque payment services in Australia would require industry-wide collaboration and meticulous co-ordination. We support such initiatives. Beyond this, the collective decision of the industry will require endorsement by the Reserve Bank, and possibly regulation to achieve this outcome.
- To successfully manage such a change, an education campaign would need to be created for cheque users, suitable substitute payment methods would need to be established, and FIs would need to effectively incentivise the change in customer behaviour.

6. Should government agencies" policies on payments be used to influence cheque usage?

- A change in the payment practices of Government agencies would send a very clear message to the public that payment trends are changing. Accordingly, we strongly encourage Government agencies to transition from payment by cheque to other substitute payment methods. This should be supported by Government policy.
- Government agencies are large users of cheques and suitable alternatives are currently available to them. This is an opportunity to Australia"s State and Federal Governments to coordinate their payment behaviours and lead by example.

7. Should the approach to cheques be determined by individual institutions, determined collectively by the industry, or determined by the Payments System Board?

- There is limited impact that an individual FI can make upon industry-wide cheque usage. A co-ordinated approach at an industry level is the best approach to managing the decline in cheque usage. Collective action by the industry requires careful consideration of competition law. Assistance from the regulator in this co-ordinated industry effort will be beneficial. Regulation to bring into effect the decisions of the industry may be necessary.
- The primary means for dealing with the decline of cheques should be determined by the industry. A regulated determination preceding an industry decision is not desirable.

4.2 Cash Replacement

8. Are there any impediments to the development and adoption of products to replace cash?

- Consumers are likely to carry cash until such time as card payments, or other cash substitutes, are universally accepted by merchants. This is not yet the case. However, just as important as merchant card acceptance is merchant restrictions on card payments. Impositions by merchants of minimum spend requirements for card payments, card type accepted and to a lesser extent surcharges, is a deterrent to greater replacement of cash by cards.
- Cash replacement in Australia requires the provision of suitable alternate means of payment. This requires investment by banks, and in some instances end users, as well as collaboration amongst industry participants. The Bank has invested heavily to both issue PayPass cards and deploy PayPass readers. Usage of both these cards and readers is growing rapidly on a monthly basis, but is as yet far from replacing cash as a means of everyday payment for low value transactions. Beyond this, the Bank is investigating the possibilities created by new technology to replace cash payments.
- Large numbers of the population have a strong attachment to cash. For some, cash is viewed as secure because its redemption is guaranteed by the federal government, and it can be held outside of a deposit account. Many seek the anonymity of cash payments, especially amongst the "underground" economy. For others, the lack of technology involved in paying by cash appeals.

- Cash has always been central to Australia‟s economy, and it will require much effort and time to overcome customer inertia to transition from cash to non-cash payment methods.

9. Is there any case for public intervention in cash replacement?

- The regulator has a role to play in encouraging the banking industry to transition to more efficient payment methods. However, FIs and their customers are best placed to determine what instruments will best replace cash. This will happen as part of the organic product development cycle. The Government has an important role to play in encouraging the public to use efficient payment methods. The Government, via the Reserve Bank and the Mint, issues Australian notes and coins. This provides an opportunity to educate and incentivise cash users towards more efficient payment methods.
- The regulator can encourage cash replacement by making known the full cost of cash to users.

Chapter 5: The Environment for Innovation in the Australian Payments System

5.5 Models for Industry Governance

10. Do current governance arrangements adequately promote payments system innovation?

- The existing industry governance arrangements do promote, and have resulted in, payments system innovation. Recent examples include:
    - The formation of COIN, which has been managed by APCA.
    - APCA split EFTPOS governance out of Clearing Stream 3 and created eftpos Payments Australia Ltd (EPAL), as a commercial body to run eftpos, which has fostered innovation and competition.
- The Australian payments industry has been growing into its role as a self regulator, and is increasingly taking responsibility for industry outcomes.
- Collaborative industry innovation can be more difficult to achieve when the innovation needs to be underpinned by a commercial model. Only certain governance bodies are suited to delivering such innovations, including EPAL and BPAY.
- APCA makes frequent improvements to the operation of its five clearing streams and to the payments system more broadly. Many of these improvements are innovative in nature; however they will never receive the same notice as would a newly established payment method.
- Achieving agreement amongst a diverse group of competing industry participants with conflicting priorities about the need for a particular innovation, and how best to implement it, is inherently difficult. No matter which governance model is adopted, reaching a shared view typically requires at least some industry participants to prioritise the greater good over their own commercial interests. Compromises are difficult to reach when some competitors are perceived to fare better than others. Collaborative innovation will always be challenging to achieve in a highly competitive industry.

11. Are the needs of payments system users and non-ADI payment service providers adequately considered in decisions about the direction of the payments system?

- Non-ADI payment service providers‟ views are well considered by the payments industry when taking important decisions.
- APCA consults widely on major projects, for example the future of cheques investigation. APCA also runs a Stakeholder Forum, an Advisory Committee and the Australian Payments Forum.

- Non-ADI payment service providers also have a business relationship with a clearing bank. As part of this relationship, their bank consults with them on key industry decisions.

12. Are there ways of altering current governance structures to make innovation easier?

- The existing industry governing bodies are facilitating innovation although the Bank is open to considering ways in which this can be further improved. It is very difficult to reach an agreement as to how much innovation is enough, and how easy innovation needs to be.
- It is difficult to determine whether a change in governance structure will deliver an unambiguous benefit. Implementation of a new governance structure is a complex exercise, and it is difficult to adjudge what impact it will have on the levels of innovation.
- The Australian payments industry is conscious of the need to improve itself. APCA is currently reviewing its own governance structures. Achievable goals for our industry"s governance bodies are greater levels of collaboration, and a stronger focus on achieving a shared vision.
- Collaboration could potentially be made easier if certain aspects of competition law were relaxed.

13. Are there ways of altering current governance structures to take more account of the views of end-users?

- APCA has recently introduced a Stakeholder Forum as part of an overhaul of its Advisory Council structure. This Forum will be improved over time, as experience is gained, to better solicit the views of a broad range of end users.
- The introduction of APCA"s twice-yearly Australian Payments Forum has extended APCA"s engagement to a broader cross-section of the industry, and accordingly captures the views of more end-users.

14. Could a new decision-making body with broad representation of payments system participants, service providers and end-users provide a better strategic focus for the payments system, taking adequate account of costs and the public interest?

- We understand the benefits of broader industry representation and we consider this issue to be worthy of further debate.
- As a general rule, the more diverse a group of representatives is, the harder to reach an agreement. We are not certain that diversifying the representation on industry bodies will, by itself, improve the strategic focus on the payment system. What is more critical is that all representatives share a common commitment to making strategic decisions in the best interests of the overall payments system and thus providing the platform from which competition can flourish.
- The success of a broader industry body would depend very much upon the governance model employed. Unforseen misgivings in the design of the governance model could render the body ineffective.
- The UK Payments Council"s recent reversal in position over its plan to phase out cheques demonstrates that broad representation does not guarantee improved results when it comes to self regulation of the payments system. Such issues are fraught with complexities and will be difficult for anybody tasked with this matter.

15. How could such a body have the capacity to reach decisions across a diverse group of members?

- The ultimate success of a broad payments industry body will depend upon the model of governance adopted. Of crucial importance will be the body"s charter, constitution, voting rights and its powers to enforce its decisions.

- If a formal company structure was adopted, the directors of the company would have a legal responsibility to act in the interests of the company itself.

16. Could such a group make binding decisions and how could they be enforced?
- Refer to Question 15.

17. Could formalisation of a broader mandate for APCA, coupled with broader representation, provide better industry-wide outcomes?
- APCA"s Board is currently considering this as part of its governance review. We support this review and APCA"s commitment to improving itself as an effective self regulator.
- APCA plays a vital role in Australia"s payments industry. APCA is receptive to the challenge of becoming a more broadly represented body, and more active in initiating industry self-improvements. However, any changes to APCA must not compromise its existing functions.

18. What role should the Reserve Bank and the Payments System Board play in setting the reform agenda for the industry?
- The payments industry should be given every opportunity to innovate and self govern according to market need and competitive forces prior to any regulatory intervention. Otherwise, sub-optimal regulated outcomes may be imposed upon a functioning market.
- Regulation can discourage a responsible and competent industry from self-governance because regulatory intervention may then be seen as inevitable.
- The Reserve Bank is rightfully taking a close interest in the level of systemic innovation. The Reserve Bank should continue to monitor this and encourage the industry to set its own agenda for innovation and address any gaps in the market.
- The powers provided by the Payment Systems (Regulation) Act 1998 should be used sparingly, in accordance with the Reserve Bank"s refrain that it is a "reluctant regulator".
- Ultimately, the regulatory focus should be to create an environment that supports and promotes innovation.

19. Have concerns about breaches of the Competition and Consumer Act (formerly the Trade Practices Act) prevented the industry from achieving greater co-operative innovation? What approaches are suggested to deal with this in a way that does not undermine the intent of the Competition and Consumer Act? What are the advantages and disadvantages of each?
- APCA has for some time advocated a review of the Payment Systems (Regulation) Act 1998.
- It is necessary to resolve the uncertainty created by the overlap, and potential conflict, between competition law and payments regulations. For instance, the industry asked the Reserve Bank to designate the ATM network to avoid the risk of contravening the (then) Trade Practices Act.
- The Competition and Consumer Act 2010 limits interaction amongst industry participants over matters of collaboration, even on non-competitive matters. Often, if unsure about the legality of collaborating on a particular matter, FI"s will shy away from discussions in order to keep well clear of competition law breaches and sanctions. Our experience is that industry participants are acutely aware of this legislation and very nervous about breaching it, or even being accused of doing so.

5.6 Structure of Clearing and Settlement Rules

20. Does the current structure of clearing and settlement adequately allow for the introduction of new payment products? How could this be improved?

- Most new payment products integrate with an existing payment instrument or clearing stream. For example, BPAY transactions are cleared via the existing Bulk Electronic Clearing Stream and PayPal obtains funds from a customer via a direct entry or card payment in order to make a payment to the beneficiary. However, nothing prevents a newly developed payment instrument from establishing its own clearing stream.
- To date, most payments innovation has occurred at the point of interaction with end users. For retail payments, clearing and settlement happens later. The existing clearing and settlement procedures have been sufficient to support payments innovation, although we acknowledge the general desirability of more frequent exchange and settlement.
- Developments such as the RBA"s Low Value Settlement System will lead to the clearing and settlement process becoming quicker and more efficient. This will make clearing and settlement even more conducive to innovation within retail payments.
- The Commonwealth Bank is currently making large investments in its core banking platform that will accelerate the finality of payments for our customers. All funds transfers between Commonwealth Bank retail customers now occur in real time with Business customers to follow later this year. Card payments and ATM transactions made by our customers are posted to their account in real time. Beyond this, the Bank memo posts direct entry payments. This means our customers will receive value from a direct credit payment made to them shortly after it is received in a BECS exchange, without having to wait for settlement the next day in the 9am batch.

21. Is the current structure of rules applied to payment systems, including the five APCA clearing streams, the most appropriate?

- APCA"s clearing stream rules are necessary to ensure the security and integrity of our payment streams, and to set standards to achieve consistency amongst participants. Rules governing clearing and settlement streams, need to be maintained, regardless of who performs this role.
- It is appropriate that the industry"s participants collectively determine the standards to which they will adhere, and the security measures to be applied to mitigate fraud. APCA represents the payments industry effectively and is a suitable body to carry out the role of setting clearing stream rules. At present, there is no body better suited to this role.

22. How should clearing and settlement rules change to take best advantage of upcoming functionality in RITS for same-day settlement of bilateral bulk payment files (and existing functionality for same-day batch settlement). Could rules be established for individual „settlement streams", including for instance on the timing of availability of funds and the individual transaction values eligible for that stream?

- APCA is currently working on changes to its clearing stream rules to recognise the replacement of exchange summaries with the LVSS.
- The LVSS makes an ideal platform to offer same day settlement; APCA has formed an expert group to investigate the introduction of same day settlement. The industry is endeavouring to design its preferred model of same day settlement.
- Any changes to the existing rules of a clearing stream concerning the timing of funds availability and permissible transaction values would require thorough deliberation amongst clearing stream members. Care needs to be taken to ensure no new risks are introduced.
- Without an industry rule regarding the timing of funds availability after settlement, there is no guarantee intraday settlement will result in same-day posting of funds by all FIs.

23. Are there alternative models for clearing rules? For instance, could a set of generic (but narrowly focused) clearing standards cover multiple payment systems, with more detailed system rules applied at the individual system level? Should such clearing arrangements be mandatory for all payment systems, including those not currently party to APCA arrangements?

- A „skeleton" of common rules could be applied across all clearing and settlement structures, upon which specific variations could be built. However, an unambiguous improvement from this approach would be needed to move away from the existing clearing system rules, which support a reliable and functional payments system. The current sets of rules have been customised for each payment stream and are effective in facilitating clearing of payments.
- There is no need to mandate a common set of clearing and settlement rules across all streams; the payments industry could implement such a change if it perceived this to be beneficial.

24. What other ways are there of allowing providers of new payment products or systems easy access to clearing and settlement arrangements. Is there a case for establishing a standard minimum payment message type that participants are obliged to accept from agreed counterparties?

- We do not consider clearing and settlement to be a barrier to entry for potential providers of payments products. The emergence of PayPal, electronic tolling, BPAY, closed loop gift cards, etc. demonstrates this. While encouraging new payments providers, we need to maintain the integrity of clearing and settlement systems by setting appropriate technical and security standards, and imposing suitable risk mitigants.
- Adoption of consistent industry standards is beneficial. However, it may not be necessary for every clearing stream to adopt the same detailed standards. Individual clearing streams already adhere to appropriate standards.

5.7 System Architecture

25. Do existing clearing arrangements allow sufficiently easy access for new participants? If not, what could be done to improve this?

- A stable and reliable payments system requires minimum standards of security and compliance. Prudential requirements are also essential. Relaxation of these standards could jeopardise the stability and reliability of the payments system. Beyond these standards, we are open to improvements in access to the payments system, although we do not perceive any pressing need for improvement.
- PayPal, Tyro and Woolworths are all examples of recent entrants to Australia"s payments system who have all found suitable access to payments clearing streams.

26. Could greater use of hubs improve efficiency, access and innovation in the Australian payments system?

- Hubs are an important aspect of payments system design that have implications for system access and development. New payment systems that adopt a hub-based model will likely be more efficient than those that adopt bilateral direct connections. It is unlikely that any newly created payment system would adopt a bilateral direct connection model.
- The definition of a hub is not, however, clear. We do not restrict our view of a hub to a piece of central hardware. What is important is that the arrangements permit easy access for new participants and are conducive to system development.
- A network such as Community of Interest Network (COIN) could be considered a virtual hub. COIN is a common communication network with a single connection for each participant. The network is governed by common rules set by a management

committee. COIN offers many of the same benefits as a traditional hub and spoke model. It is not clear that there are compelling reasons to favour traditional hubs over virtual hubs.
- Modern technology could make virtual hubs based upon IP networks more cost effective than a conventional hardware based hub.
- We consider the adoption of appropriate and flexible global standards to be vital in payment system design. This is more important than the adoption of a conventional hub. So long as the behaviour and operations of all system participants are uniform and mandated to comply with agreed standards, system access and development is simplified.
- The case for moving from an existing bilateral model to a hub may be difficult to justify commercially. Forced migration is not appropriate. Rather, existing participants should be given a long time frame to migrate to the hub at their convenience, for instance as part of a systems upgrade and subject to business case justification. This approach is more cost effective than mandating a forced migration within a short time frame, in which each participant will most likely implement the change as a standalone project. EPAL is taking a suitable approach; it is seeking to build the long term capability to move to a hub model, and then members will be able to migrate over time as circumstances permit.

27. In what areas would a hub or hubs be useful – for instance, for transmission of clearing files, or for real-time individual transactions? For what type of payments would a hub be useful? What functions could a hub or hubs provide? Could a hub be available for use by multiple payment systems?

- Subject to the comments above in response to Question 26, hubs are suitable for many payment, clearing and settlement systems. There is no reason why multiple systems cannot run on a single hub.
- The downside of hubs is that they concentrate the risk of system downtime. This can result in a single point of failure if adequate replication of each system component is not built in. System participants and designers need to be satisfied that sufficient redundancy measures have been built in to each aspect of a payment system to minimise the amount of disruption caused by the failure of any single system component.
- Maintaining a single link to a single hub running multiple payment systems is desirable from an efficiency perspective, as opposed to maintaining separate connections to separate hubs for each payment system. However, the downtime risk of operating all payments systems on a single hub is enormous. Also, specific technical detail would need to be assessed.
- The cost of developing and maintaining a hub needs to be supported by a sustainable economic model.

28. Should hubs be considered best practice for new payment systems? Should existing systems be migrated to a hub? Could hub services be offered in a way that allows participants to opt in, while providing full services to new entrants?

- Refer to Question 26.

29. What type of ownership, governance and management arrangements would be desirable for a hub?

- There is potential for any number of arrangements to successfully operate a hub.
- A model of private ownership will provide a commercial focus. This will allow the hub to become economically viable and address its development needs. However, it comes at the risk of monopolistic pricing, especially so because the greatest cost efficiencies can be achieved when a single hub operates all payment systems.

- A publicly-owned hub may overcome the risk of monopolistic pricing, but the lack of a commercial focus could make the payments systems using the hub less efficient and potentially unable to respond to changes in technology in a timely manner. A public institution may not have the capabilities to successfully operate a commercially viable payments hub.
- A shared public-private ownership model could be created to take the best characteristics of these two models and overcome their flaws. Given how closely the Reserve Bank and the industry works together on many initiatives, including RITS and the LVSS, this approach could have merit. However, there is no guarantee this approach will be more successful than a private or public ownership model.

Chapter 6: Innovation Gaps in the Australian Payments System

6.1 The Transmission of Data with Payments

30. How widespread is the demand for the innovation in question and how significant would the impacts be?

- Large efficiencies could be gained by users of direct entry payments, especially for B2B purposes, if the payment message contained fields to enable the transmission of meaningful remittance data. Accordingly, we expect the demand for such an innovation, were it to be introduced, will be strong.
- The degree of uptake for any such innovation will correspond to how effectively the innovation addresses the unmet need. A system based around the ISO 20022 standard that offers payment messages incorporating numerous fields suited to B2B transactions, and sufficient data capacity, would be better placed to tap into this demand than an innovation that were to tie a separate data message to the payment message.

31. Are there any specific impediments to that innovation occurring, e.g. barriers to entry, co-ordination problems, technological constraints?

- There are numerous challenges to developing innovative industry-wide payment methods that permit the carriage of remittance data. Such an innovation will require considerable investment from each industry participant. Sourcing funds for an investment with an uncertain payoff is always difficult. However, requiring multiple industry members to raise funding at the same time is even more difficult.
- In the case of the Commonwealth Bank, we are currently investing large amounts of funds in, amongst other things, a core banking renewal program and associated developments. The Bank has assigned large numbers of highly skilled employees to these projects.
- Before funds can be assigned to any project, a business case must be established to justify the use of funds. Demonstrating that an innovation will be successful and recoup the opportunity cost of these funds is not easy. This process prevents funds being wasted on speculative investments with little prospect of success. The same process can also make it difficult to obtain funding for innovative purposes.
- Co-ordinated industry-wide innovation is more difficult to initiate than proprietary investment. Not only is it difficult to reach an alignment of views to pursue the innovation, it can reduce the incentive to innovate if your competitors will have access to the same innovation.

32. Is there a case for public intervention?

- FIs are best placed to manage the innovation process within the payments industry. FIs interact frequently with their customers and understand their needs. Regulated innovation will never be as effective as organic innovation. A regulator"s role does

not extend to, nor is it best suited to, choosing which innovations should become mainstream.
- Regulated innovation can lead to an inefficient payments system if FIs are forced to develop unprofitable payments methods.
- Regulatory intervention runs the risk of the industry refraining from innovation in anticipation of a regulated outcome being forced upon it.
- The regulator can assist the industry in its efforts to collaboratively innovate. This may require the regulator to play a co-ordination role. In addition, the regulator can amend regulation or legislation that undermines the innovation process.

33. Possible solutions to the transmission of additional data with payments include: the use of existing free data fields in the DE system for a referencing system; the reconfiguration of the DE system to accept much larger quantities of free-form information; or the use of another system for payments requiring the carriage of additional data. Are there other alternatives? What are the advantages and disadvantages of each? Which option is preferred? How should that option be implemented?

- Direct entry payments have existed in various forms in Australia for many years. Over this time, many bank systems, and user systems, have integrated with the direct entry system. Making wholesale changes to the direct entry system would be more difficult than initiating a new purpose built combined payment and remittance data system because of the number of systems that would be affected.
- The important consideration here is that payments systems are often very complex and linked to customer data information systems. Systemic changes to the current DE system will be very costly and possibly destabilising. The current system is not broken, – it just needs improvement.
- The Bank is open to considering new infrastructure to support as many types of payments as possible.

34. What role should messaging standards, such as ISO 20022, play in any solution for transmission of additional data?

- Adoption of well-designed global standards is beneficial to the industry. However, any benefit must be weighed against the extent of systems development to accommodate the change. Hence standards are easier to implement as part of a new initiative, rather than applied as a change to an existing system.
- We support the work undertaken by APCA to investigate the ISO 20022 standard.

35. The superannuation industry is working to address issues associated with transmission of data related to superannuation accounts and payments. Is there a contribution that can be made by the payments industry beyond the proposals discussed above?

- We understand the need for the transmission of superannuation account information. The superannuation industry is a key stakeholder in APCA‟s development process and will also be actively consulted as part of APCA‟s investigation of ISO 20022.
- Wealth Management is a major business within the CBA Group; as such we have a keen interest in addressing this issue.

6.2 The Timeliness of Payments

30. How widespread is the demand for the innovation in question and how significant would the impacts be?

- There are two aspects to the timing of payments; the timing of authorisation and the timing of posting. There has been much innovation recently to improve the timing of both.
- Card payments have long offered real time authorisation, and the growth in scheme debit cards has enabled online merchants to receive real time authorisation of debit payments.
- The Bank has done much to accelerate the posting of payments to its customers" accounts. The Bank"s core banking renewal means that funds transfers between Commonwealth Bank retail customers now happen in real time. Furthermore, payments made by our cardholders are now posted to their account in real time.
- The Commonwealth Bank also memo posts direct credit payments to our customers" accounts. This means that a customer will have the funds from a direct credit payment posted to their account within a short period of time, following the BECS exchange in which we received the transaction.
- Customers now expect faster and simpler payments. This will increase the pressure on the industry to further improve the timing of payments. The rapid advancement in everyday technology available to Australians is adding to the pressure on banks to invest in technology to allow real time retail payments. This pressure is stimulating competition in the banking industry.
- However, for a large number of payments, speed is not the most important attribute. For instance, the existing DE system is well suited to the needs of payroll batch payments. These users are unlikely to move to a more rapid payments system if it means incurring a higher price.

31. Are there any specific impediments to that innovation occurring, e.g. barriers to entry, co-ordination problems, technological constraints?

- Intraday settlement would offer the potential for industry-wide improvements in the timeliness of funds availability to customers. However, an industry-wide improvement in the time taken to post funds from a direct entry transaction would require an industry posting standard. Reaching agreement on this will not be easy because the existing BECS system is comprehensively integrated into the many banking systems of each FI and also users. As such, some BECS participants may be reluctant to agree to a posting standard because of the difficulties in implementing such a change.
- Before intraday settlement can be introduced, an agreement needs to be reached as to whether participation in intraday settlement sessions is mandatory for all direct settlers. Furthermore, the large values of BECS files that get exchanged in the two final exchanges of the day, which include the BPAY batch, needs to be addressed.
- The level of investment required for many innovations in payments can be sizeable. Margins on payments are very small and so large investments in innovations need to have a viable business case.
- Refer to 6.1 Question 31.

32. Is there a case for public intervention?

- There are numerous initiatives underway in the industry, as previously discussed, which are addressing the need for timely payments.
- Refer to 6.1 Question 32.

36. To what extent will systems already under development or discussion address issues related to the timeliness of payments? What gaps will remain?

- More and more FIs are accelerating their posting of payment funds. Beyond this, APCA is working to introduce an industry agreed model of intraday settlement.
- For many users of the Australian payments system, the speed at which payments are authorised and funds are made available is sufficient for their needs.

37. What new systems or enhancements to existing systems would be required to achieve more timely payments? How could these innovations be achieved?

- Intraday settlement combined with a posting standard will improve the speed of funds availability from direct entry transactions for accounts held at FIs that do not currently memo post. Fundamental systems changes are required of many banking systems in order to implement intraday settlement. Some FIs may have difficulty in meeting a minimum posting standard for those account lines running on outdated systems. In particular, banks operating aging core banking systems that are due for substantial investment to upgrade them to meet modern banking requirements may have difficulty implementing a minimum posting standard.
- The Bank is well placed to offer immediate value on transactions as a consequence of its core banking overhaul enabling real time payments for low value retail transactions.

38. Would multiple same-day interbank settlements be sufficient to facilitate faster availability of funds?

- Many banks have already decided to accelerate posting of funds to customers without intraday settlement. Intraday settlement would be effective in providing a guaranteed industry-wide reduction in the time taken to post funds if a rule is enacted to compel banks to post within a given timeframe following settlement. If no such rule is introduced, there is no guarantee intraday settlement will result in accelerated posting practices across every account at every FI.
- Intraday settlement could introduce considerable risk to the payment system unless various concerns are addressed. Optional participation in intraday settlement would result in reduced liquidity for those remaining participants. Furthermore, some FIs could incur an increase in overnight exposure to counterparties if large values of payments were exchanged by selected participants outside of the intraday settlement window.
- Refer to Question 37.

39. Is there a case for a real-time settlement system for low-value payments and how should it be provided?

- Clearing and settling exchanged batch retail payment files at the same time would be much more feasible than authorising, clearing and settling each individual retail payment in real time.
- This concept should be considered by the APCA intraday settlement working group.

40. To what extent would financial institutions‟ own systems need to change to allow faster access to incoming payments to customers‟ accounts? What would this involve and how could it best be achieved? Could the desired improvements be achieved by competitive pressures if financial institutions were forced to publicly disclose information on the timing actually achieved on payments? Would some form of mandated time limit for availability of funds be appropriate?

- Many banks do provide customers with an expectation as to when funds from a payment will be made available, particularly for pay-anyone internet banking

transfers. This is a matter of customer service, and can be expected to be addressed by competitive forces.
- Refer to Question 37.

41. How strong is the demand for payment options that will provide availability of funds 24 hours a day, 7 days a week? What would need to occur to achieve this?
- Weekend exchanges would require numerous significant organisational changes. FI"s treasury departments do not currently operate on weekends; this would be necessary to facilitate 7-day settlement. Furthermore, significant systems development would be necessary.
- The treasury department of each bank requires access to money markets to enable settlement and at present money markets close for the weekend.
- Since most businesses, or at least their finance departments, do not work on weekends, we do not believe 7 day posting of funds from payments would make a difference to many business users of the payments system. It may have more appeal to individuals.
- Refer to Question 30.

6.3 Ease of Addressing Payments

30. How widespread is the demand for the innovation in question and how significant would the impacts be?
- We believe improved addressing of payments would appeal strongly to users of P2P payments, but may have limited appeal beyond this.
- Simplification of addressing of P2P payments will be extremely appealing to existing users of pay anyone internet banking transfers.
- The Bank supports EPAL"s plans to market credit EFTPOS transactions. Card payments remove the need for manually addressing payments, and credit EFTPOS will extend the capability of automated payment addressing to B2C card payments.

31. Are there any specific impediments to that innovation occurring, e.g. barriers to entry, co-ordination problems, technological constraints?
- The means of addressing an existing payment instrument is ingrained in the payment message file and banking systems. In some instances hardware and customer systems are designed around the means by which a payment instrument is addressed. The downstream consequences of changing the means of addressing a payment instrument are likely prohibitive. It may be more practical and economical to design a new payment instrument with a new means of addressing payments.
- Refer to 6.1 Question 31.

32. Is there a case for public intervention?
- Refer to 6.1 Question 32.

6.4 Person-to-person Payments

30. How widespread is the demand for the innovation in question and how significant would the impacts be?
- It is hard to measure the demand for P2P payments innovation. P2P payments have numerous existing alternatives. If a suitable innovation emerges to simplify P2P payment, we would expect to see significant substitution away from these existing and more traditional means of P2P payment.
- Cash is one such means of making P2P payments. However, as the prevalence of cash in our economy reduces, demand for a simple and convenient means of electronic P2P payment will increase. Without the development of new P2P payment methods, we expect growth of pay anyone transfers will increase.

31. Are there any specific impediments to that innovation occurring, e.g. barriers to entry, co-ordination problems, technological constraints?

- The low price associated with existing P2P payment options makes it difficult to launch a commercially viable system of electronic P2P payment. Cash, direct credits and cheques all have a low or negligible price associated with use and customers may be reluctant to move to a new P2P system with a commercially appropriate price.
- While difficult to measure, the number of P2P payments is unlikely to compromise a major proportion of total retail payments. Payments at shopfront and online retailers, B2B payments, B2C payments including payroll, and bill payments are each likely to be more numerous than P2P payments. A low volume of payments makes it difficult to recover the investment required to innovate.
- Refer to 6.1 Question 31.

32. Is there a case for public intervention?

- Refer to 6.1 Question 32.

6.5 Mobile Payments

30. How widespread is the demand for the innovation in question and how significant would the impacts be?

- Of all potential areas of innovation in payments, consumers are probably most eager for innovation in mobile payments. Much of this interest stems from the rapid advances in mobile phone and tablet computer hardware. On any given day, 20-30% of NetBank logons are performed using a mobile device.
- Much effort is being expended within the banking industry to develop mobile payment offerings for customers. The potential gain in customers to be obtained by the FI that becomes the leader in pioneering mobile payments makes this a highly competitive space.
- The Commonwealth Bank currently offers a service called eVolve Mobile to merchants that allows them to accept card payments using a mobile internet device. The Bank is looking closely at the potential for low value payments offered by mobile smartphone devices.

31. Are there any specific impediments to that innovation occurring, e.g. barriers to entry, co-ordination problems, technological constraints?

- Rapid changes in smartphone technology makes investing in mobile payments a risky proposition. Early investment comes with a risk that the mobile technology involved will be superseded.
- If investment in mobile payments technology requires collaboration with hardware manufacturers and/or telcos, the investment decision and innovation process becomes much more complicated.
- Stable globally-recognised standards for mobile payments may be necessary to encourage investment by FIs.
- Refer to 6.1 Question 31.

32. Is there a case for public intervention?

- The regulator of payment systems should not regulate the technology employed in an emerging market such as mobile payments, which is reliant upon rapid advances in technology. The eventual mobile payments product offerings are best developed by industry participants in a competitive and innovative market unencumbered by regulation.
- Refer to 6.1 Question 32.

42. What form are mobile payments likely to take in Australia over the next five to ten years – SMS-based, mobile internet, contactless or some other form?

- It is difficult to predict what form mobile payments will take in ten years time. It is quite likely that various iterations of mobile payments will have captured mainstream usage within this time.
- Current developments suggest applications for smartphones to facilitate mobile payments will become increasingly prevalent over the next few years. These applications will permit person to person payment and contactless card-based payment. These applications will be designed to be „native" to the operating system of the device. SMS-based payment appears to be out of favour.

43. Are there impediments to the development of mobile payments in Australia? If so, what type of payments are being impeded and how?

- Soon enough, NFC contactless payment applications will be available to Australian consumers. However, at present the number of NFC-equipped smartphones in use by Australians is negligible. Recently, a major manufacturer of smart phones released a flagship model Smartphone with an NFC chip incorporated. In some markets, including Australia, this phone is sold without an NFC chip. Some anecdotal reports have emerged stating the decision not to sell NFC models of this phone in Australia was encouraged by telcos.
- Mobile P2P payments could be in wide use by now if there was a suitable means of addressing a payment without the need to include a bank account number and BSB. Innovative mobile P2P payment offerings will stimulate much growth in the use of mobile payments, and further innovation in this space.
- Emergence of numerous smart phone operating systems requires additional work to create multiple applications for multiple smartphone platforms.

44. Are there security issues particular to mobile phones that may impede adoption of some types of mobile payments in the future? Are there likely to be issues with interoperability of mobile payment systems?

- Smartphones offer some potential improvements in payments security. Smartphones are password protected and are sooner noticed should they go missing than a payment card. Applications on a smartphone can have multiple security settings, and allow for user customisation of these settings, which is not possible with a payment card. For instance, mobile payment applications can be pass code protected.
- Designing applications for multiple mobile platforms is a complication. Security features and vulnerability to malware varies across platforms.

45. Are there adequate standards to support the development of mobile payments in Australia? If not, what standards are lacking, what types of mobile payments are affected, and who should be responsible for setting them?

- Existing payment standards allow for development of new mobile payment functionality. Innovation would allow a payments provider to adapt the existing card or direct entry payments infrastructure to offer mobile payments. The international card schemes have standards that are suitable for NFC mobile payments.
- Mobile smartphone devices are advancing at a rapid rate. It is only recently that mobile phones have developed the features and functionality to make them an ideal platform for payment. Payment offerings that take advantage of this new technology are likely to emerge quickly.
- There are no obvious regulatory or structural impediments preventing payments providers from collaborating with technology, or other, providers to develop mobile payment solutions. Any impediments to this innovation would most likely be commercial in nature.

- The introduction of mandated standards would likely inhibit rather than encourage mobile payments developments. Mandated domestic standards for mobile payments risk putting Australia out of step with the rest of the world, and consequently becoming an impediment to innovation.

6.6 Electronic Purse Systems

30. How widespread is the demand for the innovation in question and how significant would the impacts be?

Contactless Electronic Ticketing

- The Bank is involved in the provision of transit ticketing solutions using contactless electronic purses in Brisbane (Go Card), Perth (Smartrider) and Canberra (MyWay). While these solutions provide commuters and transport operators with more efficient electronic ticketing (as opposed to paper tickets), electronic purses still require commuters to „top-up" funds and operators to issue cards. Additionally, the Bank is part of the consortium to deliver the Sydney Transit Ticketing solution.
- The Bank has long been a supporter of contactless electronic ticketing using open-loop networks.
- The benefits to transit operators of open loop payments are obvious, as they do not need to issue cards or provide top-up capabilities. Account top-ups typically require a retail distribution network where commission is paid to the retailer on each sale and top up. Additionally, the Issuer of the open-loop card would do most of the customer servicing.
- For commuters, using their own debit or credit card in the transit system means they only need to carry one card for all transactions, and they do not need to arrange top - ups to the card. If we had a ubiquitous transit solution across Australia, one card could be used across all transit systems.

Prepaid Cards

- There is growing demand for pre-paid solutions that use open-loop technology.
- Increasingly our customers are seeking solutions for single-load and re-loadable pre-paid cards. These can be for compensation, reimbursements, emergency access to cash or per-diems.
- Prepaid cards need to provide access to the POS and ATM network and as such, the scheme based pre-paid cards currently provide the best solution.
- Additionally, we are seeing convergence of technologies where a pre-paid card is used for many purposes. For example, our University of Canberra card is a reloadable contactless EMV pre-paid card; students can load money onto the card to make purchases on and off campus. Stored on the EMV chip is a mi-fare application that provides access to printing, photocopying, building access and library borrowing so that students have an all-in-one card. This has been very successful and other universities are following.

E-Wallets

- The concept of e-wallets, as alternatives to physical cards, has gained traction with a number of variations of the e-wallet available.
- These concepts allow easy purchase of goods and payment of bills online.
- A range of e-wallet concepts exist ranging from regulated online payments providers such as PayPal to other variants of e-wallets.
- The e-wallet concept allows anyone with an email address to send and receive money to just about anybody, or to settle bills through money stored online in safe systems. Typically, all that is needed is registration on the e-purse provider"s website by filling out a simple form. This creates an electronic account or e-purse to which a customer can transfer money from a bank account.

31. Are there any specific impediments to that innovation occurring, e.g. barriers to entry, co-ordination problems, technological constraints?

Contactless Electronic Ticketing

- Contactless open-loop ticketing technology can be rolled out now. Advances in chip technology easily enable EMV debit and credit cards to be used in transit systems.
- Around the world, transit operators are moving towards acceptance of scheme payment cards in their systems - recognising the benefits of convenience, security and ubiquity in places such as Paris, New York, Utah and, later this year, London.
- The technology is now relatively simple to implement, with the commuter simply tapping their scheme debit or credit card against the reader when boarding and exiting the train, ferry or bus. The final charge is processed through the back office system that matches up individual card „taps" within a specified duration to calculate the trip cost.
- For this technology to be widely accepted, co-ordination between state transit operators is required. Although each transit operator could move towards this platform on their own, a ubiquitous solution that enabled commuters to access transit of all forms, in each state using the one card would be beneficial to all commuters.
- Refer to 6.1 Question 31.

Prepaid Cards

- CBA has recently invested in a pre-paid platform that enables us to rollout tailored pre-paid programs for our customers.
- However, margins on pre-paid programs can be very tight and business case justification is sometimes difficult.
- Refer to 6.1 Question 31.

E-Wallets

- Refer to 6.1 Question 31

32. Is there a case for public intervention?

Contactless Electronic Ticketing

- While co-ordination of various state transit operators would be beneficial, we do not believe there is a need for any regulatory intervention.
- Refer to 6.1 Question 32.

Prepaid Cards

- Some retailers will not accept bank-issued pre-paid cards as a payment instrument. This makes for a confusing proposition to customers where banks have to explain to customers that, while a scheme debit or credit card is accepted in store, a pre-paid card may not be.
- Refer to 6.1 Question 32.

E-Wallets

- Refer to 6.1 Question 31

6.7 Standards

30. How widespread is the demand for the innovation in question and how significant would the impacts be?

- Demand for deployment of standards is likely to be driven by FIs and not end-users. Adoption of well-designed global standards is beneficial to the industry. However, any benefit must be weighed against the extent of systems development needed to accommodate the change. Hence, standards are easier to implement as part of a new initiative, rather than applied as a change to an existing system.
- Non-competitive matters such as security are most likely to be conducive to industry agreement on new standards.
- We support the work undertaken by APCA to investigate the ISO 20022 standard.

31. Are there any specific impediments to that innovation occurring, e.g. barriers to entry, co-ordination problems, technological constraints?

- Retrofitting a new standard to an existing payment system is much more costly and difficult than adopting a global standard for use in a newly created payment system.
- Refer to 6.1 Question 31.

32. Is there a case for public intervention?

- Government co-ordination of the various state transit ticketing programs would be beneficial to all transit network users. A standard fare system with standard payment options across the country should be targeted, and possibly mandated.
- Refer to 6.1 Question 32.

46. What is the case for moving to ISO 20022 compliant standards for Australia"s retail payment systems? What is the preferred process for doing so?

- The main benefits of adopting ISO 20022, as identified in the Consultation Document, are compatibility with a greater number of systems, interoperability with other payments systems and enhanced message content.
- As the providers and operators of Australia"s payments systems, it is best left to the payments industry participants to decide whether there is a case to implement this standard.

47. Should all new payment systems be required to adopt ISO 20022? Should existing systems be required to do so?

- ISO 20022 could be agreed to as the required standard for all new payments systems. This can be achieved because new payment systems do not have legacy systems that need to be upgraded.
- The aggregate cost to society of all existing Australian payments systems moving to the ISO 20022 standard would be enormous. Each FI, and many users, has a large web of integrated systems designed around existing AS2805 and other standards. The complexity of upgrading each system to handle ISO 20022 and in some instances having to replace a system, and redesigning the process to ensure the upgraded systems all work collectively to accurately and reliably perform their intended functions cannot be underestimated.

48. To what extent are other standards, such as device standards, an impediment to competition and innovation? Is this justified?

- We do not consider device standards to be an impediment to competition or innovation.
- Most standards relate to security or operational arrangements, and do not impede the core tenets of competition.

49. How should compliance with industry standards, both by new entrants and incumbents, be monitored?

- The Australian payments industry has an enviable record for security and reliability. Much of this is attributable to the industry having set appropriate standards, and proper policing of these standards by the industry. The industry should be entrusted to continue this role.
- It is undesirable that compliance with standards becomes a burdensome workload. However, the industry needs to ensure that its monitoring and enforcement procedures are effective and appropriate.

50. Is there a case for greater industry co-operation on the setting of security standards for retail payments? If so, how should this be achieved?

- Deliberation over security standards needs to be undertaken by the industry and should be rigorous. Security standards are designed to uphold the integrity of payments systems and are not a competitive matter. There should be no compromises in the setting of security standards, and no leniency in policing them.

6.8 Future Trends

51. Are there any significant changes in the payments landscape in prospect that have not been considered by this paper, for instance in terms of architecture or significantly different payment products? What will be the implications of these changes? Are there actions that should be taken now to take full advantage of these changes?

A large number of trends are emerging in the payments landscape that provides both challenges as well as opportunities.

1. Customers are demanding greater choice and faster, more convenient payments
    - Customer value propositions for simpler and faster payments must be consumer led.
    - As technology advances, consumers" use of electronic payments will increase and further move away from cheques and cash.
    - Customers want control of payments. For example, the ability to set limits, block transaction types and monitor their spending.
    - The consumer shift from credit to debit in the current economic environment is driven by convenience and credit control.
    - The growth of peer to peer payments cannot be ignored.

2. Businesses demand more
    - Businesses are demanding more value-added services beyond basic payments.
    - Provision of services along the value chain from e-invoicing to auto-reconciliation all help to optimise a business" working capital.
    - Increased need for simple, cost effective cross-border transactions is expected.

3. Security
    - Consumers need complete trust in the payments system. Security of a payments system is of utmost importance.

4. Form and Speed in Payments
    - We are already seeing a shift in card payments from signature to PIN, and to contactless and quick payment service.

- Form factors will change with a gradual move away from plastic cards to mobile smartphones.

5. Innovation is driving how banking is conducted and how payments are made
   - There is a huge shift towards anytime, anyplace banking and payments on any mobile device.
   - Approximately 25% of logons to CBA"s NetBank are via a mobile device.

6. Continued pressure on pricing
   - Innovation comes at a cost. While there is a need to continue to test and learn with new payment innovations, there is not an endless source of funding for innovation.
   - Payment margins are too thin to justify ongoing costly innovation.

7. Ongoing technology developments
   - Technological developments will continue to drive the decline in cash and cheque payments, with an increase in online, cards and contactless payments.
   - Mobile payments in the near future will further shift how consumers move money around.

8. Convergence of multiple card applications onto one card
   - Cards (or other form factors such as mobile smartphones) are becoming smarter. Issuers will leverage innovation to move towards multi-application cards that offer payment, access, identification, transit ticketing and more.

9. Growth of Social Networks and Micropayments
   - Social Networking is a key piece of transformational process that we need to continue to explore, understand and try to work out the best way to use.
   - Already social networking sites enable transactions through currencies such as Facebook credits and Bitcoins.
   - Micropayment companies are increasingly enabling social network users to buy virtual goods for their online worlds.

As listed above, there is ample evidence of rapid changes in the payments landscape. Some of these trends will provide the opportunity for individual payment providers to develop competitive innovation for products and services, while other trends will require payment providers to collaborate for systemic innovation.

TAB 4: Exhibit CBA-1

CommonwealthBank
Commonwealth Bank of Australia
ABN 48 123 123 124

Level 6
201 Sussex Street
Sydney NSW 2000
Australia

GPO Box 2719
Sydney

Telephone: (02) 9118 6545
Email: woodward@cba.com.au

Representation
Credit Cards, Payments & Retail Strategy
Retail Banking Services

22 April 2015

Dr Tony Richards
Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

By Email to: *pysubmissions@rba.gov.au*

Dear Dr Richards,

Consultation on "Review of Card Payments Regulation – Issues Paper, March 2015"

The Commonwealth Bank (the Bank) appreciates the opportunity to lodge this Submission to the Reserve Bank of Australia (RBA), further to the 4 March 2015 Media Release and "Review of Card Payments Regulation" Issues Paper March 2015"[1]. The Bank understands that this Submission will be posted on the RBA's website.

The Issues Paper identifies a number of specific issues for consultation (Chapter 5). These shall be addressed below. Prior to that, however, we'd like to take the opportunity to comment briefly on a few related matters, as well as some of the "Issues for the Review" raised in Chapter 4 of the Issues Paper.

The Bank believes that card payment networks exhibit high levels of innovation; they are highly competitive both between Schemes and also amongst Issuers and Acquirers. There is a strong customer value proposition for cardholders to use cards, and for merchants to accept card payments. High levels of investment are evident and we believe it is important that there is enough value in the network to justify, and indeed encourage, ongoing investment and innovation. Furthermore, it is important that regulation does not inhibit such innovation or competition, nor inhibit the movement away from less efficient forms of payment such as cheques and cash, towards more efficient channels such as cards.

The Bank believes that interchange fees, through the function they perform in balancing the relative costs on both sides of a cards payments network, play a key role in cultivating innovation. This assists a network to bring mutual benefit to participants and promotes ongoing efficiencies.

Regulatory intervention should be commensurate with the extent, if any, of market failure. After many years of regulatory intervention in card payments, we do not believe that further significant changes are warranted. As will be noted below, some incremental fine tuning of

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[1] http://www.rba.gov.au/payments-system/reforms/review-of-card-payments-regulation/review-of-card-payments-regulation-issues-paper.html

regulation may be possible – if introduced in a practical manner which minimises market disruption. However, it is important that any regulatory response be cognisant of the size of the issue being addressed. As a principle, we believe that erring on the side of less intrusive regulation, rather than more, is a preferable outcome.

Chapter Four of the Issues Paper canvasses a range of issues to address in this review. Such topics are generally expanded upon in the specific issues for consultation listed in Chapter Five. These will be addressed below. However, a few themes warrant brief consideration before our detailed views are spelt out. Such themes include:

- Complexity / Simplification: At a number of points in the Issues Paper, concern is expressed in relation to the number, and spread, of interchange fees. While we understand this concern and agree that some simplification may be desirable, we are also mindful that simplification and rationalisation risks an adverse impact on innovation and product differentiation – and thus competition. We are also concerned that it is not the role of payments regulation to seek to specify end market pricing arrangements – that is the province of competitors seeking to provide services valued by their customers.

  Simplicity should also manifest itself in any regulatory solution. Any regulatory response should be simple, practical and cost effective, in order to avoid placing unnecessary burdens on the industry and its customers.

  Furthermore, we think that the more intricate regulation becomes, the more incentives participants have to seek to "game" the system. This is counter-productive, albeit commercially understandable.

- Cross Subsidisation: The impact of interchange fee hierarchies, combined with differing interchange fees for different card products, is seen to be perpetuating a cross subsidisation of costs between small and large merchants. Again, we understand this concern and agree that incremental benefit may be obtainable by addressing the extremes of these circumstances.

- Drift: Concern around the upward 'drift' of interchange fees between the three yearly reset periods is evident. This is able to be addressed with relatively straight forward initiatives, as outlined below.

- Efficiency: The Bank does not accept the argument that current interchange fee caps are inefficiently high. In our view, the market has settled at a level of equilibrium reflecting current interchange fee caps, and further wholesale reductions run the risk of seriously undermining cardholder value propositions for little, if any, benefit.

- Surcharging: Recent history, and the Issues Paper itself, makes it clear that surcharging for card based payments remains a contentious topic – especially in relation to some identified industries. Instances of "excessive" surcharging are best assessed, we believe, as a competition law enforcement issue. While surcharging is addressed further below, it is our view that surcharging where input costs are regulated, is not appropriate – ie, where interchange fees as an input cost are regulated, and thus restrained, it is not appropriate that merchants also retain the ability to surcharge. We do not believe that 'two bites of the cherry' can be justified. Surcharging in circumstances where payment input costs are unregulated should be left to the merchant's discretion, having regard to issues of market power which should be considered the province of competition law rather than payments regulation.

Specific aspects arising from these themes, and more, are addressed below. However, it is suggested that a number of these themes can be addressed in a relatively straight forward manner with some relatively incremental modifications to existing regulation.

The Issues Paper seeks the views of stakeholders on a number of issues. These are addressed below, using the headings identified in the Issues Paper.

(1) Publishing thresholds for which payment system providers will be subject to interchange or related regulation

The Bank does not support an approach to payment systems regulation that is based on an arbitrary determination of size or significance. Instead, assuming the persistence of the RBA's regulatory powers, it is our view that price regulation should be targeted only at multi-lateral prices – interchange fees – that are not the result of bilateral, commercial, negotiations. This enables a clear understanding of when such regulation will apply and avoids any debate about significance – and also ensures competitive neutrality between networks utilising an interchange fee arrangement.

For the sake of abundant clarity, and to address one specific, but topical, example, we do not see a need for regulation of American Express cards or transactions. Further, we see no need to distinguish between "companion" card arrangements and the more traditional American Express card. Comments further below in relation to surcharging are, however, germane.

(2) Broadening interchange fee caps to include other payments between schemes and issuers.

Further to Issue (1) above, non interchange payments between Schemes and their members are the outcome of bilateral, contractual, negotiations between counterparties and it is our view that RBA should not intervene in such relationships. As stated above, if regulation is to persist, this should be restricted to regulation of multi-lateral interchange fees in light of their unique nature. To stray beyond that principle is an unreasonable intervention in bilateral commercial relationships.

(3) Making changes to the interchange benchmark system to reduce the upward 'drift' in average interchange rates inherent in the current three-year reset cycle.

We believe that a more frequent reset period, in conjunction with other initiatives, will address the concerns currently arising from the 'drift' in interchange fees between the three yearly reset periods. An appropriate "cap and collar approach" – discussed further below – combined with annual resets, would address 'drift', while still allowing competitive pressures, and innovation, to persist.

(4) Lowering interchange caps.

The Bank does not accept that there is any basis for the suggestion that interchange fees are currently too high. We believe that the market has, in recent years, found equilibrium and to move away from such a position will be disruptive for participants, with the consequences of such disruption falling disproportionately on cardholders.

The expectation of lower product prices following a reduction in merchant cost of card acceptance does not, in our view, stand up to scrutiny.

In our response to issue (3) above, we endorse the possibility of transitioning to an annual reset period (away from the current three year interval). A practical implication of such a relatively minor change is to remove the incentive and ability for issuers to exploit the opportunity for 'drift' – effectively introducing considerable downward pressure on each Scheme's weighted average interchange fees. In conjunction with the "cap and collar approach" discussed below, this removes the need for a blunt, and draconian, reduction in current caps.

(5) Replacing weighted-average interchange caps with hard caps.

Complementing the above discussion, we encourage the RBA to further explore the introduction of "caps and collars". We would envisage separate caps and collars for credit card interchange fees, and debit card interchange fees, based around the current weighted average rates. To be more specific, we suggest consideration of a model involving:

- Retain current weighted average interchange caps to apply separately for credit card and debit card interchange fees.
- Introduction of a "cap and a collar" (separately for both debit and credit products) either side of the weighted average cap. Setting an interchange rate above the hard cap, or below the hard collar, would not be permitted.
- This would have the effect of moving interchange fees to within a band around the current weighted average. Such a band should be narrow enough to address concerns around 'drift' and cross subsidisation, while also being broad enough to encourage issuer innovation, differentiation and competition.
- We would support retention of the current preferential rate applied to Charity transactions as an "exception" to this model.
- For clarity, we would see this applying to "cash out" debit transactions (against which a "negative" interchange fee is currently applied). This should be re-aligned to a positive number within the "cap and collar".
- We do, however, suggest that Commercial, or Corporate, cards (both credit and debit) should be removed from this regulated regime given their fundamentally different nature when compared to consumer cards. (Commercial cards invariably "transact" rather than "revolve", incur costs from customisation, and capturing and delivering enhanced data and management reports, and deliver considerable working capital and productivity benefits to the employer / sponsor organisation.)
- Similarly, Commercial prepaid cards should, in our view, be exempt from regulation under interchange fee caps. (Further below, we suggest that consumer prepaid cards should be treated the same as debit cards – refer Issue (7) below.)
- We also suggest, as discussed in (6) below that consideration be given to expressing both credit and debit card interchange fees on an ad-valorem basis.
- Combined with more frequent reset periods, we believe that such a model would address the vast majority of concerns expressed in the RBA Issue paper.

A complementary reduction in the number of interchange fee categories would further assist with this simplified approach.

The main challenge in such a model as this is, of course, striking the appropriate level of the respective cap and collar. We would be happy to engage with the RBA in such an exercise but would anticipate a compression of Interchange Fees (both in number and quantum) from those which are presented on page 27 of the Issues Paper[2].

This model, in conjunction with reduced opportunity, or incentive, for 'drift' is, we believe, a compelling proposition where incremental fine tuning can be implemented with less risk of market disruption than more quantum, or extreme, measures.

(6) Applying caps as the lesser of a fixed amount and a fixed percentage of transaction values.

The Bank does not support the setting of interchange fees as the lesser of *either* a flat fee *or* an ad-valorem fee. We think that such a model would be confusing for merchants, and confusing for cardholders in the event that surcharging were to be permitted (see below). This model would also be difficult for an acquirer to implement – necessitating a sizeable lead time (as foreshadowed in the Issues Paper) and involving considerable expense.

[2] Ibid

It is important to note that a number of the costs that are traditionally re-couped by way of credit card interchange fees vary according to the size of the transaction. Thus, ad-valorem recovery, rather than flat cents per transaction, is appropriate. Such cost categories include issuer costs in respect of fraud, issuer costs incurred in funding the interest free period on credit card transactions, and cost of capital.

The Reserve Bank may wish to give consideration to transitioning all interchange fees to an ad-valorem approach, in lieu of the proposed "lesser of" approach. This would, we believe, assist in the acceptance of low value card transactions. An appropriate transition period would likely be necessary under such an approach.

(7) Including prepaid cards within the caps for debit cards.

The Bank has always been of the view that debit card regulation applied also to prepaid cards. To the extent that clarification is required, and we are surprised that this may be the case, then confirmation of the existing approach may be beneficial.

(8) Allowing for 'buying groups' for smaller merchants to group together …. to negotiate to receive the lower interchange rates that are accessible to larger merchants.

The Bank is of the view that allowing for such buying groups is an artificial construct that seeks to bring together retailers that otherwise have no common interest – other than aggregating purchasing power for a single purpose.

While we appreciate the objective here – to reduce disparity between the favourable rates enjoyed by large merchants and the rates otherwise charged to smaller enterprises – we believe that such an objective could be addressed by other initiatives discussed above – such as under Issue (5) above.

In a practical sense, we also question whether such buying groups would generate enough volume so as to be meaningful in terms of qualifying for more strategic rates – and we also anticipate a considerable implementation challenge for acquirers across disparate merchants if this were to be implemented.

(9) A tiered surcharging system, perhaps …..

- **(a) Allowing low-cost system providers to prevent merchants from surcharging, to encourage consumers to use low-cost payment methods.**
- **(b) Allowing medium-cost providers to limit surcharges to limits set by the Board**
- **(c) Allowing high-cost providers to limit surcharges to the reasonable cost of acceptance**

The Bank believes that a tiered system of surcharging is likely to prove confusing for cardholders, bureaucratic, and difficult to implement for retailers and acquirers. Such an approach is thus unlikely to be adopted. An alternative, and preferable model in our view, would be to ban surcharging for those instruments subject to interchange fee regulation, while allowing merchant discretion for setting of surcharges, if any, for otherwise unregulated payments channels.

This approach should be considered in conjunction with, and complementary to, the above suggestion for a "cap and collar" around a weighted average interchange fee outcome, with annual reset periods. With regulation, and effective lowering of interchange fees for regulated networks via the elimination of 'drift', the need for surcharging is significantly reduced –

especially in relation to what might (formerly) have been seen as high cost cards to non-strategic merchants.

With regulation (price capping) of an input cost, it is unnecessary, and arguably inequitable, to also allow surcharging. We believe that "two bites at the cherry" is innapropriate.

(10) Targeted changes to reduce particular cases of excessive surcharging.

The Bank is strongly of the view that cases of "excessive" surcharging are indicative of market structure and price setting powers, and are best addressed under competition law, rather than seeking to do so under the regulation of payments systems.

(11) Any other changes to enforcement procedures and disclosure practices.

The Bank endorses the importance of timely and fulsome disclosure of surcharging intent and also encourages the provision of non surcharged payment channels – helping cardholders to make informed choices while also promoting competition.

(12) Strengthened transparency over the cost of payments to merchants and cardholders.

There are a number of aspects to this issue, viz:

- Electronic identification of debit versus credit cards is conceptually desirable but has proven to be challenging to implement. Keeping an expanding range of card numbers up to date, and able to be interrogated at the Point of Sale, is onerous and arguably unnecessary if other, incremental, initiatives discussed elsewhere are implemented.
- It is even more difficult to electronically distinguish different categories (colours) of cards – and keep card number ranges up to date, without significant imposition on acquirers and merchants. This is exacerbated when ranges of card numbers are "migrated" to different categories, without any visual change to the cards in question. Visual differentiation of already crowded card "real estate" raises further challenges. Again, this is onerous and arguably unnecessary if other, incremental, initiatives discussed elsewhere are implemented.
- The provision by acquirers of merchant pricing details that separately shows interchange fee and merchant service fees applying to different card types is a competitive matter and regulation thereof cannot be justified. Providing additional pricing and statement detail (and complexity) also overlooks the simplicity (such as blended pricing or pricing that includes monthly card turnover) that, in our experience, many merchants value highly. For clarity, we believe that provision of "interchange plus" pricing should remain a competitive matter – offered by some, but not necessarily all, acquirers and likely accepted by some, but not all, merchants.

In effect, the above discussed "cap and collar" with regulated weighted average interchange fees renders this issue redundant.

(13) Further easing of 'honour-all-cards' rules to allow merchants to decline to accept cards with high interchange fees.

The "Honour All Cards" rule is a central tenet of individual card payment networks. The Bank does not support any easing of existing rules in this respect. Consumer confidence that their "Scheme X" card, regardless of colour or features, will be accepted wherever they see the sign stating "Scheme X Cards Accepted Here", is vital. A watering down of this proposition to the effect that only "*Some* Scheme X Cards Accepted Here" is a significant weakening of the cardholder value proposition. This would be a backward step in terms of promoting card usage and the ongoing migration to more efficient forms of payment.

Again, the above discussed “cap and collar” with regulated weighted average interchange fees reduces the need to challenge this tenet of card payment networks.

(14) Facilitation of differential surcharging by merchants.

Differential surcharging for otherwise unregulated payments networks is really, in our view, a matter of merchant choice. Competitive pressures would we believe, in conjunction with no surcharging for regulated networks, act to exert downward pressure on surcharging levels.

However, we do not believe that it would be good market practice for merchants to be required to inform customers of their cost of card acceptance. Again, this is a matter of merchant choice and should be considered in the same context as a merchant considers disclosure of any input cost.

(15) Ensuring that merchants have the ability to choose to route their transactions via lower-cost networks or processors.

The Bank does not support allowing merchants the ability to route transactions via alternate networks. Apart from the technical challenges inherent in this proposal, and the technical inefficiencies it would introduce, such an option overrides cardholder selection of card brand and card features – and potentially negates the benefit that drove a cardholder to select a certain card in the first place – such as the provision of insurance protection which would be jeopardised if an alternate network were to be selected by the merchant at the point of sale.

(16) Clarifying arrangements for competing payment options within a single device or application.

In August 2013, RBA announced that agreement had been reached between the three debit card networks over dual-network debit cards. These agreements have been kept confidential between the RBA and the respective network. If these agreements are now found to be wanting, then clarification through greater transparency and more rigorous enforcement may be required.

A central element of this issue is, to our view, the ability for card issuers to have the right to select which application is “Priority One”, rather than have that dictated by a card network. Clarification and confirmation of this would be a welcome development.

(17) Stakeholder views on the appropriate regulatory arrangements for prepaid cards

Further to Issue 7 above, the Bank believes that debit card regulation should encompass prepaid cards. We understand that this is currently the case; confirmation of the existing approach may be beneficial.

(18) Other issues concerning card payments and their role in the broader retail payments system

Earlier in this Submission, the Bank made comment on a number of principles and themes. We repeat the view that competition, investment and innovation is evident in the market for card payments, while acknowledging that light-handed regulation can play an important role in promoting the movement away from less efficient forms of payment such as cheques and cash. We take this opportunity to urge further RBA action in support of such a migration.

It is also important to stress the two sided nature of the cards payments network. In our opinion, the current debate has tended to overlook the importance of, and potential impact on, cardholders. The above discussion has deliberately sought to re-balance this debate.

Interchange fees have been shown to be an important component of network growth and efficiency and while some incremental fine tuning of regulation may be possible – introduced with a view to minimising market disruption – it is important that any regulatory response be cognisant of the size of the issue being addressed. Erring on the side of less intrusive regulation, rather than more, is to be preferred.

(19) Additional measures that the Bank should consider in a review of the regulatory framework

We will happily expand further on any of the above, or related matters, when we meet to discuss this Submission.

In the meantime, the above discussion canvasses a range of issues and responses thereto. At a high level, and by way of summary, we see merit in further exploring a "solutions package" that might include the following:

- Restrict price regulation to those instances where a genuine multi-lateral interchange fee is in place;
- Introduce a "cap and collar" approach (separately for debit and for credit networks) around the current weighted average interchange fee;
- Introduce annual reset periods; and
- Permit surcharging for unregulated networks only.

In our view, such a model, further embellished with points of detail discussed above, will address the vast majority of issues articulated in the RBA's Issues Paper. We believe that this approach would result in less market disruption than a more interventionist approach, minimising adverse cardholder impacts, and significantly simplifying merchant pricing.

Thank you again for the opportunity to lodge this Submission. We look forward to discussing the above, and related, matters with you and to that end we ask that you contact the undersigned to arrange a suitable opportunity.

Yours sincerely

[Signed]

Stuart Woodward
General Manager
Representation

TAB 5: Exhibit CBA-1

CommonwealthBank
Commonwealth Bank of Australia
ABN 48 123 123 124

Level 6
201 Sussex Street
Sydney NSW 2000
Australia

GPO Box 2719
Sydney

Telephone: (02) 9118 6545
Email: woodward@cba.com.au

Payments Representation
Cash-Flow and Transaction Services
Institutional Banking and Markets

1 February 2016

Dr Tony Richards
Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

By Email to: *pysubmissions@rba.gov.au*

Dear Dr Richards,

Submission in Response to "Review of Card Payments Regulation – Consultation Paper, December 2015"

Commonwealth Bank of Australia (the Bank) appreciates the opportunity to respond to the Reserve Bank of Australia (RBA) Consultation Paper on the Review of Card Payments Regulation dated December 2015. We understand that this submission will be published on the RBA's web-site.

The Bank's submission to the RBA dated 22 April 2015 remains our preferred position for addressing the concerns outlined by the RBA in its 4 March 2015 Issues Paper. The comments that follow are limited to the Bank's views on the proposals contained in the RBA's December 2015 Consultation Paper, as per the RBA's request. Commentary is provided on an exceptions basis.

Companion Cards

The RBA's preferred option with respect to Companion Cards (extending regulatory coverage to include American Express Companion Cards) is at odds with the preference expressed by the Bank in April.[1] The RBA's option will, we believe, significantly change market structure and dynamics and result in a large upheaval to the Bank's AMEX Companion Card products.

The Bank will require time to review this business in light of the proposed changes. Modifications to our relationship with AMEX may be required; adjustments to systems, processes and procedures will also eventuate. Product changes are inevitable as a consequence, and will need to be accompanied by an extensive communication process with our cardholders.

[1] In our submission of 22 April we indicated (page 3) that "*we do not see a need for regulation of American Express cards or transactions. Further, we see no need to distinguish between "companion" card arrangements and the more traditional American Express card*". The Bank remains of this view. We believe that the RBA's proposed changes will result in an uneven competitive landscape to the benefit of three party networks operating outside the regulation.

Accordingly we ask for a suitable implementation period before this change takes effect. The Bank considers a two year transition to be appropriate.

Commercial Cards

The RBA proposes to continue to include Commercial Card interchange fees within the overall weighted average cap, while also having such interchange fees operate under the suggested overall caps.

Three-party card schemes have a strong presence in the market for issuance of commercial cards - in direct competition to the regulated four-party products. Commercial cards bring large volumes of business to merchants in a number of industries, including travel, entertainment and procurement. Merchants in these sectors are more likely to accept three-party cards in order to benefit from the additional sales revenue. Furthermore, staff using a three party commercial card will often have a personal card as a backup should their commercial card not be accepted. Accordingly, merchant acceptance does not seem to be an impediment to three party schemes competing vigorously in the commercial cards issuance market.

Placing an 80bp cap on interchange fees for Visa and MasterCard commercial credit cards will put these products at a significant disadvantage relative to three-party schemes. Three-party schemes will be better placed to promote their commercial card products to potential business clients, due to their fee flows being unregulated. This could well result in a shift in market share for commercial cards from four-party schemes to three-party schemes upon implementation of the RBA's proposal, analogous to the uplift in three-party scheme market share after the RBA's original reforms to credit card interchange fees.

As interchange makes up a vast majority of the revenue earned by Issuers, it is likely that they will review their cost base in providing commercial card solutions, in order to be able to continue to drive innovation, encourage usage and ensure commercial returns. This could inadvertently and disproportionately impact smaller businesses as larger corporates will be better placed to negotiate preferential terms and contracts than smaller businesses.

Furthermore, the viability of commercial pre-paid product offerings will be significantly impacted if subject to the proposed debit caps. This will impact innovation and investment in this developing segment and further exacerbate the competitive imbalance with three party prepaid offerings.

In order to help maintain the commercial competitiveness of the Visa and MasterCard commercial card offerings, the Bank recommends that commercial cards are exempted from the caps on maximum debit and credit card interchange fees.

While the Bank does not support the application of a cap on commercial interchange fees, should the RBA pursue this option, then considerable time will be needed by commercial card issuers to adjust existing contracts with their business customers. Typically, these contracts have been negotiated on a bespoke basis. Accordingly, in order to minimise market disruption and provide sufficient time for communication and negotiation, we ask for a suitable implementation period before this change takes effect. The Bank considers a two year transition to be appropriate.

Foreign-Issued Cards

The RBA proposes to bring transactions with foreign issued cards acquired in Australia under the coverage of the RBA interchange fee standards. The Bank is keen to avoid a situation in the cards market whereby Australian card issuing and acquiring businesses are subject to undue influence from multiple regulators locally and overseas. The Bank is concerned that by capturing the interchange fees applicable to foreign-issued cards in its Standards, the RBA could be setting a precedent which, if replicated in other markets, could result in a complex web of regulations for card interchange fees on cross-border transactions.

Another concern is that foreign issued card volumes are likely to introduce considerable volatility and seasonality into benchmark compliance calculations. This could result in more frequent recalibrations of interchange fees to meet the benchmark, which would increase the operational costs of compliance with the interchange benchmarks.

The Bank expects that Card Schemes would set all cross border interchange fees captured under this regulation at the (maximum) level of the cap. This would then result in domestic interchange fees being lower than otherwise in order to achieve weighted average benchmark compliance. The outcome of such a situation is that domestic cardholders would subsidise, and effectively lose out to, foreign cardholders. From the Bank's perspective, this is an undesirable outcome. The Bank would much rather see interchange fees used to incentivise innovations in the domestic market.

The Bank recommends that the RBA instead pursues Option 1 to retain the current approach in regard to foreign issued cards.

The RBA is concerned about the risk of domestic card issuers circumventing local requirements through the issuance of foreign cards. The Bank considers that this is most unlikely and more than adequately mitigated by the mooted Anti-Avoidance clauses in the draft Standards.

Benchmark Compliance

The RBA proposes a move to quarterly compliance. While the Bank supports a move to a more frequent interchange compliance cycle, a quarterly compliance cycle will result in considerable operational imposts.

It is unlikely that an annual compliance cycle would permit or incentivise any drift above the weighted average benchmark. Accordingly, in the interests of efficiency, the Bank proposes that the interchange compliance cycle move to an annual frequency, rather than the quarterly cycle currently proposed. As acknowledged by the RBA, shifting to an annual cycle would, in itself, be an improvement over the current three year cycle.

Quarterly reporting could still be used to assure the RBA that annual compliance is not resulting in any meaningful drift above the weighted average benchmark. A forward looking commitment from card schemes that drift above the benchmark over the ensuing year is not considered likely might provide an additional level of comfort to the RBA (in conjunction with annual compliance) – if required.

The Bank wishes to avoid an increase in the frequency of interchange schedule resets. An interchange reset requires our acquiring business to provide at least 30 days' notice of price changes to our merchant clients. System changes are also necessary.

Quarterly compliance would also expose the weighted average benchmark to the effects of seasonality (potentially compounded by an overlay of seasonality introduced by large merchants). This would greatly increase the chances of a seasonal spike in a particular category(ies) of cards triggering an interchange reset, which would otherwise have been unnecessary under an annual compliance regime.

Interchange Benchmarks and Ceilings

The RBA's draft Standard 1 for Credit Cards defines interchange fees as payable from an acquirer to an issuer. The definition of interchange fees in the draft Standard 2 for Debit and Prepaid Cards is not consistent with Standard 1 - it does not stipulate that interchange fees are payable from acquirer to issuer.

The Bank suggests the RBA modifies Standard 2 for Debit Cards to change the definition of interchange fees to be consistent with Standard 1 for Credit Cards.[2]

Surcharging

The Bank has serious concerns about the implementation of the changes required of acquirers to merchant statements, as proposed by the RBA. The RBA's proposed changes to merchant statements are a prescriptive means to achieving its desired outcome. Compliance with this proposal will incur considerable cost and changes for acquirers and payments processors.

CBA does not currently provide merchants with an annual statement of their acquiring activity and merchant service fees. We believe this is also true for most of our competitors. To create this would require significant one-time and ongoing expense. However, we fail to see why this is necessary when a merchant's regular statements will provide suitable information about the maximum permissible surcharge price for a merchant. As such, we think an annual merchant statement is unnecessary and should not be required by the RBA if the acquirer does not presently offer this.

CBA also currently provides its merchant clients with separate statements for Visa/MasterCard transactions and eftpos/UnionPay transactions. We would appreciate clarification from the RBA that this practice is acceptable and acquirers do not need to display the maximum permissible surcharge for every card category on a single merchant statement.

Furthermore, apportioning a merchant's other costs to each interchange category to calculate the maximum surcharge price will require considerable system development. This data does not currently feed into the relevant merchant billing system, and to do so would necessitate a costly IT project.

Another complexity with implementing the RBA's proposed surcharging reforms comes about from third party costs. Some larger merchants will have costs relevant for inclusion in the calculation of the maximum permissible surcharge which are unknown by the acquirer. For example a merchant may: have sourced their own PINpads, have an arrangement directly with an e-payments gateway, or use a fraud checking service. The merchant's acquirer will not know these costs and accordingly will not be able to incorporate them into monitoring the maximum allowable surcharge. Furthermore, some merchants use multiple acquirers - which acquirer's statement do they use to determine their maximum allowable surcharge?

The Bank thus considers the RBA's currently proposed approach to be unnecessarily complex. The Bank suggests a much simpler means of achieving a similar outcome would be for the RBA to stipulate that merchants can surcharge up to "1.x" times the relevant merchant service fee, with this multiple set by the RBA. This is a rule of thumb type approach to cater for non MSF costs incurred by the merchant. The RBA could choose to survey some

[2] The Bank's suggestion would prevent debit card interchange fees from flowing to the acquirer, including for cashout transactions. Some large merchants presently benefit from a rebate from their acquirer for cashout transactions, on the back of the interchange fee paid to the acquirer. The Bank does not perceive cashouts as a service for which merchants require compensation since much of the value from this transaction, before interchange fees, already accrues to the merchant by way of reduced cash-handling costs and better customer service.

merchants and acquirers if it wanted the multiple to reflect the cost profile of a sample of merchants.

The discontinued interchange cost survey was seen as an expensive, burdensome and unnecessary means of arriving at an interchange benchmark. This applies equally, in the Bank's view, to setting a merchant's maximum surcharge price by incorporating an apportionment of their other costs to each interchange category. Using a RBA-set multiple will achieve an almost identical outcome, while saving acquirers considerable cost and complexity.

The Bank's suggested approach would be flexible in accommodating industries consisting of 'agency' merchants, such as travel agencies and entertainment ticket retailers. These merchants often incur additional costs arising from chargebacks due to the failure of the ultimate supplier to deliver the purchased goods/service to the cardholder. The RBA could, by exception, set a separate multiple for an individual industry to accommodate unique costs in accepting card payments particular to that industry.

In regards to the issue of excessive surcharging by merchants, the Bank (as we have previously argued) considers this issue should be addressed under competition law. As such, the Bank suggests the Australian Competition and Consumer Commission should examine surcharging practices within specific industries where excessive surcharging is experienced by cardholders. The RBA is unsuited to monitoring and enforcing compliance of the Government's proposed surcharging legislation.

By placing a cap on the maximum permissible surcharge for each merchant, the merchant service fee pricing structure for some merchants could result in unusual outcomes. CBA offers a Simple Merchant Plan to its merchants, with a fixed fee for acquiring turnover up to a specified level. Calculating the average merchant service fee in a period of abnormally low turnover for a merchant will result in an unusually high maximum allowable surcharge.

Similarly, the Bank offers bundled pricing for multiple banking products to some of its business clients. This would require some discretion on the acquirer's behalf to determine the merchant service fee applicable for such clients.

The Bank recommends that the RBA's requirements for merchant statements be as light touch as possible in order to minimise any resulting complexities, whilst still adhering to principles of transparency and disclosure. Regardless of the approach adopted, the implementation period should be sufficient to allow for considered systems and operational development and deployment.

The Bank has written separately to the RBA regarding changes to merchant statements to support a revised surcharging framework. We would welcome the opportunity for further discussion on this matter.

Other Matters

The definition of 'Issuer' and 'Acquirer' within the RBA's draft Standards is ambiguous. The definitions in the RBA's Standards could refer to either the individual business units within the Bank performing these functions, or to the entire Bank as an entity. The Bank suggests that a "whole of Bank" approach be adopted and would appreciate clarity in this regard.

The RBA's draft standards are, in our view, written in legalistic language which is not easily interpreted by new readers. The clauses within these Standards are quite complex, and many readers will call upon a legal interpretation to clarify the ultimate meaning and application of these clauses. The use of legal wording can be effective in closing off loopholes; however this comes at the expense of readability and ease of interpretation.

<u>The Bank recommends that these Standards are redrafted using more conversational plain English, where permissible.</u> Ordinarily, this approach may be eschewed in an attempt to prevent loopholes from emerging within the wording. However, the anti-avoidance provisions within the Standards mean that any potential loopholes will not be able to be exploited.

Also, the RBA requires that merchants are able to access an up to date list of credit and debit card BINs. The process whereby merchants who wish to obtain this information need to contact their acquirer, and the acquirer obtains an up to date listing from each scheme, is unnecessarily cumbersome. A preferable approach would be for each scheme to maintain a central listing on their website, with access available to merchants. <u>The Bank suggests the RBA endorses this approach.</u>

The Bank's views in relation to Companion Cards and three party networks in general have been expressed above, and previously. We note with interest that the Payments System Board would consider designation of the AMEX proprietary card system if "appropriate" outcomes are not forthcoming following implementation of the current round of proposed changes. The Bank would welcome the opportunity to contribute to any consultation process that might precede any such possible designation.

Thank you for the opportunity to lodge this Submission. We would appreciate the opportunity to discuss the above, and related, matters with you and ask that you contact the undersigned to arrange a suitable opportunity.

Yours sincerely

[*Signed]*

Stuart Woodward
General Manager
Payments Representation

TAB 6: Exhibit CBA-1

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Final Submission to the Productivity Commission's Inquiry into Competition in the Australian Financial System

20 MARCH 2018

This document should be read in conjunction with the Commonwealth Bank of Australia's Initial Submission (dated 15 September 2017)

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Contents

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Executive summary

The Commonwealth Bank of Australia (CommBank) welcomes the Productivity Commission's (Commission) Inquiry into Competition in the Australian Financial System (Inquiry) on behalf of the Australian Government (Government) and the Inquiry's Draft Report (Draft Report).

CommBank believes a highly competitive banking system that is stable, fair, efficient and safe through the economic cycle is good for customers, shareholders and the Australian economy. It is working hard to create a better, stronger bank that focuses on customers' wellbeing, leads on operational standards and compliance, drives industry innovation, and contributes to communities and the economy in ways that reflect its size and heritage.

CommBank also believes it is important to deliver a highly competitive proposition to customers whilst ensuring responsible management of Australia's largest financial institution.

Over the last decade, the level of competition in the Australian financial system has increased. Innovations and regulatory changes have enabled new entrants and smaller competitors to compete effectively, including relative to Australia's four largest banks (collectively referred to as Australia's Major Banks).

For example, there is a long term declining market share trend for Australia's Major Banks collectively in home loan approvals and furthermore, there is significant volatility in underlying month on month market share movements between competitors which highlights vigorous levels of competition.

Despite Australia being a relatively small economy, Australian financial services customers have access to world-leading propositions with high levels of choice, innovation, accessibility and service quality. Nonetheless, CommBank recognises that there will always be opportunities for the industry to continue improving customer outcomes.

The intensity of competition in the Australian financial system is on par with other advanced economies[1] and the industry is also highly productive by comparison[2]. These competitive dynamics have delivered high customer satisfaction levels, reflected in the long term trend of increasing customer satisfaction that has risen to over 80%[3]. It is also important to note that there is a decreasing trend in customer dissatisfaction which is now less than 5%. CommBank is continually striving to better understand the needs of all customers' views, in particular by focusing on the individual concerns of dissatisfied customers.

Australia has enjoyed over 26 years of uninterrupted economic growth[4]. This is globally unprecedented. Given the procyclical nature of banking, it has naturally led to strong performance for Australian banks. This has flowed through to support the broader economy; almost 80% of Australian

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1 Bullock, M., 2017, Big banks and financial stability, delivered 21 July, www.rba.gov.au/speeches/2017/sp-ag-2017-07-21.html.
2 Boston Consulting Group, 2016, Retail Banking Excellence Benchmark (Australia's Major Banks have lower operating expenses per customer compared to the global median).
3 Roy Morgan Research, Retail MFI Customer Satisfaction, Australian population 14 years+, 6 month rolling average to January 2018. Includes ANZ, CommBank excluding Bankwest, NAB and WBC excluding St George Bank. Satisfaction includes percent "very satisfied" or "fairly satisfied" with relationship with MFI and Dissatisfaction includes percent "very dissatisfied" or "fairly dissatisfied" with relationship with MFI.
4 OECD, Main Economic Indicators Publication, available from OECD. Stat online: http://stats.oecd.org

banks' profits are returned to shareholders as dividends[5] and Australia's Major Banks are amongst the nation's largest taxpayers[6].

CommBank reiterates the importance of maintaining the stability and resilience of the Australian financial system as the primary aim of policy, whilst also ensuring customers are protected and competition is promoted for the benefit of customers. Systemic failures in banking typically result in catastrophic fiscal and socio-economic outcomes, as recently demonstrated by the impact of the Global Financial Crisis (GFC) on many advanced economies.

Financial system strength and stability, including perceptions of strength and stability, are particularly important given the Australian financial system's strong reliance on offshore wholesale funding in supporting economic growth. To put this in perspective, Australia's Major Banks alone raised almost $100bn of long term wholesale funding in offshore markets in FY17[7]. During this period CommBank raised $27bn offshore in long term wholesale funding, and renewed approximately $32bn offshore in short term wholesale funding on average each month. The reliance of the Australian economy on the strong credit ratings of Australia's Major Banks and their ability to access offshore markets at scale was critical in enabling CommBank to provide $135bn in new lending to Australian customers during this period.

At some point in the future, Australia is likely to experience a recession. Australia's regulatory settings must ensure that the financial system has the strength and stability to absorb losses and support economic recovery in this event. Whilst Australia's financial system was not as impacted by the GFC as many others, the factors that helped protect Australia's economy then (such as persistent demand for commodity exports and interest rates that were sufficiently high to enable expansionary monetary policy) are unlikely to exist, at least to the same extent, entering into the next downturn.

CommBank believes that Australia's regulatory framework is robust, comprehensive and appropriately balanced to promote innovation and competition, protect customers, and maintain the stability and resilience of the Australian financial system. Indeed, in November 2017 the international ratings agency S&P Global Ratings said that the existing laws and regulations governing Australia's banks are amongst the strongest in the world[8].

Any regulation designed to stimulate competition should give consideration to "through the cycle" implications, in particular the potential risks to customer protection, market integrity and/or financial system stability in the event of an economic downturn or period of economic volatility. CommBank continues to stress this view.

Whilst CommBank accepts many of the Draft Findings in the Draft Report, it rejects several of them and in particular those relating to the state of competition in the financial system, consumers' ability to apply competition pressure, implications of oligopolistic market structure, perceptions of 'too big to fail' and the Four Pillars policy. In CommBank's view the conclusions drawn in these Draft Findings do not give an appropriate and balanced assessment of the range of considerations that are relevant to each of the respective topics.

5 ABA, https://www.banksbelongtoyou.com.au/
6 ATO, 2015-16 Report of Entity Tax Information, available online at: https://data.gov.au/dataset/corporate-transparency
7 Australia's Major Banks' annual reports. Note: CommBank has a 30 Jun-17 year end. WBC, NAB and ANZ have a 30 Sep-17 year end.
8 S&P, refer to AFR's article "Australian banks the best regulated in the world: S&P" (29/11/2017)

CommBank supports in principle or is unopposed to the majority of the Commission's Draft Recommendations. However, CommBank does not support the Commission's Draft Recommendations with regard to three matters:

The proposal to abolish interchange fees. The payments system is critical infrastructure for the nation. Investment is necessary to provide security, stability and continuous innovation. There have been successive reforms that have aimed to optimise interchange. Australia's interchange fees are low by global standards. There should be no further changes to these regulations until the Reserve Bank of Australia (RBA) has had the opportunity to evaluate the effects of the most recent reforms introduced last year.

The proposal for the Australian Prudential Regulation Authority (APRA) to develop an online tool to report median interest rates on home loans. CommBank's concern is this will likely have a number of significant unintended consequences. Mortgage pricing is determined by a number of factors, including a risk assessment of individual customers and external factors such as wholesale funding costs. Publishing historical median interest rates without the relevant personal context is likely to mislead customers and distort the decisions of lenders.

The proposal related to a duty of care for mortgage aggregators and brokers. CommBank supports recommendations that aim to protect customers and puts their interests first. However CommBank does not support the recommendation as currently expressed, as it applies only to aggregators owned by lenders. This would cause confusion for consumers as different brokers would have different service level obligations, and creates an unnecessarily uneven playing field for industry participants. Further, it would be important to ensure that any duty of care obligations allow for brokers to consider price together with the full range of product features that may be of value to customers, for example physical branch networks, access to digital banking, product flexibility (redraw, offset, etc.).

CommBank looks forward to working constructively with the Commission, the Government and regulators to address important design considerations to promote competition, protect customers and maintain the stability and resilience of the Australian financial system.

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Chapter 1: Industry context

1.1 Competition and regulation in the Australian financial system are healthy

Key Points

- A highly competitive banking system that is stable, fair, efficient and safe through the economic cycle is good for customers, shareholders and the Australian economy.
- There is vigorous competition between banks, demonstrated by high levels of customer satisfaction, material monthly volatility in market share of flows; high levels of investment in innovation; and high spend on marketing.
- Barriers to entry and expansion are low and falling and there is ongoing entry of new players across all parts of the value chain.
- Australian banks are among the most efficient banks in the world, having a lower cost-to-income ratio, lower cost-to-asset ratio and lower operating expenses per customer than in most comparable countries.
- ROEs in banking are comparable to other industries in Australia, and lower in many instances.
- Australia's regulatory framework is superior to most mature markets and CommBank supports the clear division of accountability between the RBA, APRA and the Australian Securities and Investments Commission (ASIC) to ensure system stability, prudential supervision, and customer protection and competition respectively. CommBank also supports the role of the Council of Financial Regulators (CFR) to balance these objectives to ensure Australia's economic prosperity and the financial wellbeing of customers.
- In addition, CommBank supports the role and mandate of the Australian Competition and Consumer Commission's (ACCC) new Financial Services Unit.

Summary of Response to Draft Recommendations

- CommBank is unopposed to *Draft Recommendation 7.2 (Building an evidence base on integration)*.

Summary of Response to Draft Findings

- CommBank accepts *Draft Finding 2.1 (Key features of workable competition in the financial system).*

A highly competitive banking system that is stable, fair, efficient and safe through the economic cycle is good for customers, shareholders and the Australian economy.

CommBank accepts *Draft Finding 2.1 (Key features of workable competition in the financial system).*

CommBank supports the Commission's assessment of key features of workable competition and believe these already exist in the Australian financial system today or, as in the case of Open Banking, will be implemented shortly. These features and how they apply to the Australian financial system are discussed in detail throughout this submission.

CommBank supports competition and the ability for all Australians to choose a financial institution which best suits their needs. CommBank has supported the industry's advancements in enhancing the customer switching experience, while spearheading a number of initiatives to support customers to switch banks easily.

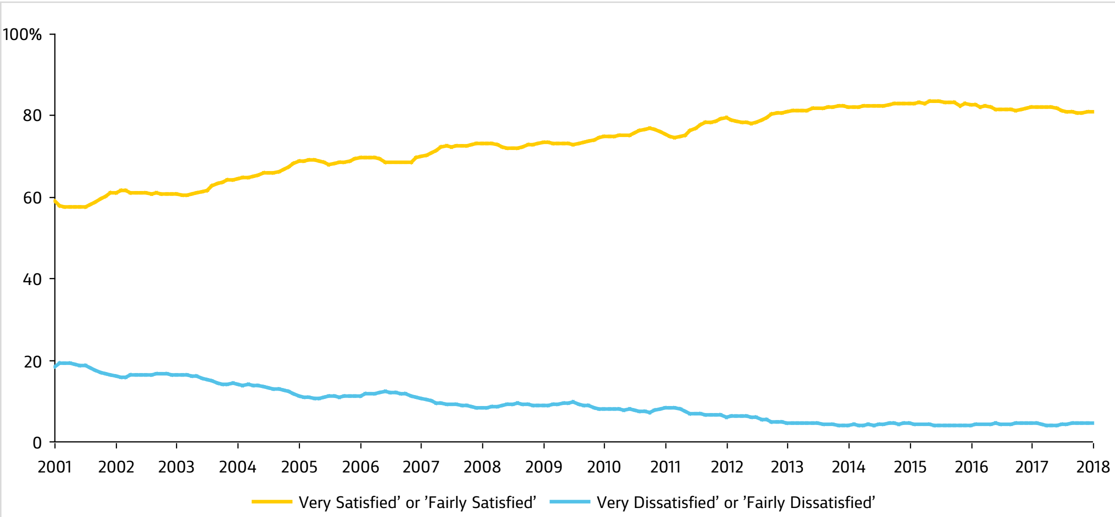
As a result of vigorous competition for customers, customer satisfaction is high, and has been increasing (refer Figure 1). As the figure shows, this has corresponded with declining customer dissatisfaction.

For example, from 2002 to 2018, the proportion of respondents in Roy Morgan's Retail Main Financial Institution ("MFI") Customer Satisfaction survey who said they were "Very Satisfied" or "Fairly Satisfied" with their MFI has increased from 61.2% to 81.1%, with the proportion of dissatisfied respondents decreasing from 16.0% to 4.6%.

Similarly, in the seven years to January 2018, the proportion of business customers satisfied with their MFI increased by 2.7 percentage points (from 76.5% to 79.2%) with the proportion of dissatisfied customers decreasing by 2.9 percentage points (from 13.5% to 10.6%)[9].

CommBank is continually striving to better understand the needs of all customers' views, in particular by focusing on the individual concerns of dissatisfied customers.

Figure 1: Retail MFI customer satisfaction for Australia's Major Banks[10]



9 DBM Business Financial Services Monitor, Jan 2018, Satisfaction with MFI, percentage of respondents who scored 0-4 and 6-10. Selected MFIs comprise only of ANZ, NAB, WBC, and CommBank excluding Bankwest, and Regional Banks including Bendigo Bank, Bank of Queensland, Suncorp

10 Roy Morgan Research, Retail MFI Customer Satisfaction, Australian population 14 years+, 6 month rolling average to January 2018. Includes ANZ, CommBank excluding Bankwest, NAB and WBC excluding St, George Group. Satisfaction includes percent "very satisfied" or "fairly satisfied" with relationship with MFI and Dissatisfaction includes percent "very dissatisfied" or "fairly dissatisfied" with relationship with MFI

High levels of technological innovation are a key indicator of a highly competitive banking system. In addition to the world-leading digital banking solutions offered by Australian banks and the many other leading innovations by Australian banks, such as Lock, Block and Limit or Cardless Cash (refer to CommBank's initial submission to the Inquiry (Initial Submission) for detail), Australian customers have also benefited from global firsts in system innovation. Some world leading system innovations include BPAY, which was launched in 1997 as a single bill payment service across the industry, PEXA, the world's first digital settlement platform enabling digital registration and lodgement of property titles and real-time financial settlement, and the New Payments Platform (NPP), one of the world's first real time payments settlement platforms.

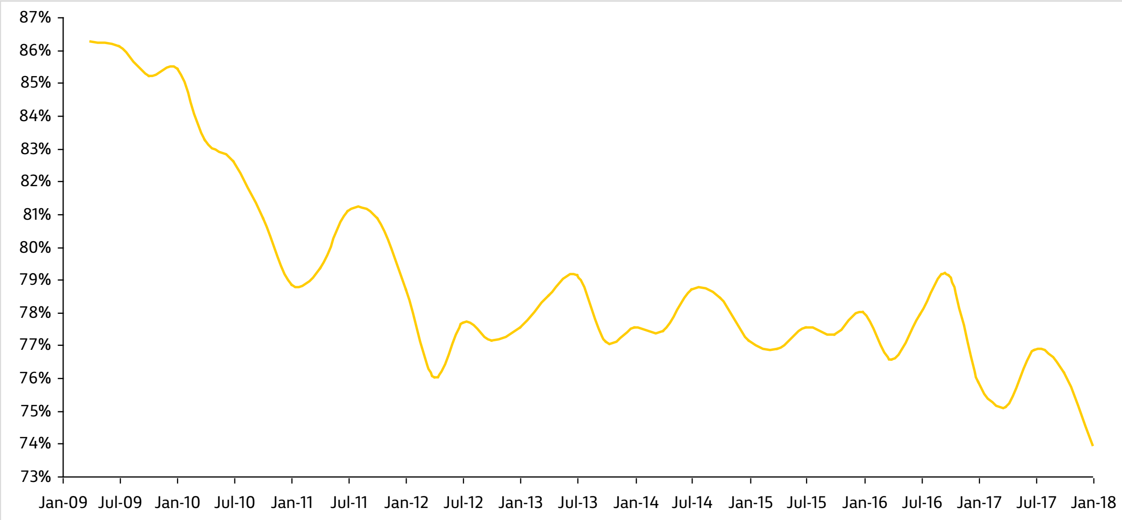
Further evidence of vigorous competition in the Australian financial system is the direct marketing spend per customer of Australia's Major Banks which is on par with global peers[11], and the substantial investment made each year by participants to maintain and improve their businesses. CommBank alone has invested over $1.2bn per annum on average over the last five years to improve and maintain its franchise.

The intensity of competition is also further evidenced by trends in the market shares of Australia's Major Banks in home loans. In this context it is important to recognise that (a) there is a long term declining market share trend for Australia's Major Banks; and (b) there is significant volatility in underlying month on month market share movements between competitors.

As noted by APRA in its initial submission to the Inquiry "In some cases, particularly for residential mortgage lending, the four major banks have lost market share to smaller entities. [...] the four major banks' share of mortgage approvals peaked at 86.3% in March 2009. By June 2017 this share had fallen to 76.9%, reflecting a gradual but consistent downward trend". This downward trend has since continued and the share of mortgage approvals of Australia's Major Banks was 74.0% in December 2017 (refer Figure 2 below).

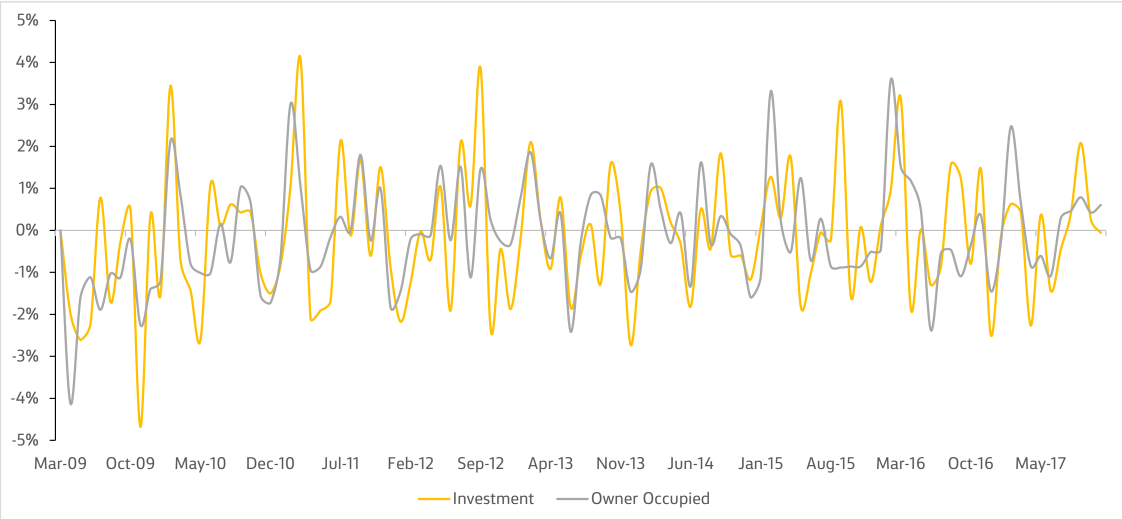
11 Boston Consulting Group, 2016, Retail Banking Excellence Benchmark, Australia's Major Banks median spend compared to global median spend

Figure 2: Market share of residential mortgage loans approved – Australia's Major Banks (%)[12]



Notwithstanding the long term declining market share trend for Australia's Major Banks in key products, of greater significance is the significant volatility in underlying month on month market share movements between competitors. CommBank's share of residential mortgage loans approved varies significantly month on month, demonstrating intense competition to win customers (refer Figure 3 below).

Figure 3: CommBank's share of residential mortgage loans approved – percentage point change month-to-month[13]



12 APRA, Quarterly Authorised Deposit-taking Institution Property Exposures -December 2017 (released 13 March 2018) www.apra.gov.au/adi/Publications/Pages/Quarterly-ADI-Property-Exposures-statistics.aspx
13 ABS for market data (5609 / 5671, November 2017), CommBank data

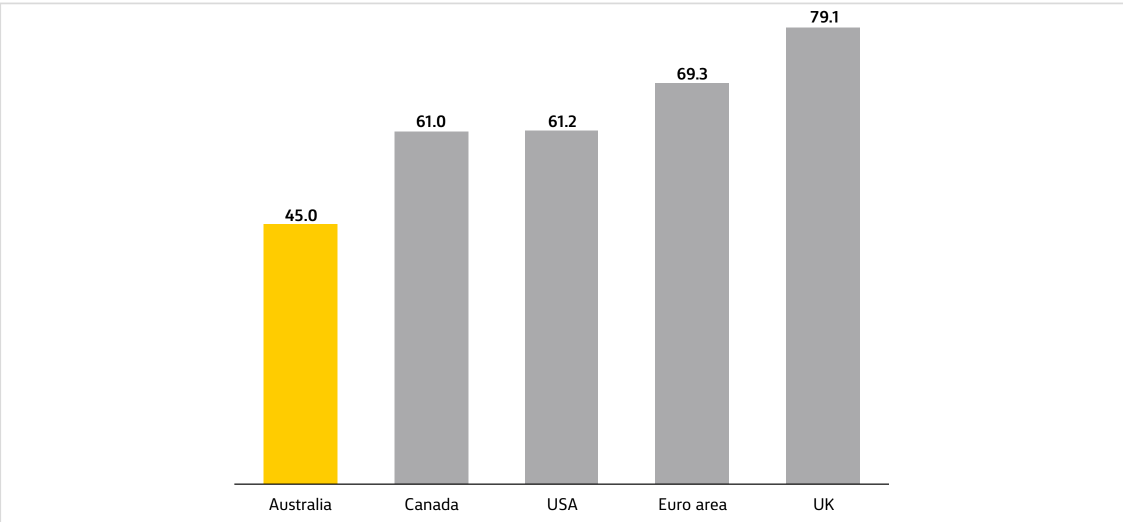
New market entrants and emerging business models have contributed to today's highly competitive financial services sector with numerous, diverse providers. In addition to Australia's Major Banks, customers can choose to meet their financial service needs through regional banks, credit unions and mutuals, non-bank lenders, non-financial consumer brands (for example, Qantas, Coles) as well as a growing range of global technology businesses (for example, PayPal, AliPay) and FinTechs.

In addition there is growing fragmentation of value chains and new entrants are building scale businesses in areas such as payments and home loan distribution.

The intensity of competition in Australia's financial system is also evidenced through the focus that Australian banks have had on being highly productive.

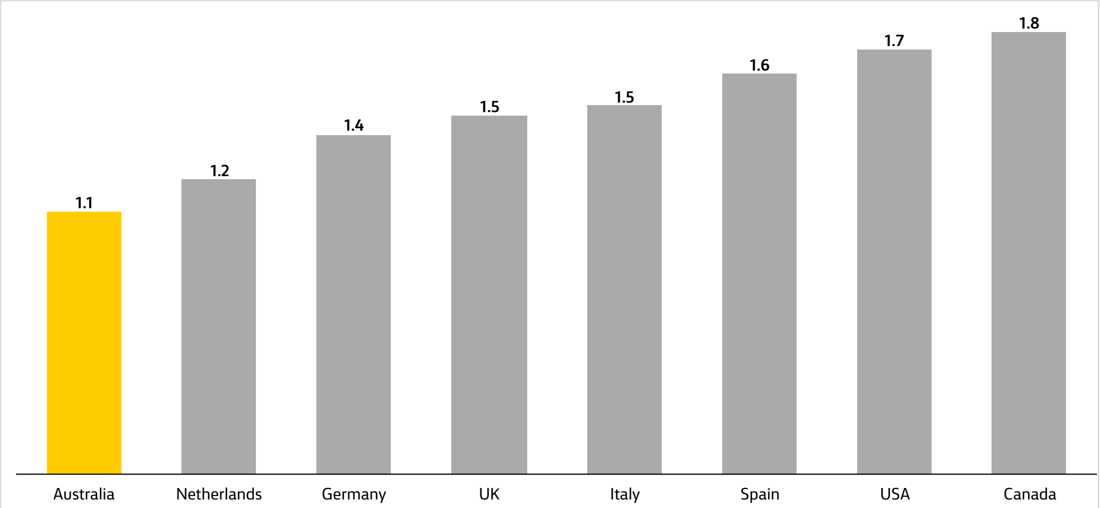
Australian banks are among the most efficient banks in the world, having a lower cost-to-income ratio, lower cost-to-asset ratio and lower operating expenses per customer[14] than in most comparable countries (refer Figures 4 and 5). This reflects ongoing investment in technology which boosts productivity as well as improving customer service levels and outcomes.

Figure 4: Large banks' cost-to-income ratios (%)[15]



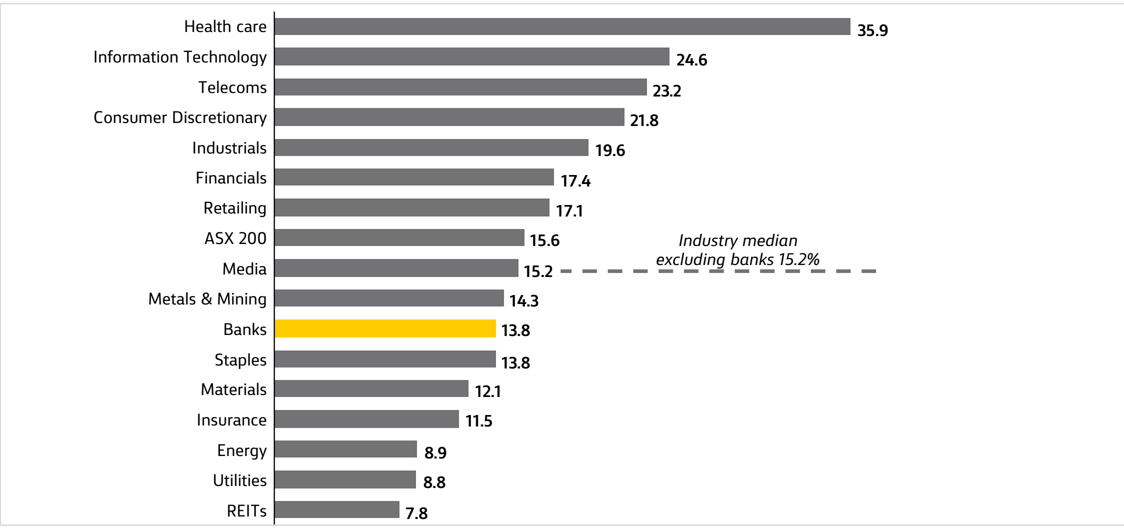
14 Boston Consulting Group, 2016, Retail Banking Excellence Benchmark (Australia's Major Banks have lower operating expenses per customer compared to the global median)
15 Bullock, M., 2017, Big banks and financial stability, delivered 21 July, available online: https://www.rba.gov.au/speeches/2017/sp-ag-2017-07-21.html (underlying source of graph: RBA; S&P Global Market Intelligence)
Market share of the five largest banks

Figure 5: Banks' cost-to-asset ratios (%)[16]



As noted in CommBank's Initial Submission, Australian banks have generally outperformed global peers as the Australian economy has performed strongly, against a backdrop of global volatility and off-shore banks operating in challenging economic conditions. Despite this, it is worth noting that the ROE of the Australian banking industry is below the weighted average of ASX200 companies (refer Figure 6).

Figure 6: ROE across industry sectors in Australia (%)[17]



16 Cost-to-Assets calculated as sum of Total Non-Interest Expenses divided by sum of Total Assets for Primary Banks in each country (Diversified Financials excluded). S&P Capital IQ, PwC Analysis
17 Credit Suisse

Australia's regulatory framework is superior to most mature markets. CommBank supports the clear division of accountability between the RBA, APRA and ASIC to ensure system stability, prudential supervision and customer protection respectively. CommBank also supports the role of the CFR to balance these objectives to ensure Australia's economic prosperity and the financial wellbeing of customers. The strength of this system has contributed greatly to the prosperity of the country as was evidenced by the strength of the Australian banks relative to banks in the USA, UK and other European countries when the GFC occurred. Unlike Australia, banking systems in those countries had been more highly deregulated to drive competition which led to unfavourable competitive activity and ultimately facilitated the GFC.

The strength of Australia's financial system regulation was recognised externally in November 2017 by the CEO of Standard & Poor's who noted that the regulations governing Australia's banks are amongst the strongest in the world[18].

Notwithstanding this, there have been a number of financial system policy developments in recent years, including new capital adequacy requirements for Authorised Deposit-taking Institutions (ADIs), the extension of APRA's powers with respect to provision of credit by non-ADI lenders, the development of a phased licensing approach for ADIs, ASIC's regulatory 'sandbox' and Future of Financial Advice (FOFA).

'Competition vs regulation' in the financial services industry and the role of capital have been debated across the globe. The Basel III and accounting standard reforms were a sweeping set of reforms designed to prevent bailing out of banks by governments and their taxpayers in the event of financial crises like the GFC.

In this regard, APRA's Chairman, Wayne Byres has often referred to the 'regulatory pendulum'. In his speech titled "Achieving a stable and competitive financial system", he mentioned the positive mutual reinforcement of competition and stability, rather than the opposition[19]:

> "*To borrow a phrase, we don't want 'the stability of a graveyard'. But we have all seen instances of excessive, or reckless, competition too. Eliminating the excess, and finding the optimum level of both, is a matter of careful balance. And, if we get the balance right, they will be mutually reinforcing: competition will support stability, and stability will support a competitive environment." […] "Much of the policy debate over recent years has been cast in terms of a trade-off between stability and competition in the financial system. We have never seen it that way, and were pleased that the FSI reached the same conclusion. Good regulatory settings can deliver financially strong competitors, creating both financial stability and a dynamic and innovative marketplace for financial services."*

CommBank reiterates that over the last decade, the level of competition in the Australian financial system has increased, as innovations in technology and changes to regulation have enabled new entrants and smaller competitors to compete effectively. Despite Australia being a relatively small economy, Australian financial services customers have access to world-leading propositions with high levels of choice, innovation, accessibility and service quality. Nonetheless, CommBank recognises that there will always be opportunities for the industry to continue improving customer outcomes.

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18 S&P, refer to AFR's article "Australian banks the best regulated in the world: S&P" (29/11/2017)
19 Wayne Byres, "Achieving a stable and competitive financial system", AFR Banking & Wealth Summit, Sydney, 29 April 2015

The intensity of competition in the Australian financial system is on par with other advanced economies and the industry is also highly productive by comparison. These competitive dynamics have delivered high customer satisfaction levels. CommBank supports measures that promote vigorous competition and is unopposed to ***Draft Recommendation 7.2 (Building an evidence base on integration)***.

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1.2 Australia's economic prosperity relies on a strong and stable financial system

Key Points

- Economies of scale are a primary driver of the profitability of Australia's Major Banks relative to other Australian banks.
- Although Australia's Major Banks experience a lower cost of funding, the relativity between their cost of funding and that of other Australian banks has been contracting over time.
- The sophistication in risk systems from banks investing to attain internal ratings-based (IRB) accreditation provides a benefit for financial system stability, investors and deposit holders.
- The structure of Australia's financial system in terms of market concentration is similar to other countries which are comparable to Australia.
- Australia's reliance on offshore funding to fund the current account deficit means that Australia needs large, strong banks with good credit ratings to access global wholesale funding markets at scale.
- Systemic failures stemming from weakened prudential regulation / absence of "unquestionably strong" banks typically result in catastrophic fiscal and socio-economic outcomes.

Summary of Response to Draft Findings

- CommBank rejects ***Draft Finding 5.1 (Cost of funds for different size banks*****).**
- CommBank rejects ***Draft Finding 3.1 (The major banks' oligopoly power).***
- CommBank accepts ***Draft Finding 4.1 (A consolidation in banking).***
- CommBank rejects ***Draft Finding 16.1 (Ratings agencies exacerbate the perception of 'too big to fail').***
- CommBank rejects ***Draft Finding 16.2 (The Four Pillars policy is redundant*****).**

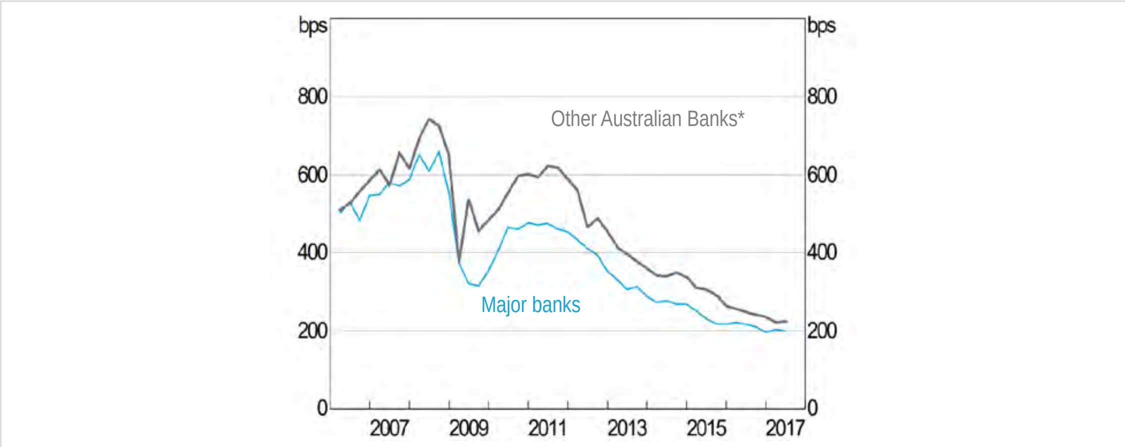
A primary driver of profitability of Australia's Major Banks compared to other Australian banks is economies of scale. As outlined later in this chapter, Australia's reliance on offshore funding means that Australia needs large, strong banks with good credit ratings to access global wholesale funding markets at scale.

CommBank rejects ***Draft Finding 5.1 (Cost of funds for different size banks***). It is important that Australian banks are profitable and that they have a positive outlook when competing for the lowest cost, and potentially scarce, funding. Australia's Major Banks have traditionally experienced a lower cost of funding compared to the other Australian banks. The lower cost of funding is function of the following key factors:

- Strong credit ratings (a function of diversity of income, scale of operations, confidence of investors, history of successful execution of business strategy, prudent liquidity, funding and capital management, and external conditions such as system stability);
- Ability to access diverse sources of funds, including international capital markets; and
- Competitive deposit pricing.

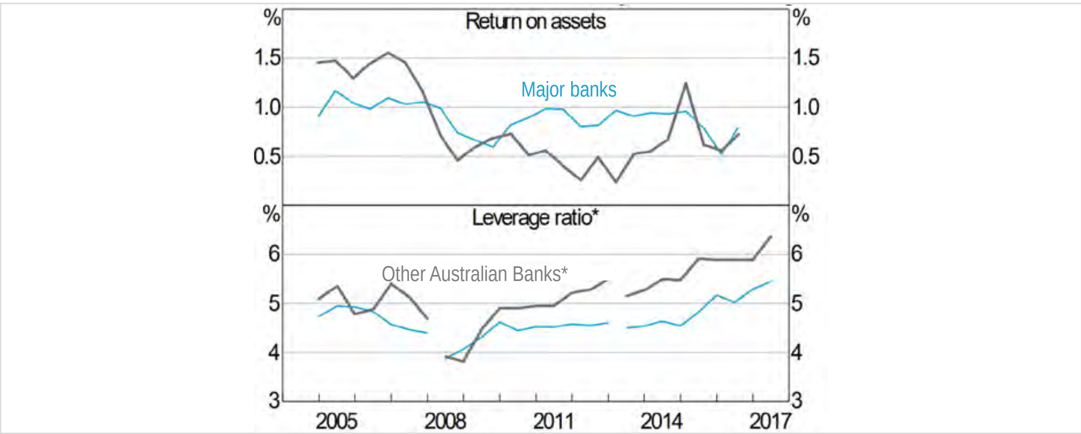
However, it should be noted that whilst Australia's Major Banks experience a lower level cost of funding, the relativity between Australia's Major Banks and the other Australian banks cost of funding has been contracting since the shock of the GFC (refer Figure 7).

Figure 7: Banks' Debt Funding Costs[20]



In general, Australia's Major Banks proportionally hold less capital for the same assets compared to the smaller banks. This capital efficiency is partly due to the fact that Australia's Major Banks (and Macquarie Bank, as well as ING Bank (Australia) from 1 April 2018) are permitted to use the IRB approach to credit risk to determine their capital requirements. The IRB approach allows banks to use their own internal assessment of risk to determine the risk-weighting for loans and is a more risk sensitive measure than the standardised approach that is used by the smaller banks. The resultant impact of this is that Australia's Major Banks have been able to operate with a proportionally lower level of capital (refer Figure 8).

Figure 8: Australian Banks' Profitability and Leverage[21]



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20 APRA, RBA. Quarterly, by type. *Selected non-major banks.
21 APRA. Leverage Ratio denotes Tier 1 capital as a share of total assets. Break in March 2008 due to the introduction of Basel II; break in March 2013 due to introduction of Basel III.

The IRB approach is available to all banks but in order to use it, a bank must be accredited by APRA. To obtain accreditation, a bank must demonstrate that its internal models can produce reliable, risk-sensitive, and comparable estimates of the capital required at the predetermined soundness standards. Significant investments have been made and are required on an on-going basis for Australia's Major Banks to achieve and maintain their IRB accreditation.

The reduced capital required by the IRB accreditation is regarded as a strong incentive for banks to continue increasing the sophistication of risk systems. Such sophistication in risk systems provides a benefit for institutional financial stability, investors and deposit holders.

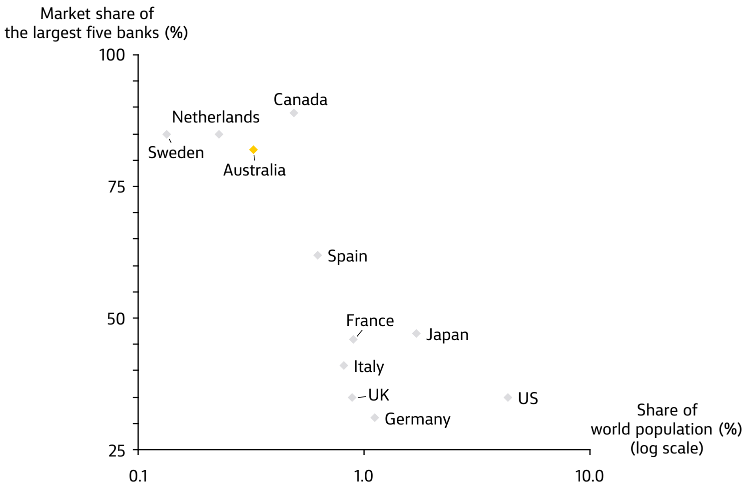
However, the relative benefit from IRB accreditation has reduced in recent years given the recent regulatory changes imposed by APRA have required Australia's Major Banks to materially increase their capital levels[22]. In addition, ING Bank (Australia) received IRB accreditation from APRA on 19 March 2018[23], and CommBank understands that several other non-IRB accredited banks are currently going through the accreditation process with APRA.

CommBank rejects ***Draft Finding 3.1 (The major banks' oligopoly power)*** and would note that concentration with a given market is not, per se, an indication of the degree of competition in a market.

Notwithstanding this, concentration levels in Australia are comparable to other relevant countries, particularly when compared to the size of the economy. As the RBA has noted, Australia is by no means unique when it comes to the concentration of the banking sector. Among advanced economies, the market share of Australia's largest five banks is comparable to that of the Netherlands, Sweden and Canada[24]. By global standards, the level of concentration is consistent with the size of the population (refer Figure 9).

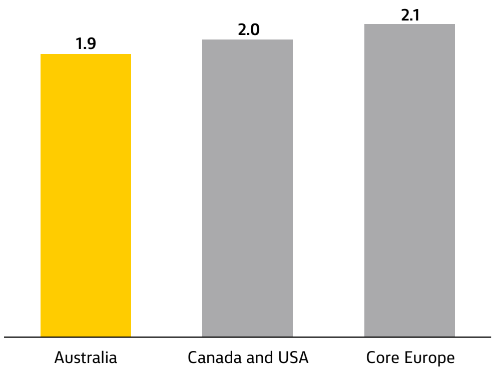
22 APRA, 2017, Information Paper: Strengthening banking system resilience – establishing unquestionably strong capital ratios, available online at:
www.apra.gov.au/adi/Documents/Unquestionably%20Strong%20Information%20Paper.pdf
23 APRA announcement 19 March 2018
24 RBA, "Big Banks and Financial Stability", July 2017, https://www.rba.gov.au/speeches/2017/sp-ag-2017-07-21.html

Figure 9: Relationship between financial system concentration and population size[25]



In addition, Australian consumers have a similar number of banking relationships as consumers in peer markets, even in markets which have a significantly higher number of banks (refer Figure 10).

Figure 10: Number of Banking Relationships per consumer[26]



CommBank accepts ***Draft Finding 4.1 (A consolidation in banking)*** however would note that although the GFC led to a significant rationalisation of ADIs, with the number declining by 80 over the 10 years to 2016[27], much of this change was a result of credit unions and building societies merging and/or becoming banks. This corresponded with a rise in the number of banks, with banks now the most common type of ADI.

If Australia's banks (particularly Australia's Major Banks) were to operate at a lower level of profitability, this could negatively affect their credit ratings as profitability and capital generation is one of the key factors considered by rating agencies in their assessment of credit ratings. A lower credit

25 The World Bank, 2016, https://data.worldbank.org/indicator/SP.POP.TOTL /
26 McKinsey, 2016, Retail Banking Consumer Survey; Australia Personal Financial Services Survey 2014
27 APRA, Quarterly Authorised Deposit-taking Institution performance, available online at: www.apra.gov.au/adi/Publications/Pages/adi-quarterly-performance-statistics.aspx

rating would result in either an increase in the cost of funding and/or a reduction in the level of capital imported into the Australian economy by banks.

This is an important consideration for Australia because the contribution of banks to facilitating private sector growth in the economy is higher than most other mature markets[28]. To put this in context, Australia's Major Banks alone raised almost $100bn of long term wholesale funding in offshore markets in FY17[29]. During this period, to enable it to provide $135bn in new lending to Australian customers, CommBank raised $27bn offshore in long term wholesale funding and renewed approximately $32bn offshore in short term wholesale funding on average each month.

This ability to access offshore markets at scale and to fund Australia's current account deficit, both in normal and stressed macro-economic conditions, is critical to the prosperity of the Australian economy. This takes on greater importance as regulators increase focus on net stable funding ratios.

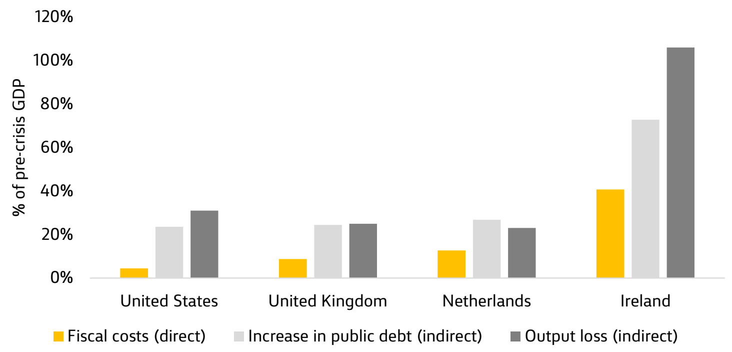
It is also critical that Australia's Major Banks are sufficiently profitable in order to generate capital (through retained earnings) to absorb losses. A consequence of insufficient profitability is lower organic capital generation, which in turn results in a possible constraint on the growth of balance sheets and limits the ability to absorb losses.

To bring this to point to life, industry Loan Impairment Expenses (LIE) are currently at historical lows which is reflective of this point in the economic cycle. If all other things remained equal and CommBank's LIE was to increase to a level experienced by the UK banks during the GFC, it would likely result in a negative Return on Equity (ROE) for CommBank[30].

Systemic failures stemming from weakened prudential regulation or the absence of "unquestionably strong" banks typically result in catastrophic fiscal and socio-economic outcomes, as recently demonstrated by the impact of the GFC on many advanced economies. While bank bail-outs by governments represent a direct fiscal cost, disruption of the banking sector typically also results in indirect costs such as a reduction in the availability of credit to consumers and businesses and weakening demand in the economy[31]. As banking crises may not occur in isolation, it is difficult to separate indirect costs attributable to bank failure from the impact of economic conditions that resulted in bank failure, for example a reduction in export demand. Regardless, the size of such costs may be considerable compared to the direct bail-out costs (refer Figure 11).

28 Bank for International Settlements, June 2017, Database: Credit to the non-financial sector, available online at: www.bis.org/statistics/totcredit.htm
29 Australian Major Banks' annual reports. Note: CommBank has a Jun-17 year end. WBC, NAB and ANZ have a Sep-17 year end.
30 High level internal estimate based on LIE levels experienced in UK market during GFC (UK FY09 Peak average 258 bps)
31 Frontier Economics

Figure 11: Direct and indirect costs of banking crises during the GFC[32]



Banking failures in the Republic of Ireland and the Netherlands resulted in large direct fiscal costs, owing to the cost of government support for failing banks, in addition to substantial increases in public debt and output loss that may be attributed to the bank failures (and the GFC in general). The systemic failures in the USA and UK also resulted in significant direct and indirect costs to these economies.

CommBank rejects ***Draft Finding 16.1 (Ratings agencies exacerbate the perception of 'too big to fail')***. Australia's Major Banks have an advantage in accessing capital markets by virtue of their credit ratings relative to smaller banks. This reflects the fundamental characteristics, such as size, ability to manage risk and balance sheet strength, and the probability of Government support in times of stress. General Government support for the whole banking industry is important, and is critical in periods of stress. It is worth noting that there is a difference between an implicit Government guarantee for particular banks and general Government support for all banks. As demonstrated during the GFC, the Government provided support to all banks.

Governments and central banks have long been recognised as lenders of last resort to the banking sector. Guaranteeing the debt of banks to enable them continued access to capital markets is an indirect way of fulfilling this role, and the precise nature of the guarantee does not need to be determined until the time it is needed, when the risk can be better judged. While ratings agencies each hold similar expectations of Government support, they differ in their assessment of the associated ratings uplift from the expected support. The views of ratings agencies and capital markets persist despite the absence of direct policies or statements from the Government on the matter. However, the Government's conduct in the wake of the GFC demonstrated that it has an appetite to support all banks.

Quantifying the extent of any funding advantage from the uplift in credit ratings is complex[33]. The size of a bank can affect perceptions of its creditworthiness but size is also part of the ratings agencies' belief that Government support will be provided in a crisis. The RBA indicates that the funding advantage rises and falls over time. For example, the funding advantage for Australia's Major Banks

32 Laeven and Valencia, "Systemic Banking Crises Database: An Update", International Monetary Fund Working Paper 12/163, 2012
33 RBA – implicit guarantee for banks, available online at: https://www.rba.gov.au/information/foi/disclosure-log/pdf/151609.pdf

was estimated to have fallen to around 10 basis points in late 2014 (a time of relative stability for financial markets and the financial system) whereas there are estimates of a 120 basis point advantage in 2009 (a time of heightened instability for financial markets and the financial system).

CommBank acknowledges that the funding advantage for Domestic Systemically Important Banks (versus smaller banks) can become material in times of heightened instability for financial markets. However, from a competition perspective it is not wise to attempt to nullify advantages that derive from good business practices and fundamental differences in risk to the stability of the financial system.

If the Government is to address the effects of a perceived "implicit guarantee" for Australia's Major Banks, the best way to minimise the impact would be to continue to increase the resilience of the financial system, as recommended by the Financial System Inquiry (FSI).

CommBank rejects ***Draft Finding 16.2 (The Four Pillars policy is redundant***). As indicated in CommBank's FSI response, it continues to support the Four Pillars policy, which operates to prevent a merger between any of the large banks, reflecting a decision by the Government to prevent further consolidation in the market.

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1.3 The performance of the industry reflects the operating context

Key Points

- Australia's unprecedented period of economic prosperity has underpinned the strong performance of the Australian financial system relative to the UK, USA and Europe.
- Australia will experience a recession at some point in the future and this will have a negative impact on the profitability of Australia's banks and test the resilience of Australia's financial system.
- While Australia's Major Banks have better economies of scale than other Australian banks, the difference in ROE has been steadily declining since the GFC.
- Any evaluation of the state of competition must recognise the complex nature of interdependencies that govern the economics, stability, and safety of the financial system.

Summary of Response to Draft Findings

- CommBank rejects **Draft Finding II.1 (State of competition in the financial system).**

When compared to international peers in the USA, UK and Europe since the GFC, Australia's banks have been relatively more profitable, partly reflecting the unprecedented period of uninterrupted economic growth in Australia and the continued strength of the housing sector in Australia.

One of the drivers of Australia's outperformance is the simpler asset mix of the Australian banks. Returns for Australian and Canadian banks, which have comparatively simple structures, or lower exposure to trading and institutional banking, have been higher than most other jurisdictions since the crisis[34].

The GFC severely damaged major economies across the world, yet Australia proved resilient. Despite higher unemployment and slow economic growth, Australia did not suffer a large financial crisis. There were several reasons for the resilience of the Australian economy during the GFC. The RBA typically refers to the following[35]:

- Australian banks had limited exposure to the USA housing market and USA banks;
- Australian banks had pursued limited high risk / subprime lending in Australia;
- The resource boom, including exports to China whose economy rebounded quickly from the GFC; and
- Policy response: the RBA lowered the cash rate substantially, and the Government undertook expansionary policy while providing support for deposits and bonds issues by the banking sector.

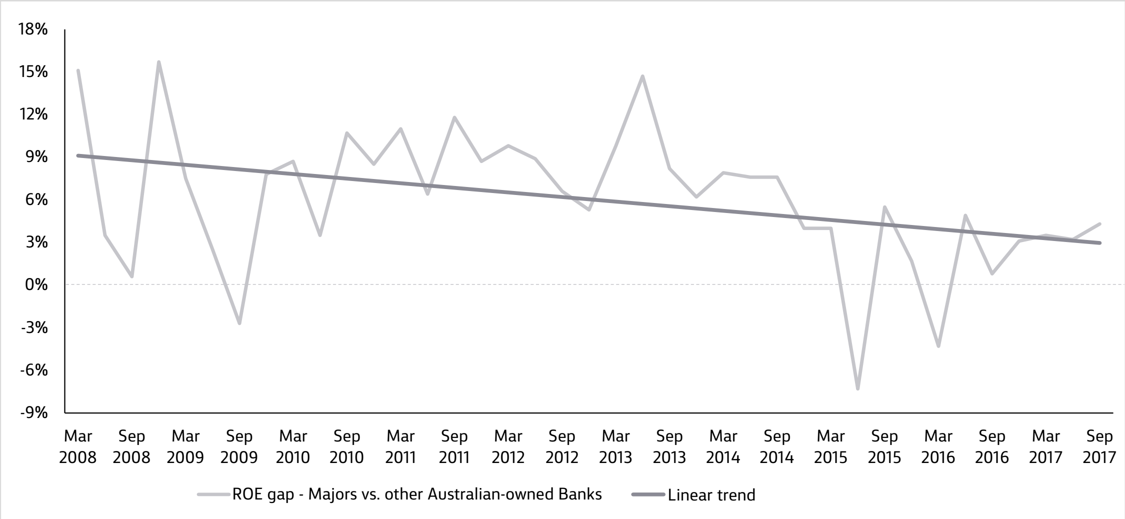
At some point in the future, Australia will experience a recession. When this happens, Australia's regulatory settings must ensure that the financial system has the strength and stability to absorb losses and support economic recovery. Whilst Australia's financial system was not as impacted by the

34 RBA, initial submission, page 11
35 https://www.rba.gov.au/education/resources/explainers/pdf/the-global-financial-crisis.pdf?v=2018-03-15-20-14-42

GFC as many other countries' financial systems, the factors that helped protect Australia's economy then (such as persistent demand for commodity exports and interest rates that were sufficiently high to enable expansionary monetary policy) are unlikely to exist, at least to the same extent, entering into the next downturn.

As a result of the financial system shock created by the GFC, the ROE of Australia's Major Banks was higher than other Australian banks for a period of time however, this gap has narrowed significantly over the period and is now approximately 4% (refer Figure 12). This has been primarily due to an increase in capital requirements for Australia's Major Banks and, as credit spreads for the non-major banks have decreased over time, an improvement in the Net Interest Margin (NIM) of the other Australian banks.

Figure 12: ROE gap - Majors vs. other Australian-owned Banks[36]



As APRA has pointed out in its initial submission to the Inquiry, average ADI ROE for the 12 months to 30 June 2017 was 11.7%, below the 10 year average of 13.4% (which itself has declined in recent years). This should be considered in the context of Australia's unprecedented period of economic prosperity and industry LIE being at historically low levels. As noted earlier, if all other things remained equal and CommBank's LIE was to increase to a level experienced by the UK banks during the GFC, it would likely result in a negative ROE for CommBank.

In response to the Commission's assertions presented during the Inquiry's public hearings that the NIM of Australia's Major Banks has remained stable for several years, and that "major banks have the ability to pass on cost increases and set prices that maintain high levels of profitability", CommBank notes the following for consideration:

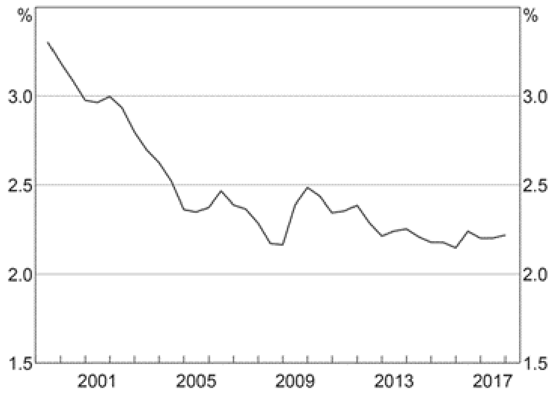
- The NIMs of Australia's Major Banks has been trending down consistently for over 20 years (refer Figure 13).
- NIM measures only a subset of profitability. A more comprehensive measure of profitability is ROE as this accounts for NIM and all other costs and incomes, for example, operating expenses, LIE, other (non-interest) income, etc. One example of this is the relative decline in

36 APRA Quarterly Authorised Deposit-taking Institution Performance, December 2017 (released 13 March 2018)

fees which have benefited customers in recent years that would not be reflected in NIM (refer Figure 14).

- As noted earlier, industry ROEs, particularly the ROEs of Australia's Major Banks, have declined in recent years. This fall in profitability is evidence that Australia's Major Banks cannot simply "pass on cost increases and set prices that maintain high levels of profitability" and that competition is vigorous.
- Cost of funding is not determined only by the RBA's Official Cash Rate. Whilst there is some correlation, off-shore funding markets also have a significant influence on cost of funding. Figure 15 shows the cost of funding spread for CommBank and how this is not highly correlated to the RBA's Official Cash Rate. This chart also shows how CommBank's spread has declined since the GFC.
- Larger banks benefit from the economies of scale in operating costs and funding costs and thus, all other things being equal, one would expect Australia's Major Banks to be more profitable than the other Australian banks in an effective and competitive market.

Figure 13: Australia's Major Banks' Net Interest Margin[37]



37 RBA, Bank financial reports, domestic, half yearly. From 2006 data on IFRS basis; prior years on AGAAP. Excludes St George Bank and Bankwest prior to the first half of 2009.

Figure 14: Banking Fees in Australia[38]

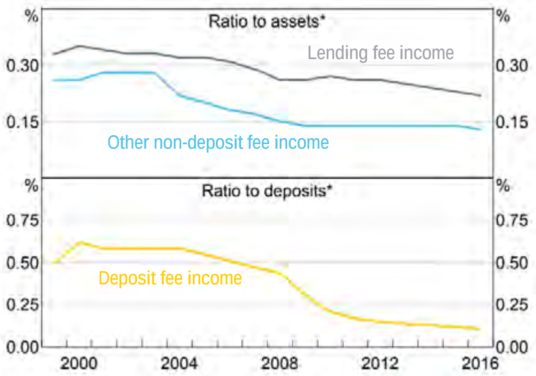
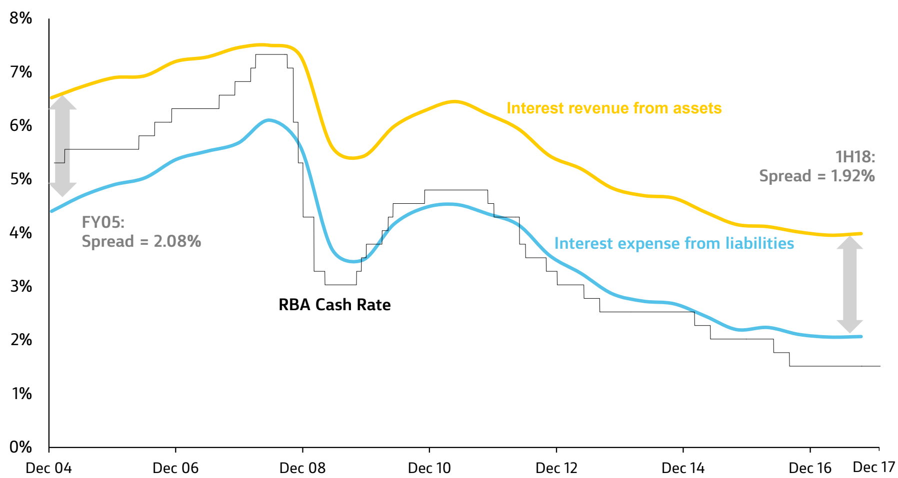


Figure 15: CommBank's funding costs vs RBA Cash Rate[39]



An evaluation of the state of competition in the industry must recognise the complex interdependencies between all the considerations raised in this chapter. On balance, CommBank rejects ***Draft Finding II.1 (State of competition in the financial system)***.

38 RBA, June 2017, Domestic banking fee income, available online at: https://www.rba.gov.au/publications/bulletin/2017/jun/pdf/bu-0617-4-banking-fees-in-australia.pdf. Adjusted for breaks in series in 2002 due to a change in banks' reporting; financial-year average assets and deposits have been used.
39 RBA, Cash Rate available online at: https://www.rba.gov.au/statistics/cash-rate/

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Chapter 2: Balancing competition and stability for economic prosperity

2.1 Change in regulators' roles and responsibilities

Key Points

- Australia has a robust regulatory framework.
- Financial system stability should be a primary aim of policy, whilst also ensuring customers are protected, and promoting competition. Design of regulation must be guided by "through the cycle" implications.
- CommBank supports in principle the need for a regulator to be mindful of competition outcomes and notes the Minister for Revenue and Financial Services' announcement of ASIC's new competition mandate (19 March 2018).

Summary of Response to Draft Recommendations

- CommBank supports in principle ***Draft Recommendation 15.1 (Statements of expectations for regulators)***.
- CommBank supports in principle ***Draft Recommendation 17.1 (New competition functions for a regulator)***, however urges caution and further consultation with regulators in relation to a number of features of the proposal.
- CommBank supports in principle ***Draft Recommendation 17.2 (Transparency of regulatory decision making)***, but urges caution and has concerns regarding the delays to regulatory decisions and/or confidentiality considerations.
- CommBank supports in principle ***Draft Recommendation 17.3 (Robust and transparent analysis of macro-prudential policies)***, but urges caution and has concerns regarding the delays to regulatory decisions and/or confidentiality considerations.

Summary of Response to Draft Findings

- CommBank notes ***Draft Finding 2.2 (Competition and stability must co-exist).***
- CommBank rejects ***Draft Finding 6.1 (Cost of APRA interventions on home loans*****).**
- CommBank notes ***Draft Finding 15.1 (APRA not well placed to consider competition in the financial system)***. CommBank notes that the Commission's draft report proposes the CFR to assess the competition related implications of regulation. As a member of CFR, APRA would be involved in this process.

CommBank supports the current regulatory framework and believes that it is robust, comprehensive and appropriately balanced to promote competition, preserve financial system stability and protect customers. Indeed, in November last year the international ratings agency S&P Global Ratings said that the existing laws and regulations governing Australia's banks are the amongst strongest in the world[40].

CommBank reiterates Recommendation 4 of its Initial Submission that any regulation designed to stimulate competition should give consideration to “through the cycle” implications, in particular the potential risks to customer protection, market integrity and/or financial system stability in the event of an economic downturn or period of economic volatility.

CommBank also takes this opportunity to reiterate the importance of maintaining financial system stability as the primary aim of policy, whilst also ensuring customers are protected and competition is promoted for the benefit of customers. Systemic failures have led to materially adverse outcomes for the broader economy in other countries such as Ireland and the UK, with broad fiscal and socio-economic impacts.

As such, CommBank notes ***Draft Finding 2.2 (Competition and stability must co-exist)***, but notes that financial system stability, and the perception thereof, should remain of primary importance for policy and supervision in financial services. Where there is a conflict or any doubt between financial stability and other considerations such as competition, it is critical that stability should prevail in those circumstances.

CommBank supports in principle ***Draft Recommendation 15.1 (Statements of expectations for regulators).*** As stated in its submission to the FSI, CommBank has already supported the use of these statements to establish principles or boundaries around which regulation is formed. CommBank also notes that the Minister for Revenue and Financial Services announced that the Government has settled on the new statement of expectations for ASIC (19 March 2018).

CommBank believes a regulator’s statement of expectations should ensure that future regulation should be guided by its “through the cycle” implications. CommBank also supports Statements of Intent to be published by regulators as a matter of good practice (however further consideration should be given to the proposed three month time period). CommBank supports in principle the need for regulators to provide in their annual reports the actions they are taking in line with Statements of Intent. However, CommBank also recognises that there might be some specific decisions / actions taken by regulators that might need to remain confidential for an extended period of time. CommBank believes that regulators are in a better position to comment on such circumstances.

CommBank supports in principle ***Draft Recommendation 17.1 (New competition functions for a regulator).*** As noted above, CommBank supports in principle the recommendation that regulator Statements of Expectations are updated and Statements of Intent are published by regulators. CommBank supports in principle the need for regulators to be more mindful of competition outcomes.

However, CommBank urges caution and further consultation with the regulators in relation to the following proposal raised by the Commission: “[including] transparent analysis of competition impacts to be tabled in advance of measures proposed by regulators” - some regulatory decisions need to be made quickly in order to preserve financial stability, consumer outcomes or market integrity. Examples could include recovery and resolution interventions, bailouts, and short selling prohibitions. CommBank also does not support the creation of any significant regulatory uncertainty where industry may be required to immediately respond to regulatory measures only to subsequently be asked to unwind this response after a competitive assessment requiring transparency (such as in Draft

40 S&P, refer to AFR’s article “Australian banks the best regulated in the world: S&P” (29/11/2017)

Recommendation 17.2) over all regulatory decisions. As mentioned above, CommBank recognises that there might be some specific decisions / actions taken by regulators that might need to remain confidential and for an extended period of time.

CommBank supports in principle ***Draft Recommendation 17.2 (Transparency of regulatory decision making)***, but urges caution. Indeed, some additional transparency around the CFR's deliberations and decision making process would provide industry with useful insights into regulators' expectations and intentions. However, as noted above, CommBank has concerns regarding the delays to regulatory decisions and/or confidentiality considerations. CommBank believes that its regulators are in a better position to provide a more comprehensive view on the specific considerations of such challenges.

CommBank supports in principle ***Draft Recommendation 17.3 (Robust and transparent analysis of macro-prudential policies)***. However, CommBank would welcome clarity as to which prudential regulatory decisions / actions the Commission considers to be potential areas of 'macro-prudential policies' and thereby subject to the Commission's proposal to ensure 'robust and transparent analysis'. As stated above, CommBank has some concerns regarding delays to regulatory decisions and/or confidentiality considerations. For example, the future requirement to review a decision annually and publicly may result in the regulators taking a slower approach to their decision making in situations where a swifter approach is necessary.

Provided this concern is addressed, CommBank welcomes ***Draft Recommendation 17.3*** (***Robust and transparent analysis of macro-prudential policies)*** in principle. More generally, it is important that APRA continues to clearly articulate the intent of proposed macro-prudential policies, consults widely and evaluates the outcomes.

CommBank rejects ***Draft Finding 6.1 (Cost of APRA interventions on home loans***) (i.e. assertion that "competition between lenders was restricted, and there was limited competitive variation in lenders' responses to the regulatory intervention)**.** These changes were made to help meet CommBank's regulatory requirements, specifically APRA's requirement that interest only lending not be more than 30% of total new business. CommBank's first step in response to the APRA limit was to change its lending policies and to reduce discretionary discounts on new interest only lending. CommBank reduced these to the lowest level possible, while leaving its headline rates unchanged. Subsequently, CommBank's competitors announced increases in their headline interest only rates. Consequently, CommBank's interest only product was the cheapest of all of Australia's Major Banks. If this situation had continued, CommBank anticipated breaching the APRA cap as CommBank would have attracted more volume. Because CommBank had already reduced its discretionary discounts, the only option left was to change its headline interest only rates to avoid breaching the APRA 30% limit. As the headline rate is the same 'reference rate' for both new and existing customers, raising CommBank's headline rate impacted both new and existing customers.

CommBank notes ***Draft Finding 15.1 (APRA not well placed to consider competition in the financial system)***. CommBank notes that the Commission's draft report proposes the CFR to assess the competition related implications of regulation. As a member of CFR, APRA would be involved in this process.

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Response to Information Requests

Information Request 17.1 Which regulator should advance competition in the financial system?

- CommBank notes the Minister for Revenue and Financial Services' announcement of ASIC's new competition mandate (19 March 2018).

2.2 Balancing macro-prudential regulation

Key Points

- CommBank is supportive of more finely calibrating the risk weights to better reflect the risk inherent to specific segments, as long as these calibrations are in line with the Basel Framework and are appropriate in the context of the Australian financial system.
- There is currently a level playing field for all ADIs as the IRB approach is currently available to all banks, subject to demonstrated ability to meet the appropriate risk evaluation standards set by APRA.
- Removing the incentive for banks to attain IRB accreditation could result in less sensitive risk measurement and poor pricing outcomes for customers.

Summary of Response to Draft Recommendations

- CommBank is unopposed to ***Draft Recommendation 7.1 (A proportionate approach to risks non-ADIs pose)***.
- CommBank supports in principle ***Draft Recommendation 9.1 (Standardised risk weightings for SME lending)***.
- CommBank supports in principle ***Draft Recommendation 16.1 (Review standardised risk weights for residential mortgages)***.

Summary of Response to Draft Findings

- CommBank accepts ***Draft Finding 7.2 (New rules costly for non-ADIs).***

Risk weights

Australia's Major Banks, Macquarie Bank and ING Bank (Australia) (from 1 April 2018) have had their IRB models approved by APRA, allowing them to utilise a greater degree of granularity in risk weights than ADIs using the standardised approach. While it is true that risk weights for IRB residential mortgage lending are lower than that of standardised ADIs, it is also true that IRB risk lending for riskier IRB lending (such as unsecured personal loans) require higher risk weights than that of standardised ADIs.

CommBank's view is that there is currently a level playing field for all ADIs. The IRB approach is currently available to all banks, subject to accreditation by APRA i.e. a bank must demonstrate that the bank's internal models can produce reliable, risk-sensitive, and comparable estimates of the capital required at the predetermined soundness standards.

This incentivises all ADIs to invest in these capabilities as it provides ADIs a greater risk-sensitivity and in general allows these ADIs to operate with a more efficient capital structure.

Australia's Major Banks have made, and continue to make, significant investments on an on-going basis to achieve and maintain their IRB accreditation. Removing the incentive for banks to use the IRB approach could result in reduced risk measurement and poor risk and price outcomes for all stakeholders (including customers).

On 14 February 2018, APRA released a discussion paper on its proposed revisions to the existing capital framework. The papers include revisions to the capital framework resulting from the Basel Committee finalising the Basel III reforms (also referred to as 'Basel IV') in December 2017, and also includes proposals to address the systemic concentration of bank portfolios in residential mortgage lending by seeking to target higher risk residential mortgage lending (for example investment and interest only loans).

In general, the proposed revisions to the standardised approach are intended to provide a more risk-sensitive approach. One of the changes that is proposed by APRA is a revision to the current risk-weighting applied to mortgages calculated on a standardised approach, where there is more granular risk-weighting for mortgages with a Loan to Value Ratio (LVR) <80% (current framework applies a flat 35% risk-weighting).

The review also contains a proposal to introduce a risk-weighted asset floor for banks using internal models of at least 72.5% of standardised risk-weighted assets. The capital floor will limit the variation in capital requirements between banks that are IRB accredited and those utilising the standardised approach.

CommBank is in favour of more finely calibrating risk weights to better reflect the risk inherent to specific segments, as long as these calibrations are in line with the Basel Committee's minimum risk weight and credit conversion factor recommendations. As such, CommBank supports in principle ***Draft Recommendation 9.1 (Standardised risk weightings for SME lending)*** and ***Draft Recommendation 16.1 (Review standardised risk weights for residential mortgages)***. In APRA's discussion paper "Revisions to the Capital framework for ADIs" dated 14 February 2018, it is noted that different treatments than those recommended by the Basel Committee are being proposed for SME lending not secured by property. I.e. APRA is proposing a 85% risk weight instead of the Basel Committees recommended 75% risk weight. In addition, it is noted that different risk weights are being proposed that take into account LVR, if a loan meets APRA's operational requirements and/or if loan is owner occupied and principal and interest; or not. This appears to meet the Commission's requirements.

Warehouse lending

It should be noted that CommBank provides mortgage warehouses to a range of predominantly non-ADI mortgage lenders. As such, CommBank is unopposed to ***Draft Recommendation 7.1 (A proportionate approach to risks non-ADIs pose)***. CommBank notes the suggestion to review the scope of APRA's Prudential Standard APS 120 Securitisation (APS 120). CommBank believes that any such assessment should consider the risk-sensitivity of underlying assets and counterparties, and not lead to ADIs artificially being considered more risky than non-ADIs. CommBank notes that the recent changes to APS 120 not only impact the cost of warehouse provision, but also the cost of mortgage securitisation more broadly.

As a result, CommBank accepts ***Draft Finding 7.2 (New rules costly for non-ADIs)***.

Response to Information Requests

Information Request 16.1 Where can IRB accreditation processes be improved?

- IRB modelling would be assisted by allowing more flexible modelling and simpler reporting approaches. The challenge for many banks is historical data, and the expertise to support the risk modelling. In APRA's discussion paper "Revisions to the Capital framework for ADIs" dated 14 February 2018, it is noted that a different / simpler approach for small ADIs is being proposed. ADIs and Australian Banking Association (ABA) should work with APRA to determine the best approach available to achieve part or full IRB accreditation.

Information Request 7.1 How will prudential standard APS 120 affect you?

- APS 120 amended regulatory capital risk weights across all securitisation exposures: warehouses, term securitisations, hedging & support facilities. The regulatory capital allocation under APS 120 applies equally to standard and advanced ADIs for all securitisation exposures whether originated by ADIs or non- ADIs. Foreign banks, which are not bound by APS 120 are actively competing to provide securitisation financing in the Australian market. Global neutrality on securitisation risk weights would provide for more balanced competition between Australian and foreign warehouse providers.
- The impact of costs due to APS 120 changes for standard ADIs and non-ADIs varies and is difficult to quantify. Each warehouse provided by CommBank was assessed and the outcome was negotiated with each client having regard to client requirements, market conditions, funding costs, changes in general capital requirements and changes in APS 120. Different warehouses were priced and restructured in different ways reflecting these different factors. In some instances warehouse pricing reduced because clients provided or sourced additional credit support, however the cost of the additional credit support is unknown to CommBank so the overall impact is difficult to quantify. In some instances warehouse pricing increased but this was driven by the multiple factors outlined and it is difficult to quantify the change solely due to APS 120.
- CommBank was able to reach mutually agreeable outcomes for all warehouses and some non-ADI clients have requested increased warehouse limits.
- The Commission is also seeking estimates of the costs of obtaining similar levels of finance to that obtained through warehousing, such as through commercial loans in retail markets.
- Securitisation pools assets to obtain a rating / credit quality uplift from the underlying individual asset and originator. Pricing on any securitisation facility is dependent on the risk profile of the asset, transaction structure, risk profile of the securitisation tranche, volume, tenor and capability of transaction parties. Securitisation provides for cost effective funding across a range of assets and issuer types. In many cases, particularly for unrated, or lower rated entities, the volume, pricing and tenor of securitisation facilities could not be matched in un-securitised format via other funding channels.

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2.3 Balancing non-macro-prudential regulation

Key Points

- Before further regulatory intervention is considered, recent policy changes should be given time to work.
- CommBank supports recent regulatory initiatives and reforms that lower hurdles for innovation in the financial system insofar as they continue to ensure financial system stability and the protection of customers.
- FinTechs and global technology companies are already successfully becoming part of everyday experiences in a range of customer relationships.

Summary of Response to Draft Recommendations

- CommBank supports in principle **Draft Recommendation** *4.1 (Reducing regulatory barriers to entry and expansion)* but before further regulatory intervention is considered, recent policy changes should be given time to work.
- CommBank supports in principle *Draft Recommendation 10.2 (Making the ePayments code mandatory)*.
- CommBank supports in principle *Draft Recommendation 10.1 (Review regulation of purchased payment facilities).*

Summary of Response to Draft Findings

- CommBank rejects *Draft Finding 4.3 (Most FinTechs are focusing on less regulated services)*.
- CommBank rejects *Draft Finding 4.4 (FinTech collaboration and competition)*.
- CommBank rejects *Draft Finding 4.2 (Foreign banks remain predominantly niche operators).*

CommBank supports in principle the Commission's draft recommendations related to balancing non-macro-prudential regulation.

Reducing regulatory barriers to entry and expansion

CommBank takes this opportunity to reiterate Recommendation 3 of its Initial Submission that the anticipated impact of the breadth of statutory and regulatory changes currently being planned or implemented be carefully assessed when considering any further regulatory interventions.

In this context, as a leader in financial services innovation, CommBank supports recent regulatory initiatives and reforms that lower hurdles for innovation in the financial system insofar as they continue to ensure financial system stability and the protection of customers. As noted in CommBank's Initial Submission, the Government has announced a package of changes including: relaxing the 15% ownership cap for new market entrants; removing the prohibition on the use of the word "bank" by entities with less than $50m in Common Equity Tier 1 (CET1) capital; and introducing a phased approach to the bank licensing process.

It should also be noted that increased 'RegTech' developments in the market, aimed at reducing the reporting burden through better approaches to data gathering, are ultimately lowering barriers for new entrants. CommBank supports these developments and has participated in ASIC's RegTech Liaison Forum meetings.

As such, CommBank supports in principle ***Draft Recommendation 4.1 (Reducing regulatory barriers to entry and expansion)*** but before further regulatory intervention is considered, recent policy changes should be given time to work. Specifically, if further regulatory intervention is being considered to achieve competition aims in the sector, then CommBank recommends that before deciding on the need for this, recent policy changes noted above should be given time to work.

ePayments code and purchased payment facilities

CommBank supports in principle ***Draft Recommendation 10.2 (Making the ePayments code mandatory)***. The ePayments code, while currently voluntary, is contractually enforceable for those institutions that subscribe to it. CommBank has been a subscriber for a long time. CommBank welcomes a level playing field; CommBank's customers need to have confidence in all the parties with whom they deal; as well as helping to preserve confidence in the broader payments system (including consumer protection, transaction security and financial crime implications).

CommBank also supports in principle ***Draft Recommendation 10.1 (Review regulation of purchased payment facilities)***. CommBank is supportive of a graduated licence framework for purchased payment facilities (PPFs) – and the review of PPF regulation. Any PPF providers that facilitate payments should provide the same level of protection for customers as other participants do. They should be required to meet KYC / AML, fraud, financial crime and risk management expectations to protect consumers and maintain integrity of, and confidence in, payment systems.

FinTechs and foreign banks

Regarding non-macro prudential barriers to entry and expansion for alternative players, CommBank has mentioned in its Initial Submission, that the Australian FinTech industry has seen record investment of $656m in 2016, up from $185m and $461m in 2015 and 2014 respectively[41]. CommBank believes that low competition hurdles in the financial system have encouraged new entrants. The number of Sydney-based FinTechs has grown from under 100 in 2014 to 579 in 2017, employing more than 10,000 staff[42]. In addition to FinTechs, a number of global technology organisations and other large organisations have entered the financial system in recent years. Australia's banks have pro-actively partnered with new market entrants. New entrants provide talent and innovative ideas while established banks offer mature processes as well as access to distribution channels.

As such, CommBank rejects ***Draft Finding 4.3 (Most FinTechs are focusing on less regulated services)***. Indeed, the context for this finding is that perceived barriers to entry are preventing FinTechs 'graduating' from niche players to genuine competitors. CommBank's view is that this is not a fair characterisation. FinTechs are focussed on niche segments and understand that there is a major step up to assume prudential obligations and broader duties of being a bank. FinTechs and global technology companies are already successfully becoming part of the everyday experiences in a range

41 KPMG, 2017, US$656m invested in Australia's FinTech sector in 2016, available online at: https://home.kpmg.com/au/en/home/media/press-releases/2017/02/FinTech-pulse-q4-2016-23-feb-2017.html
42 KPMG and The Committee for Sydney, 2017, Scaling the FinTech opportunity for Sydney and Australia, available online at: https://home.kpmg.com/au/en/home/insights/2017/08/scaling-FinTech-opportunity-sydney-australia.html

of customer relationships. CommBank supports occasions where constructive intermediation drives positive customer outcomes.

Similarly, CommBank rejects ***Draft Finding 4.4 (FinTech collaboration and competition)***. CommBank notes that FinTechs are successfully providing alternatives to traditional banking products, for example AfterPay and Prospa. Many of those offerings are enabled through partnerships between FinTechs and large partners as demonstrated by the award for best FinTech / bank partnership received by CommBank and OnDeck in 2016. As per above, the challenge for FinTechs is to undertake the 'graduation' in organisational and system maturity to grow in scale.

With regard to foreign banks more specifically, CommBank rejects ***Draft Finding 4.2 (Foreign banks remain predominantly niche operators)*** on the basis that the finding is too generalised and doesn't recognise the difference in market segments and parts of the value chain where foreign banks are not niche operators. For example, foreign banks are not niche operators in online deposits, as highlighted by RBA in its initial submission to the Commission: "*The entry of new banks following the Wallis Inquiry resulted in an intensification of competition in deposit markets, notably through foreign banks competing for the provision of online deposits*". In addition, foreign banks are not niche operators in the business and institutional banking sectors, as highlighted by RBA in its initial submission to the Commission: *"There has recently been strong competition for large business lending as a consequence of the entry of new foreign banks and expansion in activity by some existing foreign banks"; "Over the past few years, the spread on large business lending has declined as competition has emerged from foreign banks".*

Response to Information Requests

Information Request 4.1 Should ASIC's regulatory sandbox be extended?

- In its last submission to this Inquiry CommBank noted that ASIC's regulatory sandbox has only been provided to FinTech competitors, in contrast to markets like Singapore where sandboxes are available to all financial market participants. CommBank believes that the regulatory sandbox should be accessible for all market participants, to encourage further innovation and collaboration between existing participants and new market entrants.
- CommBank also notes that last year Treasury consulted on an enhanced regulatory sandbox. CommBank contributed to, and supports, the ABA's submission to Treasury in this regard.

Information Request 10.1 How should liability for unauthorised transactions be shared?

- CommBank believes the general principle that the "negligent" party should carry liability.
- This is frequently an ambiguous area and consistency and improved clarity would be useful for market participants.
- A liability framework under the ePayments Code already exists but needs review to, among other things, consider Open Banking recommendations.
- It is premature to consider relying on an Open Banking policy in relation to access or unauthorised transactions. Not only is the detail of that policy / framework yet to be settled, not all unauthorised transactions are related to Open Banking inspired sharing. However, Open Banking needs to be considered in any ePayments Code review.

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2.4 Access to data and switching

Key Points

- CommBank is supportive of an Open Banking model that puts customers in control, and lifts competition and security in the industry.
- In the face of ever-increasing cyber threats, Australians need to understand the importance of keeping their data safe and private; Open Banking cannot diminish the protection and privacy customers enjoy today.
- CommBank is supportive of the customer-centric and security-first industry solution proposed by the ABA and more recently by Treasury, and CommBank is implementing the first phase this year.

Summary of Response to Draft Recommendations

- CommBank supports in principle *Draft Recommendation 13.1 (Data access to enable switching)*.
- CommBank is unopposed to *Draft Recommendation 10.5 (Access regime for the New Payments Platform)*. CommBank notes that the NPP has not yet fully launched.

Summary of Response to Draft Findings

- CommBank rejects *Draft Finding III.1 (Consumers' capacity to put competitive pressure on providers is often limited).*
- CommBank accepts *Draft Finding 13.2 (Tick and Flick has not been effective).*
- CommBank accepts *Draft Finding 10.1 (The New Payments Platform could do more to ease customer switching).*

Switching

Evidence shows that Australians are taking advantage of a competitive market and are shopping around: three million people switched banks over the last three years and of those two-thirds (68%) found that switching was an easy process[43].

For transaction accounts, it is estimated that switching occurs at a rate of 8% to 10% per annum in the Australian market. This is a comparable rate compared to some European countries with more formal switching mechanisms[44].

With customer satisfaction across the Australian banking industry at historically high levels and the choice available to consumers around switching products such as home loans, credit cards and term deposits, it should be noted that there is less incentive for consumers to move their transaction account.

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43 Galaxy Research, February 2017
44 Treasury, "Banking: Cost effective switching arrangements", 2011, available online at: http://banking.treasury.gov.au/content/reports/switching/downloads/switchingarrangements_aug2011.pdf

CommBank fully supports competition and the ability for all Australians to choose a financial institution which best suits their needs. It has fully supported the industry's advancements in enhancing the customer switching experience, while spearheading a number of initiatives to support customers to switch banks easily.

CommBank hosts a wealth of information on its website to enable customers to switch easily. This includes instructions on what to do, a list of popular billers' contact details to save customers searching for them, template letters that can be downloaded to advise of direct debit changes and a "Notice of Variation of Account Details" authority form to automate the switch of recurring payments to the customer's new provider.

CommBank further enables consumer choice in switching to other financial institutions via same day closure for transaction and savings accounts, and immediate credit card closure (including via online channels with zero dollar balance and no pending transactions).

Future industry initiatives will continue to enhance the switching process, including:

- Open Banking (see further details below) framework currently being reviewed by Treasury, will empower consumers with increased control over their financial information and provide greater transparency regarding price and service offerings of different providers.
- NPP (see further details below) will introduce more flexibility regarding payment options. While it has not been designed for account switching it has potential to support the process as it will ultimately empower consumers to link different accounts to a number of unique personal PayIDs.
- ABA is incorporating a number of additional obligations into the new Code of Banking Practice to facilitate convenient switching. It is also collaborating with card Schemes to help banks facilitate requests to cancel recurring payment transactions on their cards.
- Implementation of Comprehensive Credit Reporting by July 2018 will further bolster choice by allowing lenders to offer competitive interest rates using a holistic servicing assessment which will facilitate borrowers switching between lenders.

For the above reasons, CommBank rejects ***Draft Finding III.1 (Consumers' capacity to put competitive pressure on providers is often limited)***.

Tick and Flick

CommBank accepts ***Draft Finding 13.2 (Tick and Flick has not been effective)***. It is worth noting that the current switching process is reasonably convenient and low friction. For example a customer can establish a cash transaction account with an alternative institution within minutes, and notify third parties of new account details within an hour.

CommBank is committed to continuing to review and improve the switching process so that it can support customers' financial choices. For example, CommBank introduced 'click to close' (where customers can cancel their card online) on credit cards in August 2017.

Open Banking

CommBank supports the Government's intention to introduce a regime of open data and comprehensive credit reporting in banking and recommends appropriate measures be put in place to protect customers' privacy and security and uphold the stability of the financial system. Importantly, CommBank is very supportive of an Open Banking model that puts customers in control, and lifts competition and security in the industry.

It should be noted that in the face of ever-increasing cyber threats, Australians need to understand the importance of keeping their data safe and private. Open Banking cannot diminish the protection and privacy customers enjoy today.

Furthermore, CommBank has considered Treasury's Final Report into the implementation of Open Banking. CommBank is very supportive of the customer-centric and security-first principles outlined in Treasury's Final Report. Specifically, elements of the model that CommBank supports are:

- Customers are empowered to access their data and send it to accredited companies.
- The framework is supported by risk-based accreditation to assure consumer confidence.
- Privacy and security remain key criteria in system design.
- The framework deals with liability reasonably, and participants are not required to cover each other's breaches.
- Government has the option to use this world-leading model across other industries such as telco, energy and health.

A particular element of the proposed system that CommBank supports is the principle of reciprocity. CommBank agrees with Treasury's recommendation that participants in the data sharing system that seek access to data should also be in a position to share an equivalent data set when instructed by consumers. This reciprocity is vital to enabling a data-driven economy and to maintain the healthy levels of innovation in banking but also other sectors.

CommBank's view is that implementation should commence with 'simple' banking products to test feasibility and also ensure there are no unforeseen adverse impacts.

It is also important that Australia learns from the UK operating model rather than duplicating elements of it that would not work for the Australian market and could potentially result in exposing Australian consumers. CommBank will be discussing these items constructively with Government and Industry.

As a result of the above, CommBank supports in principle ***Draft Recommendation 13.1 (Data access to enable switching)***.

New Payments Platform

CommBank is unopposed to ***Draft Recommendation 10.5 (Access regime for the New Payments Platform)***. However, it should be noted that the NPP has not yet fully launched. It is likely to be detrimental if regulation was implemented at this stage, before it is understood through actual experience, whether there is a need for regulatory intervention, and what the consequences (intended and unintended) are likely to be.

NPP Australia (NPPA) is already working with a wide range of potential new entrants in the overlay services space, and with players who could directly connect to the infrastructure. The Draft Report correctly sets out a range of graduated access levels including Participant (of which there are a few variants), Connected Institution, and Overlay Service Provider (OSP). The access criteria for each are clear and transparent, and available to any potential applicant in the NPP Regulations and also in material on CommBank's website.

In relation to fees, this information is available either on NPPA's website in the case of Overlay Service Providers (OSPs), or under NDA. Importantly, the presumption enshrined in the regulations is in favour of admission where the eligibility criteria are satisfied. NPPA is confident that the governance arrangements in place – including RBA representation on the board, and two independent directors (one of whom is the chair), will enable it to manage any conflict of interests which might arise. The Draft Report notes, and NPPA recognises, the powers of the RBA to designate the system and impose an access regime in the event of market failure. CommBank believes an assessment of the adequacy of NPP access is premature and if considered in the future, should adhere to the principle of a fair and commercial return for the NPP's investors.

It is also worth mentioning that the NPP will introduce more flexibility regarding payment options - while it has not been designed for account switching it has potential to support the process as it will ultimately empower consumers to link different accounts to a number of unique personal PayIDs.

Consequently, over time, as the NPP scales and matures, CommBank accepts ***Draft Finding 10.1 (The New Payments Platform could do more to ease customer switching)***.

Response to Information Requests

Information Request 13.1 To what extent does holding multiple accounts reduce or enable switching?

- Approximately 5% of CommBank's core everyday transaction accounts are in a dormant state, i.e. no activity on the account in the prior 6 months.
- It can be assumed that a large share of dormant accounts is correlated to customers switching providers or products.
- In relation to the distribution of product holdings across the Australian population, CommBank's distribution of product holdings across its consumer customers is shown in Table 1.

Table 1: Average number of products held by retail customers - CommBank[45]

CBA Group *average number of products per customer*	**August 2017 - January 2018**
Total	**3.09**
Savings and Transaction account	1.46
Term Deposits	0.05
Total Accounts	**1.51**
Work Super	0.10
Personal Super	0.01
Total Super	**0.11**
Managed funds incl. CMT	**0.02**
Major cards	0.88
Total Cards	**0.88**
Home loan	0.19
Personal Lending	0.05
Total Loans	**0.24**
Total Insurance	**0.33**

45 Roy Morgan Research, average number of products per customer. CommBank "Any Financial Relationship" Customers 18+, Banking and Finance products per Banking and Finance customer at CommBank. 6 month rolling average to January 2018. CommBank excludes Bankwest

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Response to Information Requests

Information Request 13.3 What red tape barriers to switching persist?

- CommBank supports competition and the ability for all Australians to choose a financial institution which best suits their needs. It has fully supported the industry's advancements in enhancing the customer switching experience, while spearheading a number of initiatives to support customers to switch banks easily.
- However, given the perception that switching banks is not easy, clearly more can be done at an industry level to educate consumers about the process; and CommBank is committed to continuing to invest to enable switching to be more convenient.
- With customer satisfaction across the Australian banking industry at historically high levels and the choice available to consumers around switching products such as home loans, credit cards and term deposits, it should be noted that there is less incentive for consumers to move their transaction account.
- Whilst it is often perceived that the hurdle to switching is identifying and porting direct debit and recurring payments, it is estimated switching of transaction accounts occurs at a rate of 8% to 10% per annum. When compared to advanced European countries with more formal switching mechanisms in place, this is a comparable rate.
- Future industry initiatives will continue to enhance the switching process, including:
  - Open Banking framework currently being reviewed by Treasury, will empower consumers with increased control over their financial information and provide greater transparency regarding the service offerings of different providers.
  - NPP will introduce more flexibility regarding payment options. While it has not been designed for account switching it has potential to support the process as it empowers consumers to link a different account to their PayID.
  - ABA is incorporating a number of additional obligations into the new Code of Banking Practice to facilitate convenient switching. It is also collaborating with card Schemes to help banks facilitate requests to cancel recurring payment transactions on their cards.
  - Implementation of Comprehensive Credit Reporting slated for July 2018 will further bolster choice by allowing lenders to offer competitive interest rates using a holistic servicing assessment which will facilitate borrowers switching between lenders.

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Chapter 3. Examining industry practices for better customer outcomes

3.1 An effective and efficient payments system

Key Points

- There should be no further changes in interchange regulations until the effects of changes recently introduced as a result of the RBA's grassroots review of interchange are evaluated.
- Australia has one of the most innovative and secure payments systems in the world, as well as one of the lowest interchange fee regimes globally.
- The payments system is a complex, high fixed cost system with multiple participants. Interchange is a proven model globally for balancing the costs and benefits for various participants.
- Interchange fees cover a number of system-wide costs and direct consumer benefits (in particular fraud protection) and enable investment in innovation and efficiency in the payment system.
- Banning interchange fees could undermine the economics of the system, and lead to a reduction in system security and resilience, as well as reduce innovation and other direct consumer benefits.
- CommBank is committed to providing customers with choice and flexibility when it comes to how they want to pay.
- CommBank is currently assessing the implementation of additional capabilities to enable merchant routing for contactless debit transactions and supports the industry working together to ensure a high standard of customer experience and choice is maintained for both merchants and cardholders.
- Cardholders should have the ability and right to over-ride any merchant routing decisions.

Summary of Response to Draft Recommendations

- CommBank does not support ***Draft Recommendation 10.3 (Ban card interchange fees)***.
- CommBank supports in principle ***Draft Recommendation 10.4 (Merchant choice of default network routing).***

Payments are the lifeblood of an economy. The payments system provides individuals, businesses and institutions choice in how they transfer value, from individuals paying for purchases using 'tap and go' to institutions transferring large sums. It is critical to the economy and the everyday lives of Australians that the payments system is reliable, safe and drives innovation for convenience and efficiency.

Interchange fees

There have been successive reforms concerning interchange over the last 15 years and many have had unforeseen consequences. Interchange fees were reduced as recently as July 2017. CommBank believes there should be no further changes in these regulations until the RBA has had the opportunity to evaluate the effects of the changes introduced in July 2017 following its grassroots review of interchange.

Australia has one of the most innovative and secure payments systems in the world, as well as one of the lowest interchange fee regimes in the world. For example, Australia leads the world in contactless payment usage[46] and introduced PIN-only authorisation for credit card transactions in 2014. There is some evidence that accepting cash can be more expensive to merchants than card payments. Australia's weighted average interchange on credit of 0.50% and cap of 0.80% is substantially lower than other markets such as the USA which can be up to 3.25% + 10 cents (refer Table 2). Debit interchange fees are regulated by the RBA and are low by international standards.

The higher rates of interchange in the USA enable higher investment in fraud protection and innovation in payments systems, benefiting consumers and businesses.

Table 2: Interchange rates in comparable overseas markets[47]

Country / Region	Regulation	Credit rates	Debit rates
	Yes	Weighted average 0.50%, cap of 0.80%	AUD$0.08, cap of $0.15 or 0.20%
	Debit only	From 0.00% + USD0.65 To 3.25% + USD0.10	0.05% + USD0.21
 	Yes	0.30%	0.20%
	Voluntary	From 1.00% to 2.06% Contactless (<CAD25) CAD0.05 - CAD0.07	From 0.00% + CAD0.02 to 1.00%
	No	From 0.00% charities only To 2.35% premium only	From 0.00% charities only To 1.50% commercial Contactless NZD0.004 – NZD0.10

46 RFi Group, Global Payments Evaluation Study, 2015.
47 Mastercard, available online at Mastercard individual country websites.

Surcharging of card payments is regulated through the RBA and enforced through the ACCC.

The payments system is a complex, high fixed cost system with multiple participants who each benefit in different ways. Interchange is a proven model globally for balancing the costs and benefits of various participants.

Interchange fees cover a number of system-wide costs and direct consumer benefits including:

- Card issuing costs (including replacements, damaged, emergency cards).
- Fraud losses (which in an EMV (PIN) environment are absorbed by issuers).
- Customer protection (dispute and chargeback rights).
- System costs (such as transaction processing, fraud monitoring, card personalisation, AML/CTF/Sanction screening).
- Compliance costs.
- Enables global access to customer's accounts through electronic means (both ecommerce and POS).
- Innovation (for example contactless cards, mobile payments, lock, block & limit).
- Customer reward and loyalty benefits.
- Other consumer benefits such as insurance.

The direct impact to consumers of a proposed ban on interchange fees could undermine the economics of the system, and lead to a reduction in system security and resilience, as well as reduce innovation and other direct consumer benefits.

Consequently, CommBank does not support ***Draft Recommendation 10.3 (Ban card interchange fees)***.

Routing of merchant transactions

CommBank is committed to providing customers with choice and flexibility when it comes to how they want to pay. For example, despite merchant terminals defaulting 'Tap & Pay' debit card transactions to Visa rails, consumers have the choice of selecting EFTPOS if they wish.

Competition within the domestic acceptance market is vigorous with all major banks, local and international acceptance providers participating and competing for market share. Domestic interchange fees are published and easily accessible by merchants for both Visa and Mastercard.

When setting up their acquiring facilities with their acceptance partner, a merchant will select the pricing arrangements that best suits their business needs.

Many acceptance providers in the market offer variations of an 'interchange plus' pricing structure where the underlying interchange of a card transaction is passed directly through to the merchant. This pricing structure is therefore completely transparent to the merchant with respect to interchange costs. In the typical 'interchange plus' merchant acquiring arrangement, the interchange fee at point of sale will depend upon 1) which Scheme card the customer selects to use, 2) value of transaction, 3) what type of merchant it is and if it qualifies for Strategic Merchant Rates[48], 4) if the customer choses

48 Strategic Merchant Rates are rates available to typically large volume merchants (or merchant groups) that meet certain qualifying criteria deemed to be strategic to the Scheme.

to use commercial, premium or standard card which may have different benefits, and 5) whether it is a domestic issued or overseas issued card. Thus the uncontrollable aspect of interchange for a merchant is the type of card presented by the consumer, which may have an adverse cost impact to the merchant depending on the card.

This was a key finding of the FSI and was subsequently addressed by Reserve Banking regulation which came into effect 1 July 2017 where interchange was capped domestically at 0.80% for domestic credit cards and 0.20% or 15 cents for domestic debit cards.

The complexity of customer choice can make it challenging for merchants to know the exact cost of accepting the specific card payment. Increasingly smaller merchants can avoid such uncertainty through fixed fee arrangements (whereby card variability risk is taken on by the acquiring bank).

EFTPOS only recently began supporting contactless transactions, whereas the Schemes have supported them for over a decade. Hence, routing debit transactions to the lowest cost path has only recently become an option.

CommBank supports in principle ***Draft Recommendation 10.4 (Merchant choice of default network routing)***.

The industry needs to ensure the benefits and services cardholders receive through different Schemes are not compromised should merchants choose to route transactions through a particular payment network. Cardholders should therefore also have the ability and right to over-ride any merchant routing decisions.

CommBank is currently assessing the implementation of additional capabilities to enable merchant routing for contactless debit transactions and supports the industry working together to ensure a high standard of customer experience and choice is maintained for both merchants and cardholders.

Response to Information Requests

- No information requests are made in relation to this topic.

3.2 Improving customer choice and outcomes in residential home lending

Key Points

- Mortgage brokers play an important role in the industry and help customers with one of the most important financial decisions they make in their lives.
- CommBank uses brokers and a proprietary lending network as each provides a distinct value proposition to large proportions of customers.
- The share of retail home loans that CommBank receives from its owned aggregator (Aussie Home Loans) is typically lower than the share that CommBank receives from other independent brokers.
- Contrary to the finding of the Commission, ASIC has found that broker customers pay interest rates that are no better, and in some cases worse, than those customers who are served by proprietary channels.
- CommBank has been a major contributor to industry efforts to improve customer outcomes in mortgage broking, including through changes to its own broker accreditation programme focused on ensuring brokers deliver positive customer outcomes.
- The ASIC and ABA Retail Banking Remuneration (Sedgwick) reviews on broker remuneration have proposed that a range of other remuneration arrangements be considered, some of which propose moving away from trailing commissions. CommBank supported these reviews and is open to further discussing ways to address the concerns identified in these reviews.
- Home loan pricing is influenced by various factors such as loan terms and customer characteristics such as risk. Hence customer level pricing is personalised and also accounts for the prevailing conditions at the time of application.
- Customers already have access to personalised price transparency through lenders, brokers and online tools.
- The Commission’s proposed price reporting tool may harm price competition and innovation, mislead customers and may result in reluctance by market participants to offer loans to customer with risk higher than the median.
- Lenders Mortgage Insurance (LMI) currently allows customers with low or no deposit to secure credit, allowing them to purchase a home sooner.
- CommBank passes through the cost of the LMI premium to consumers from its insurance providers. CommBank does not charge a margin or fees above this premium.
- LMI does not fully compensate for the additional risk associated with providing loans to higher LVR customers, hence the residual additional risk is compensated for through higher interest rates.
- Implementing LMI refunds could result in a more costly product. Borrowers should be able to choose between the current ‘non-refundable’ premium product and the more flexible alternative suggested by the Commission.

Summary of Response to Draft Recommendations

- CommBank does not support ***Draft Recommendation 8.1 (Duty of care obligations for lender-owned aggregators)***, unless it is applied to all brokers at the same time.
- CommBank supports in principle ***Draft Recommendation 8.2 (Mortgage broker disclosure requirements).***
- CommBank is unopposed to ***Draft Recommendation 8.3 (Collection of home loan interest data)*** but questions the value of the activity.
- CommBank does not support ***Draft Recommendation 8.4 (Interest rate transparency for home loans)***.
- CommBank is unopposed to ***Draft Recommendation 8.5 (Lenders mortgage insurance refund)***.

Summary of Response to Draft Findings

- CommBank notes ***Draft Finding 8.2 (Cost of home loans through brokers vs branches).***
- CommBank rejects ***Draft Finding 8.1 (Interest rates from brokers vs other channels).***
- CommBank rejects ***Draft Finding 13.1 (Mortgage broker commission structures weaken consumer switching).***
- CommBank rejects ***Draft Finding 8.3 (If you have a high loan to value ratio, you are probably paying for it twice over).***

3.2.1 Mortgage brokers play an important part in providing customer choice

Mortgage brokers play an important role in the industry and help customers with what is one of the most important decisions they will make in their financial lives. Brokers offer a valuable service proposition, including offering a range of products from different providers.

CommBank's involvement in the broking industry

CommBank uses brokers and a proprietary lending network as each provides a distinct value proposition to large proportions of customers.

Each of these channels has costs which are specific to that channel. CommBank does not allocate branch costs to individual interaction or transaction categories, such as writing a home loan. CommBank notes ***Draft Finding 8.2 (Cost of home loans through brokers vs branches)***.

CommBank is proud to own leading mortgage aggregator Aussie Home Loans (AHL).

Consistent with the broking value proposition of independence, CommBank loans are provided as a part of a panel of loans, with the broker determining the most suitable loan for each customer. Most loans originated through AHL go to CommBank's competitors.

The share of retail home loans that CommBank receives from AHL is in fact typically lower than the share that CommBank receives from other independent brokers. For example from the latest available data (September 2017) CommBank received an average share of 16.9% of approvals via the top ten broker headgroups, versus 16.1% of approvals via AHL.

AHL also sells its own branded products which are wholesale funded by Macquarie Bank and CommBank. Several other banks also provide wholesale funding arrangements for other brokers irrespective of whether the broker is owned by those banks.

Customer outcomes in broker channels

Contrary to the finding of the Commission, ASIC has found that broker customers pay interest rates that are no better, and in some cases worse, than those customers who are served by proprietary channels. ASIC's findings suggested higher interest rates, larger loan sizes, more interest only loans, and higher leverage. Although these outcomes may be appropriate for many customers, their net effect is that overall broker customers may take longer to repay loans, and incur more interest, than those served by proprietary lenders. Hence, CommBank rejects ***Draft Finding 8.1 (Interest rates from brokers vs other channels)***.

CommBank believes the vast majority of brokers do the right thing and want to help their customers. CommBank has been a major contributor to industry efforts to improve customer outcomes in mortgage broking, including through changes to its own broker accreditation programme focused on ensuring brokers deliver positive customer outcomes.

Commissions

As in other financial services products, a combination of upfront and trailing commissions has been used to balance the upfront and ongoing costs of establishing and maintaining a customer relationship. Upfront commissions are paid to compensate brokers for the work associated with the home loan application and to reflect the value to the bank of a new home loan customer. Trail commission payments are made to compensate brokers for the ongoing costs associated with servicing and maintaining home loans.

Brokers are able to freely move customers between financial institutions, should this be in the best interests of customers. Should brokers switch a customer between institutions they are typically paid a 'new' upfront commission (which can offset any commission clawback if the switch has occurred within 2 years of initial funding).

The ASIC and ABA (Sedgwick) reviews on broker remuneration have proposed that a range of other remuneration arrangements be considered, some of which propose moving away from trailing commissions. CommBank supported these reviews and is open to further discussing ways to address the concerns identified in these reviews.

CommBank rejects ***Draft Finding 13.1 (Mortgage broker commission structures weaken consumer switching)***.

Improving customer outcomes and choice

CommBank supports actions that help customers better understand the service that brokers provide, and the ownership and remuneration arrangements that may influence how that service is performed.

CommBank recognises the potential customer benefits of the Commission's proposal to implement new duty of care obligations for brokers, however CommBank does not support ***Draft Recommendation 8.1 (Duty of care obligations for lender-owned aggregators)***, unless it is applied to all brokers at the same time to avoid confusion for consumers and maintain an even playing field for industry participants.

It would be important to ensure that any duty of care obligations allow for brokers to consider price together with the full range of product features that may be of value to customers, for example physical branch networks, access to digital banking, product flexibility (redraw, offset, etc.).

CommBank notes the Commission's view that "there is a strong in-principle case for a similar duty of care to be applied to all brokers." CommBank considers that, should the Commission choose to proceed with these recommendations, additional obligations should be applied universally to all brokers at the same time. Different regimes for brokers based on ownership would cause significant and unnecessary confusion for consumers in selecting a broker and what they can expect from the service.

Given brokers are able to move freely between lenders (and other aggregators), partial implementation would risk allowing some brokers to easily avoid additional obligations.

Delaying universal implementation has no practical value when the eventual disclosure and duty of care obligations are to be universal and it leaves unaddressed conflicts of interest that might arise through the sale of white-labelled products by brokers. CommBank agrees with the Commission that, as demonstrated by direct evidence from brokers, white-labelled products represent apparent conflicts of interests today and hence may warrant attention.

CommBank supports greater disclosure requirements, if they are universal. Customers should have all the information that helps them make the right decision for them, and this includes understanding what might – in some cases – influence recommendations. This information should be presented in a way that is not confusing, and at the right time (as early in the broker interaction as possible). Consequently CommBank supports in principle ***Draft Recommendation 8.2 (Mortgage broker disclosure requirements)***.

Response to Information Requests

Information Request 8.1 How should new duty of care obligations for lender-owned aggregators be implemented?

- CommBank believes a number of new duty of care arrangements are potentially workable, if they are applied to all brokers. However it would be important to ensure that any duty of care obligations allow for brokers to consider price together with the full range of product features that may be of value to customers, for example physical branch networks, access to digital banking, product flexibility (redraw, offset, etc.).
- CommBank is available to work with the appropriate bodies to develop detailed requirements.

Information Request 8.2 Should consumers pay broker fees for service?

- CommBank is open to dialogue regarding the structure of broker commissions.
  - CommBank believes that brokers could continue to offer their services to customers if consumers were to pay for their services directly.
  - However, CommBank notes that the ASIC review on broker remuneration and the ABA (Sedgwick) Review both identified other changes as more important mechanisms to improve customer outcomes in the broker channel. For example, the ABA review recommended moving to alternative commission structures that are not directly linked to loan size.
  - Based on these inquiries, CommBank's view is that changes to the level and structure of commissions (and other forms of fees) may be as or more important in influencing customer outcomes than whether these fees are paid directly or indirectly by consumers.
- CommBank also notes that experience in the financial advice sector suggests changes of this kind require universal application to ensure they deliver the maximum benefit to customer outcomes.

Information Request 13.2 Is there a rationale for the structure of mortgage broker commissions?

- As in other financial services products, a combination of upfront and trailing commissions has been used to balance the upfront and ongoing costs of establishing and maintaining a customer relationship.
- Upfront commissions are paid to compensate brokers for the work associated with the home loan application and to reflect the value to the bank of a new home loan customer. Trail commission payments are made to compensate brokers for the ongoing costs associated with servicing and maintaining home loans.
- The ASIC and ABA (Sedgwick) reviews on broker remuneration have proposed that a range of other remuneration arrangements are considered, some of which propose moving away from trailing commissions.
- CommBank supported these reviews and would be happy to further discuss ways to address the concerns identified in these reviews.

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3.2.2 Transparency in home loan interest rates

The interest rate consumers pay for home loans have significant implications for the overall cost of a loan, and hence consumers' financial wellbeing. Increased sophistication in the collection and analysis of data on financial markets, property securities and customer characteristics has moved home lending pricing away from 'one size fits all' to a more sophisticated assessment of factors such as risk.

Like many other banks, CommBank has made significant investments to improve the way in which it prices its home loans and in the home buying experience for customers. The intent of this investment has been to reach the best possible balance between prudential requirements, responsible lending, and commercial value. Customer research proves that home loan prices are a major driver of customer choice and satisfaction, so improvements in this area are important to the home lending business.

The result of this investment is that home loan pricing now reflects more a more granular assessment of risk including security value and characteristics; availability of a deposit; prior credit behaviour; ability to service the loan; and loan characteristics including loan-to-value ratio (LVR). Therefore, home lending prices reflect the relative risk and return of the proposed loan compared with a standardised benchmark.

Transparency already exists in the market

Price comparisons that reflect this sophistication are already readily available to customers, and these comparisons are becoming easier to obtain.

As the Commission's data shows, most customers already know (or quickly learn) that banks' standard variable rates are indicative benchmarks, not prices typically paid by customers.

Actual offer prices, suitable for accurate like-for-like comparisons can be quickly obtained by consumers today. In CommBank's proprietary channel, automated pricing tools can quickly provide close-to-final customised prices. Either with a broker's assistance or independently, customers can obtain additional actual offers from other institutions with similar speed. Comparison websites and emerging digital brokers offer automated comparison services based on some (although not all) relevant borrower characteristics.

Ease of obtaining actual offers is also increasing. Many institutions are aware that the ability to quickly offer a price that is close to final is important to customers' choice of lender, and are investing to improve this capability.

CommBank prices new and historical loans in similar ways, however the price offered reflects the characteristics of the borrower, the loan and the underlying market conditions at the time the loan was funded. Loans are assessed based on the characteristics of the applicants and the loan, while the pricing available also reflects underlying funding costs and market conditions. Differences between newer and older customers can occur because this assessment happens at different times. The underlying cost components of providing home loans move over time, as does the profile of written business, impacting the rates that can be offered, for example:

- The costs of funding loans depends on prevailing market conditions at the time a loan is written.
- The bank must secure long-term funding for a loan at the time it is written, having secured this funding the costs are 'fixed' even if market conditions change. Hence a 'historical' loan may have very different costs associated with it, when compared to a new loan (for example loans written during the GFC (which had high funding costs) versus now).

- Property values have generally risen, contributing to an increase in average loan sizes which are subject to higher discount tiers.
- Changes in risk appetite have reduced the share of total lending that is in the higher LVR brackets (>80%), higher LVR loans typically receive lower discounts.

Proposed changes to improve informed choice by consumers

CommBank is very supportive of initiatives that make it easier for customers to get the information required to help them make better financial decisions. CommBank supports efforts to ensure that customers are fully informed about the interest rate associated with their home loans, as well as other fees and charges, and other 'non-price' components of a home loan offer.

Proposals to provide more information on historical interest rates need to be carefully evaluated to make sure they don't mislead customers and lead to unintended lender behaviour. It is CommBank's view that the Commission's online median price proposal is more likely to create poor competitive outcomes than appeal to customers, even before taking into account the additional effort and complexity to be managed by financial institutions and consumers alike.

Consumer appeal may be limited due to the required complexity of using and interpreting outcomes:

- The Commission's data shows large variations of actual prices from medians within simple customer segments. Consequently, many customer characteristics will be needed to obtain prices that can be relied upon for comparison, complicating use and interpretation of the tool.
- To be useful and representative, information needs be collected and presented in a granular format with inputs such as LVR, loan size, loan type, repayment type and product. For more advanced institutions rates are also influenced by detailed modelling of customer risk, behaviour, and cost of funding. This will be onerous for customers to complete akin to a full application and if not collected at a granular level will have a very broad rate range which will not be beneficial to customers.
- Because loan risk assessments typically rely on personal information – including salaries and other loans – meaningful results will require the submission of this usually confidential information to ASIC.
- The proposed tool is already duplicated and – as actual not theoretical offers are obtained – surpassed by traditional mortgage brokers, and increasingly by digital brokers, at similar levels of convenience.
- Because ASIC's tool can only ever deliver indicative prices, efforts to use this tool will inevitably be duplicative to the process of obtaining actual offers.

By contrast the tool will be a new and valuable source of intelligence on competitor pricing strategies, with the potential outcome of greater price alignment:

- For the tool to be useful, it will need to publicly provide granular information on pricing approaches, revealing pricing models which constitute commercially sensitive intellectual property.
- This represents a consequential risk of allowing prices to become more aligned across the industry.
- This could happen, for example, by dulling incentives for emerging players with less sophisticated pricing models to invest in these models. Instead these players would simply be able to closely match rates of major players. For example, an emerging player targeting higher

risk customers would no longer need to develop a new pricing technique but instead simply price to the median price revealed by the tool.

Further, to the extent that the tool is relied on by borrowers, lenders may become reluctant to offer loans to borrowers whose risk profile is higher than the median in any particular category.

Alternatively, price information provided at a high level runs the risk of misleading customers who have different risk or security characteristics to the median, and therefore mean that they cannot receive the price quoted.

It is important to note that this information already exists in the market for fixed and basic products. The rates advertised by banks and numerous comparison websites are closely aligned to end rates that customers receive.

As a result of these considerations, CommBank does not support ***Draft Recommendation 8.4 (Interest rate transparency for home loans)***. Consequently, whilst unopposed to ***Draft Recommendation 8.3 (Collection of home loan interest data)***, CommBank questions the value of the collection activity.

If this initiative proceeds, it will be important to ensure that it does not contravene laws regarding collusive or anti-competitive conduct. For example, the ACCC has previously taken action against providers of information on fuel industry pricing on the basis that these arrangements can facilitate collusive conduct. Given the time taken to negotiate loans, and the frequency of material funding cost changes, even recent retrospective data risks raising similar concerns in home lending.

3.2.3 Improving customer outcomes in Lenders Mortgage Insurance

LMI is a product designed to improve access to the home lending market for a higher risk segment of customers (i.e. those with less than a 20% deposit). LMI currently allows customers with low or no deposit to secure credit, allowing these customers to purchase a home sooner. Failure to offer LMI would require an increase in interest rates or (alternatively) make extension of credit difficult or (in some cases) impossible.

LMI premiums are a specific charge to compensate for a single risk – that of outright default. LMI is currently made available to a portfolio of similar customers through pooling of risk by insurers. This approach means premiums account for expected average loan characteristics.

CommBank passes through the cost of this premium to customers from its insurance providers. CommBank does not charge a margin or fees above this premium. The current products provided by CommBank's insurers are not priced on loan term, but rather on the risk associated with accepting loans that fit within certain loan parameters (LVR, loan type, etc.). CommBank takes consideration to ensure that the LMI rate and the offering that goes with it, along with the mortgage product, are competitive in the marketplace.

Under the terms of CommBank's LMI products, its insurers do not provide refunds for customers who refinance or payout their loan. Where CommBank's insurers provide refunds for some customers on compassionate grounds, for example when an adverse change in personal circumstances requires an unplanned property sale, CommBank provides these refunds to customers. CommBank rejects the Commission's inference that its insurers provide refunds to customers which CommBank does not subsequently make available.

It is important to note that LMI protects the bank against losses associated with a customer who has defaulted on their loan. LMI does not however fully compensate the bank for the costs associated with providing loans to higher LVR customers (for example higher capital costs, collection costs associated with customers who go into arrears by subsequently recommence repayments).

CommBank rejects ***Draft Finding 8.3 (If you have a high loan to value ratio, you are probably paying for it twice over)***, particularly the assertion that CommBank seeks to recover in the interest rate risks protected against through LMI. LMI does not fully compensate for the additional risk associated with providing loans to higher LVR customers, hence the residual additional risk is compensated for through higher interest rates. Notwithstanding the above, as the Commission has noted in its draft report, “the difference is small, at 0.00066% of the average interest rate for all borrowers”.

With respect to ***Draft Recommendation 8.5 (Lenders mortgage insurance refund)***, CommBank notes that this recommendation implies replacement of the current LMI product design with a potentially more expensive option which could restrict access to home financing for some customers – a new type of LMI. Prices would need to reflect the cost of providing additional flexibility, resulting in higher up front premiums. Customers who repay their loan over longer time periods - even across multiple banks - may pay more relative to the current product. To the extent these additional costs impact loan serviceability, this would compromise access to credit for some customers.

CommBank is unopposed to ***Draft Recommendation 8.5 (Lenders mortgage insurance refund)***. If the recommendation were implemented, CommBank would welcome a discussion about what specific product design would be most compatible with the Commission’s objectives, while limiting adverse impacts on the availability of credit or on costs to customers. In particular, CommBank proposes that borrowers be able to choose between the current ‘non-refundable’ premium product and the more flexible alternative suggested by the Commission.

One alternative model put forward has been to factor the cost of LMI directly into the interest rate charged. This would be detrimental to customers as total premiums paid by customers would increase. For example, it would drive significantly higher transaction, processing, monitoring and control costs due to the complexity of calculating, deducting, passing on and reconciling individual monthly payments. Charging LMI through higher interest as part of the repayment will also mean that customers who go into arrears, default or claim will stop payment premiums before the full cost is recovered. Again this would result in higher monthly premiums which are disproportionately borne by those who continue to service their loans.

Response to Information Requests

Information Request 8.3 Are Changes Needed To Lenders Mortgage Insurance?

- CommBank rejects ***Draft Finding 8.3***, particularly the assertion that CommBank seeks to recover in interest rate risks protected against through LMI, hence does not consider *Information Request 8.3* requires a response.

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3.3 Improving customer choice and outcomes in insurance

Key Points

- The insurance market has witnessed new entrants to Australia in recent years, with the rise of challenger brands, innovation in products and new solutions for customers.
- CommBank supports making it simpler and easier for customers to make informed choices in relation to their insurance arrangements.
- CommBank does not offer add-on style insurance sold through car yards.
- Following a review of consumer credit insurance products, CommBank recently announced the decision to end sales of its Credit Card Plus and Personal Loan Protection products as it found it was difficult to achieve the right balance between simplicity and accessibility on the one hand, and limiting the product to the right group of target customers on the other hand.
- CommBank believes it is important that customers consider risks that can occur at various points in life, therefore it is appropriate to invite customers to consider if they want to reduce their risk via insurance, when they are taking on more responsibilities, for example purchasing a home.

Summary of Response to Draft Recommendations

- CommBank is unopposed to *Draft Recommendation 11.1. (Past pricing information on insurance renewal notices)* however recommends that the implementation be carefully considered to minimise confusion for consumers.
- CommBank supports in principle *Draft Recommendation 11.2 (Transparency on underwriting)*.
- CommBank supports in principle *Draft Recommendation 14.1 (Deferred sales model for add-on insurance)*.
- CommBank supports in principle *Draft Recommendation 11.3 (Phase out stamp duties levied by the states and some of the territories)*.

Summary of Response to Draft Findings

- CommBank accepts *Draft Finding 11.2 (Consolidation of General Insurers).*
- CommBank accepts *Draft Finding 11.1 (Market power in general insurance provision).*

General Insurance

In the process of securing and enhancing the financial wellbeing of its customers, CommBank believes it is important to be able to help those customers protect their home, their possessions, and their motor vehicles. CommBank's general insurance business (under the CommInsure brand) helps protect the financial wellbeing of more than 1 million policyholders.

The insurance market has witnessed new entrants to Australia in recent years, with the rise of challenger brands, innovation in products and new solutions for customers.

Representations to the Senate Economics Committee Inquiry into General Insurance noted that 'Australia's general insurance industry is highly competitive, contending that the large number of participants in the market and recent entry of challenger brands are evidence of this fact'.

APRA data shows there was 96 insurers licensed to conduct general insurance business as at 30 September 2017, of which 86 were direct insurers and 10 reinsurers. APRA also noted that "The personal lines market continues to display healthy competition. Incumbents have maintained a competitive position in all classes of business, while coming under increasing pressure from challenger brands (such as Auto and General, Youi and Hollard), which continue to grow their market share".

As the Commission has noted, the sector is however relatively concentrated amongst a number of large insurers.

CommBank accepts ***Draft Finding 11.1 (Market power in general insurance provision)*** and accepts ***Draft Finding 11.2 (Consolidation of General Insurers)***.

CommBank supports making it simpler and easier for customers to make informed choices in relation to their insurance arrangements.

CommBank supports in principle ***Draft Recommendation 11.2 (Transparency on underwriting)***. CommBank is also unopposed *to* ***Draft Recommendation 11.1. (Past pricing information on insurance renewal notices)*** however CommBank recommends that the implementation be carefully considered to minimise confusion for consumers.

Add-on insurance

CommBank does not offer add-on style insurance sold through "car yards". Following a review of consumer credit insurance products, CommBank recently announced the decision to end sales of its current Credit Card Plus and Personal Loan Protection products as it found it was difficult to achieve the right balance between simplicity and accessibility on the one hand, and limiting the product to the right group of target customers on the other hand.

CommBank is working with AIA, a leading global insurer which is acquiring the CommInsure life insurance business from CommBank, to deliver new and innovative protection solutions for its customers, so that an important need can be met. These new solutions will build upon the recent improvements to product design and sales processes that have been developed by ASIC and the industry to improve customer outcomes.

CommBank believes it is important that customers consider risks that can occur at various points in life, therefore it is appropriate to invite customers to consider if they want to reduce their risk via insurance, when they're taking on more responsibilities for example when buying a new home.

Recognising some of the issues identified in the add-on insurance sold through "car yards", CommBank supports in principle ***Draft Recommendation 14.1 (Deferred sales model for add-on insurance***). CommBank supports a deferred sales model for consumer credit insurance in face to face and phone based sales channels as is being introduced through the updated Banking Code of Practice. This reform should be given time to commence to allow further assessment of how this model impacts on consumers.

Stamp Duty

As the Commission has noted, stamp duties on insurance are particularly inefficient taxes because of their narrow base, the distortions to insurance prices, and reduction in insurance affordability. They create an incentive to not insure. Consequently, CommBank supports in principle ***Draft Recommendation 11.3 (Phase out stamp duties levied by the states and some of the territories)***. CommBank encourages government to work with the states and territories that levy stamp duties on insurance to promptly progress this recommendation.

Response to Information Requests

- No information requests are made in relation to this topic.

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3.4 Improving customer choice and outcomes in financial advice

Key Points

- CommBank supports the proposal to rename General Advice and the intent to increase access to advice and the safe delivery of information or guidance to customers. In relation to the proposal to rename General Advice, CommBank encourages any proposed changes to be considered in a broad context so that potential unintended consequences are fully understood and mitigated.
- Post-FOFA there remains a lack of clarity relating to the distinction between Personal Advice and General Advice, and the uncertainty around providing limited or single issue scoped advice under the best interests duty. This raises a risk that changes may further reduce the ability to have simple conversations with customers about their financial needs.
- CommBank supports the inclusion of credit as an option for licensed financial advisers as it can help facilitate clients and their adviser's engaging in conversations on a broader range of financial needs, and on topics which naturally complement each other (for example debt management and savings).
- Broadening the scope of products financial advisers provide advice on would have practical implementation implications, for example additional training requirements, cost of changes to documentation and processes. These should be carefully considered.

Summary of Response to Draft Recommendations

- CommBank supports in principle *Draft Recommendation 12.1 (Rename General Advice to improve customer understanding)*.

Summary of Response to Draft Findings

- CommBank notes *Draft Finding 7.1 (Consolidation in asset management and financial advice).*

Competition in wealth management

CommBank is committed to helping customers meet their wealth and retirement needs through the most appropriate channel. When it comes to delivering good customer outcomes, it is incumbent on all players to innovate and develop the best product and service offering.

The FSI undertook a thorough review of the financial services industry, including competition. The FSI specifically examined whether the recent trend of vertical integration is reducing competitive pressures, but did not conclude that regulatory intervention was necessary. It did, however, recognise a need to increase standards around financial product design and distribution and increase ASIC’s powers over products and in regulation and draft legislation for this proposal is currently under consultation. It also acknowledged that the Australian financial system has matured, and robust FOFA legislation affords real consumer protection, including the best interests’ duty and prohibitions on the payment of conflicted remuneration.

In relation to competition in superannuation and investments, it is important to distinguish between platforms and products. The platform is the administration vehicle which facilitates efficient access to the underlying investment products (or investment "options"). Platforms can be in-house or external, and some entities own more than one platform (for example, CommBank owns the FirstChoice and FirstWrap platforms). Platforms compete for financial advisers, as well as on products offered.

CommBank's financial advice licensees include multiple platforms and insurance providers on their Approved Product Lists (APLs). Of the investment options on the platforms which are owned by CommBank, less than 40% of the total options available are in-house products.

CommBank's financial advice business is required to comply with the Financial Services Council Life Insurance Approved Product List Standard which requires a licensee to hold a minimum number of life insurance products (three) on the APL and provide various disclosures to this effect. There is also an extensive off-APL process. Under this process financial advisers can recommend products/platforms not listed on the APL where they deem this to be in the best interests of clients.

Vertical integration can provide significant customer benefits by offering a wide range of financial products and services at each stage of their lives, with scale and scope benefits providing more choice, competitive pricing, and innovative technology.

Some industry stakeholders and commentators have presented vertical integration to be a feature only present in banking-owned wealth businesses, however, vertical integration is a common feature throughout financial services in Australia, and not unique to conglomerate banking businesses.

As the Commission has itself observed, the market continues to evolve. Some banks are exiting elements of their wealth management operations. In comparison, some industry superannuation funds are seeking to harness the benefits of vertical integration by internalising their asset management and developing financial advice. Some funds also own banking operations.

CommBank notes ***Draft Finding 7.1 (Consolidation in asset management and financial advice)***.

Proposal to rename General Advice

One of FOFA's key objectives was to increase access to advice for all Australians. Following the introduction of the FOFA reforms the cost of delivering quality advice remains high. This has challenged the industry's ability to increase access to advice.

CommBank supports the general proposition to increase access to advice and the safe delivery of information or guidance to customers. CommBank supports in principle ***Draft Recommendation 12.1 (Rename General Advice to improve customer understanding)***, however encourages any proposed changes to be considered in a broad context so that potential unintended consequences are fully understood and mitigated. CommBank is available to work with the appropriate bodies in this process. CommBank believes it will be important for sufficient consumer testing to take place to ensure the new name for General Advice has real meaning to the broader community.

There is the potential for unintended consequences if access to advice is not given primary consideration. In exploring changes to the naming of General Advice, policymakers should be careful to ensure access to simple, single issue advice and general guidance to customers on financial matters improves, or at the very least is not reduced as a result. It would be a poor public policy outcome to permit the delivery of factual information or full-scale Personal Advice only.

Consideration should be given to the relative benefit of any new name, vis-a-vis the cost and effort that would be required in helping Australians understand the practical meaning and the significant cost in training and documentation changes required on the part of institutions and individual advisers. Costs could be reduced by ensuring adequate transition timeframes by incorporating changes as part of planned update cycles.

CommBank would welcome more legal certainty between personal and General Advice (that is, where customer conversations begin to enter the realm of Personal Advice), including where advice is given on single or a more limited set of issues at the customer's request.

CommBank's preference is for greater scope and certainty around what is possible under General Advice and in delivering limited or single issue advice.

Proposal to extend scope of financial advice to include some credit products

CommBank appreciates the intent of proposals which aim to increase competition in the way consumers receive advice about lending products, for example through alternatives to mortgage brokers. Presently, only a very small number of advisers who provide financial advice under CommBank's licences are both financial advisers and are also authorised to provide credit advice through a credit licensee.

CommBank supports the inclusion of credit as an option for licensed advisers as it can help facilitate clients and their advisers engaging in conversations on a broader range of financial needs, and on topics which naturally complement each other (for example debt management and savings).

Such a change would inevitably result in the need for integrated businesses such as CommBank to invest additional resources to implement this measure, relating to additional training, the updating or addition of customer documentation, costs for research relating to product selection, system updates or access changes to provide more information to advisers, and the need to prepare additional distribution agreements. Overall, however, depending on how the change is implemented (for example consolidating licence obligations) there may be long term regulatory cost savings.

Currently a client-adviser conversation flow can be affected by a hesitation by the adviser not to delve into any realm of credit that at times may be critical in managing cash flow or finding funding sources (for example using reverse mortgages as an approach to unlock liquidity) for the client.

Any new rules in this area should continue to recognise differences in the way recommendations relating to credit products are regulated compared with other (wealth related) products and services.

It will be important that Government and industry work closely together to develop the details of this proposal as it develops to ensure any unintended consequences are avoided. CommBank is available to work with the appropriate bodies to develop detailed requirements.

Response to Information Requests

Information Request 12.1 Should the scope of financial advice be increased to include some credit products?

- As discussed above, CommBank supports the inclusion of credit as an option for licensed advisers as it can help facilitate clients and their adviser's engaging in conversations on a broader range of financial needs, and on topics which naturally complement each other (for example debt management and savings).

Information Request 12.2 Should General Advice be renamed to avoid customer confusion?

- As discussed above, CommBank supports the intent of the Commission's recommendation to rename General Advice to improve customer understanding, however encourages any changes through the consideration of this proposal to avoid unintended consequences that could be detrimental to consumers accessing advice and guidance to meet their needs.

Cross reference of Draft Recommendations

Draft Recommendations	CommBank's response	Page #
DR 4.1 Reducing regulatory barriers to entry and expansion	Supports in principle	38
DR 7.1 A proportionate approach to risks non-ADIs pose	Unopposed	34
DR 7.2 Building an evidence base on integration	Unopposed	16
DR 8.1 Duty of care obligations for lender-owned aggregators	Does not support	53
DR 8.2 Mortgage broker disclosure requirements	Supports in principle	54
DR 8.3 Collection of home loan interest rate data	Unopposed	58
DR 8.4 Interest rate transparency for home loans	Does not support	58
DR 8.5 Lenders mortgage insurance refund	Unopposed	59
DR 9.1 Standardised risk weightings for SME lending	Supports in principle	34
DR 10.1 Review regulation of purchased payment facilities	Supports in principle	38
DR 10.2 Making the ePayments code mandatory	Supports in principle	38
DR 10.3 Ban card interchange fees	Does not support	49
DR 10.4 Merchant choice of default network routing	Supports in principle	50
DR 10.5 Access regime for the new payments platform	Unopposed	43
DR 11.1 Comparative pricing information on insurance renewal notices	Unopposed	62
DR 11.2 Transparency on insurance underwriting	Supports in principle	62
DR 11.3 Phase out distortionary insurance taxes	Supports in principle	63
DR 12.1 Rename General Advice to improve consumer understanding	Supports in principle	66
DR 13.1 Data access to enable switching	Supports in principle	43
DR 14.1 Deferred sales model for add-on insurance	Supports in principle	62
DR 15.1 Statements of expectations for regulators	Supports in principle	30
DR 16.1 Review standardised risk weights for residential mortgages	Supports in principle	34
DR 17.1 New competition functions for a regulator	Supports in principle	30
DR 17.2 Transparency of regulatory decision making	Supports in principle	31
DR 17.3 Robust and transparent analysis of macro-prudential policies	Supports in principle	31

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Cross reference of Draft Findings

Draft Findings	CommBank's response	Page #
DF 2.1 Key Features of workable competition in the Financial system	Accept	9
DF 2.2 Competition and stability must co-exist	Note	30
DF II.1 State of competition in the financial system	Reject	28
DF III.1 Consumers capacity to put competition pressure on providers is often limited	Reject	42
DF 3.1 The major banks oligopoly power	Reject	19
DF 4.1 A Consolidation in Banking	Accept	20
DF 4.2 Foreign banks remain predominantly niche operators	Reject	39
DF 4.3 Most FinTechs are focusing on less regulated services	Reject	38
DF 4.4 FinTech collaboration and competition	Reject	39
DF 5.1 Cost of funds for different size banks	Reject	17
DF 6.1 Cost of APRA interventions on home loans	Reject	31
DF 7.1 Consolidation in asset management and financial advice	Note	66
DF 7.2 New rules costly for non-ADIs	Accept	34
DF 8.1 Interest rates from brokers vs other channels	Reject	53
DF 8.2 Cost of home loans through brokers vs branches	Note	52
DF 8.3 If you have a high loan to value ratio, you are probably paying for it twice over	Reject	59
DF 10.1 The new payments platform could do more to ease customer switching	Accept	44
DF 11.1 Market power in general insurance provision	Accept	62
DF 11.2 Consolidation of general insurers	Accept	62
DF 13.1 Mortgage broker commission structures weaken consumer switching	Reject	53
DF 13.2 Tick and flick has not been effective	Accept	42
DF 15.1 APRA not well placed to consider competition in the financial system	Note	31
DF 16.1 Ratings agencies exacerbate the perception of 'too big to fail'	Reject	22
DF 16.2 The four pillars policy is redundant	Reject	23

Cross reference of Information Requests

Information Requests	Page #
IR 4.1 Should ASIC's regulatory sandbox be extended?	39
IR 7.1 How will prudential standard APS 120 affect you?	35
IR 8.1 How should new duty of care obligations for lender-owned aggregators be implemented?	55
IR 8.2 Should consumers pay broker fees for service?	55
IR 8.3 Are changes needed to lenders mortgage insurance?	59
IR 10.1 How should liability for unauthorised transactions be shared?	39
IR 12.1 Potential to increase the scope of financial advice to include some credit products	68
IR 12.2 Renaming General Advice and merits of further changes	68
IR 13.1 To what extent does holding multiple accounts reduce or enable switching?	44
IR 13.3 What red tape barriers to switching persist?	55
IR 13.2 Is there a rationale for the structure of mortgage broker commissions?	45
IR 16.1 Where can IRB accreditation processes be improved?	35
IR 17.1 Which regulator should advance competition in the financial system?	32

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Glossary

ABA	Australian Banking Association
ACCC	Australian Competition and Consumer Commission
ADI	Authorised Deposit-taking Institutions
AHL	Aussie Home Loans
AIA	AIA Australia
APL	Approved Product List
AML	Anti-Money Laundering
ANZ	Australia and New Zealand Banking Group
APRA	Australian Prudential Regulation Authority
APS 120	Prudential Standard APS 120 Securitisation
ASIC	Australian Securities & Investments Commission
Australia's Major Banks	Australia's four largest banks: ANZ, CommBank, NAB, WBC
Basel III	Set of reform measures developed by the Basel Committee on Banking Supervision
BMO	Bank of Montreal
BoA	Bank of America
BPAY	Electronic bill payment system
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFR	Council of Financial Regulators
CIBC	Canadian Imperial Bank of Commerce
Citi	Citibank
CMA	Competition and Markets Authority (UK based)
CommBank	Commonwealth Bank of Australia's Australian operations (unless otherwise specified)
Consumer	Retail banking customer
Core Europe	UK, Germany, France and Belgium
CTF	Counter Terrorism Financing
EFTPOS	Electronic Funds Transfer Point of Sale
EMV	Europay, Mastercard, Visa
FCA	Financial Conduct Authority (UK based)
FinTech	Financial technology; or start-ups / SMEs innovating within financial technology
FOFA	Future of Financial Advice
FSI	Financial System Inquiry
FY	Financial Year
GFC	Global Financial Crisis
Government	The Government of Australia
HSBC	Hong Kong and Shanghai Banking Corporation Limited
IRB	Internal ratings-based
JPM	J.P. Morgan
KYC	Know your customer
LIE	Loan Impairment Expense

LMI	Lenders Mortgage Insurance
LVR	Loan to Value Ratio
MFI	Main Financial Institution
NAB	National Australia Bank
NDA	Non-Disclosure Agreement
NIM	Net Interest Margin
NPP	New Payments Platform
NPPA	NPP Australia, the company that oversees the build and operation of the New Payments Platform
OECD	Organisation of Economic Cooperation and Development
OSP	Overlap Service Provider
PEXA	Property Exchange Australia Ltd
PIN	Personal Identification Number
PNC	PNC Financial Services
POS	Point of Sale
PPF	Purchased Payment Facility
RBA	Reserve Bank of Australia
RBC	Royal Bank of Canada
RBS	Royal Bank of Scotland
RegTech	Regulatory technology
ROE	Return on equity
Schemes	Payment networks such as Mastercard and Visa
Sedgwick	Review into product sales commissions and product based payments in retail banking in Australia which was conducted by Mr Stephen Sedgwick
SME	Small to medium-sized enterprise
StanChart	Standard Chartered Bank
TD	Toronto-Dominion Bank
Treasury	The Treasury of Australia
UK	United Kingdom
USA	United States of America
WBC	Westpac Banking Corporation

TAB 7: Exhibit CBA-1

Commonwealth Bank

Commonwealth Bank of Australia
ABN 48 123 123 124

Submission to the Productivity Commission Inquiry on Data Availability and Use

1. Executive summary

1.1 The importance of data to the Commonwealth Bank

The Commonwealth Bank of Australia Group (**Commonwealth Bank**) is one of the world's leading financial institutions and a key contributor to the Australian economy. The Commonwealth Bank welcomes the opportunity to provide input into the Productivity Commission Inquiry into Data Availability and Use (**Inquiry**).

The focus of the Inquiry is a matter of significant importance to the Commonwealth Bank. Data is a core enabler for every aspect of our business, from credit decisioning for small businesses, to valuing properties for first home buyers. Accurate and secure financial data is vitally important and underpins customers' financial wellbeing. Reliable data not only permits business and individuals to structure their affairs, it is critical in enabling Australian businesses and communities to access timely finance.

The Commonwealth Bank recognises this and commits material, sustained funding to secure and maintain its data assets. The level of investment in data technology and cyber security has steadily grown, reflecting the value that the Commonwealth Bank places in the data it holds to provide better services to its customers, and the systemic importance of data to building and maintaining trust in the financial services sector.

Realising the gains from innovation in financial services will depend on companies investing and partnering where this is commercially sustainable and continues to provide the levels of security, privacy and reliability that consumers expect. Without the ongoing policy settings to encourage this investment Australia will be at risk of falling behind in financial services innovation to global peers.

1.2 The Commonwealth Bank supports growth and innovation

The Commonwealth Bank supports the government's focus on innovation which reflects its own values as an organisation. The Commonwealth Bank has been consistently recognised as one of the country's most innovative companies and strongly believes that innovation helps deliver on its vision of securing and enhancing the financial wellbeing of people, businesses and communities.[1]

In relation to use of data, the Commonwealth Bank has consistently adopted a position that seeks to strike the right balance between meeting the needs of the innovation economy and protecting

[1] Commonwealth Bank was ranked as one of BRW's 50 Most Innovative Companies in 2013 (2nd), 2014 (6th) and 2015 (15th). See also Appendices A and B to this Submission for a list of innovation awards received and examples of innovations that Commonwealth Bank has released in recent years

customer privacy and security. The Commonwealth Bank's submission to the Financial System Inquiry included a commitment that:[2]

> *Commonwealth Bank strongly supports a more cooperative approach between government and industry in the use of data.*
>
> *To meet the needs of customers Commonwealth Bank must maintain their trust. As such, policies on data use must recognise the foremost importance of strong security and protecting customer privacy. Important principles are that data be appropriately aggregated and anonymised, and that customers have the right to opt-out from their data being provided to third parties.*
>
> *Any approach that mandates government access to data, or creates additional regulatory obligations for the private sector in relation to its data, must recognise that private enterprises invest in building, maintaining and protecting data for the primary benefit of their customers*.

1.3 There is no need for regulatory intervention

The Commonwealth Bank is of the firm view that growth in innovation and a strong finance sector can be achieved without the need for additional regulatory intervention regarding data access. This submission draws the Commission's attention to two key considerations.

Firstly, customers' needs in relation to data are already well-served by their financial services providers. Existing privacy laws provide individuals with clear enforceable rights to access their own data. The Commonwealth Bank in particular gives its customers free tools to access, manage and extract their financial transaction data in a secure manner. Introducing a framework that permits broad access to customer data by third parties creates privacy and security risks which customers may not be able to understand or control.

Secondly, apart from the fact that Australians have existing legal rights to access their data and have the benefit of offerings such as the Commonwealth Bank's technology to extract their financial transactions, the finance sector has been proactively driving innovation for the benefit of customers. Financial services providers such as the Commonwealth Bank have a strong track record of creating innovative offerings through internal development.[3] In addition, the finance sector has produced a number of strategic partnerships involving established market participants and new entrants working together to drive innovative collaboration. These developments occur without the need for regulatory intervention.

To date, an industry led, co-operative model has been an effective environment for providing Australian consumers with world class innovative financial services products.

1.4 Mandating open data access may reduce incentives to innovate

The Commonwealth Bank's view is that over-regulation of data access rights could in fact be counter-productive and also potentially damaging to innovation in Australia.

The Commonwealth Bank, like many other major financial institutions, has invested significant operational resources in establishing, maintaining and securing its data assets. Those data assets are a fundamental part of the Commonwealth Bank's business model and allow it to use that data safely and appropriately to assist its customers with their financial wellbeing needs. Indeed, if government

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[2] Commonwealth Bank Submission to Financial System Inquiry, Final Report (March 2015)
[3] See the Appendices A and B to this Submission for a list of innovation awards received and examples of innovations that Commonwealth Bank has released in recent years.

were to compel open access to customer financial data, this would devalue the industry's investment in data and act as a disincentive to ongoing investment.

2. Recommendations regarding the availability of private sector data

The Commonwealth Bank is supportive of the aims of the Inquiry and welcomes an economy (and a finance sector) where innovation is rewarded. The Commonwealth Bank agrees with the distinction that the Commission has made between 'data' and 'information'. Any discussion in this paper regarding access are limited to 'data'.

The Commonwealth Bank proposes that the Commission consider the following three recommendations which, taken together, will ensure policy-makers strike the right balance in this challenging space.

Recommendations

Recommendation 1 – Avoid mandatory open data access
In the finance sector, private sector datasets should not be subject to mandatory open access. Rather, data-sharing arrangements should be driven by market forces.

Recommendation 2 – Protect customer interests
Existing regulations and customer protections must continue to apply. Privacy considerations should remain a priority and policy-makers should continue to ensure clarity around the allocation of liability for security and use of data.

Recommendation 3 – Work collaboratively with industry
Recognising the Commission's desire to develop an approach which balances the government's innovation agenda with protecting customer rights and continuing to incentivise private sector investment, we recommend any approach be developed collaboratively with industry.

2.1 Recommendation 1 – Avoid mandatory open data access

The Commonwealth Bank recommends that data-sharing arrangements for private sector datasets should be driven by market forces.

2.1.1 Customers already have the right to access their data

For over 10 years, customers of the Commonwealth Bank have had the ability to extract their financial transaction data into CSV files. This functionality, which is provided free of charge, enables customers to access data in the Commonwealth Bank's secure NetBank environment and download data for their own use.

It is unnecessary to mandate open access to financial transaction data when this sort of functionality is already freely available and provides customers with control over their own data. The experience in the United Kingdom with its 'open banking' standard[4] shows that attempts to impose additional regulation around access to data have progressed slowly. In the UK, for instance, practical challenges with data sharing have led to banks largely reverting to providing data via CSV files, an offering which the Commonwealth Bank already makes available in Australia.

[4] The UK Government has committed to implementing an open banking standard to facilitate data access and sharing. Recent statements indicated that the Government was willing to legislate to mandate compliance by 2017.

The Commonwealth Bank believes that Australia has an opportunity to learn from the experiences of policy-makers in other jurisdictions. In particular, this paper recommends that government recognise the initiative of organisations like the Commonwealth Bank who already provide customers with free access to their data and refrain from regulatory intervention that potentially cuts across these activities.

2.1.2 Fostering innovation through partnership

The Australian finance sector has a strong track record of partnerships between established market participants and start-ups to better meet the needs of businesses and customers. Those partnerships, which often involve a sharing or 'pooling' of data assets, are important enablers for start-up organisations and have driven innovation that ultimately benefits consumers and the economy.

The Commonwealth Bank is an active participant in this market. Importantly, it is the Commonwealth Bank's practice to perform comprehensive checks to ensure that its partners share its values, its commitment to security and its focus on customer financial wellbeing. Where a partnership involves customer data being made available to a third party, the Commonwealth Bank will perform due diligence on the third party, ensuring it imposes legally binding security obligations and performs audits of its partner's security practices.[5] The Commonwealth Bank's approach enables customer-centred innovation without compromising on customer security and privacy.

The Commonwealth Bank believes that voluntary, market-driven partnerships produce the best outcomes for customers and the economy. This philosophy is evident in other markets. The US Office of the Comptroller of the Currency recently released a discussion paper in relation to innovation in the US banking system.[6] The paper observes the benefit of "strategic and prudent collaboration" without calling for mandatory sharing of banking data.

New Zealand policy-makers have established a framework to mandate sharing of public sector data through initiatives such as the Open Government Data Framework.[7] Sharing of private sector data remains largely unregulated, with New Zealand policy-makers trusting market forces to create data sharing opportunities that protect commercial investment whilst at the same time serving customer interests.

Case Study
Fostering innovation through partnerships: Recent examples

The Commonwealth Bank has a history of seeking out partnerships with third parties to deliver benefits to customers. We carefully select partners who enable us to produce innovative offerings for customers, while sharing our values around customer privacy and protection.

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[5] Commonwealth Bank's security assessment process contains a mix of regulatory, proprietary and industry thresholds, including evaluating the maturity of the partner's Information Security Management System (ISMS) against the ISO27001 & NIST information security standards. A full assessment can involve up to 6 weeks' work to ensure customer data is protected.

[6] "Supporting Responsible Innovation in the Federal banking System: An OCC Perspective" Office of the Comptroller of the Currency, March 2016.

[7] New Zealand's approach has been recognised as amongst world's best practice in relation to open access to public data. https://www.ict.govt.nz/programmes-and-initiatives/open-and-transparent-government/

Xero

Xero is one of the leading online accounting software providers to Australian small businesses. Xero's software enables small business owners and their accountants to manage their business accounts on desktop and mobile, managing cash flow, invoicing, payroll and other functions.

Since 2012, the Commonwealth Bank has been providing small business customers access to the Commonwealth Bank transaction data within the Xero online environment. Both the Commonwealth Bank and Xero have committed to the success of this partnership by investing in technical infrastructure to support sharing of data in a secure and efficient manner. Data is only supplied upon the express consent of the customer and no log-in or password credentials are disclosed.

In 2016, the partnership was expanded to enable a fully digitised set-up process and enhanced data feeds. Within the first few weeks launching new capabilities, thousands of customers have signed up for the service, affirming that there is customer demand for this type of co-led innovation.[8]

OnDeck

In 2015, the Commonwealth Bank partnered with OnDeck a leading online lender to small businesses. The partnership involves a referral program that identifies and refers small business customers that might otherwise be unable to access financing with the Commonwealth Bank.[9]

By proactively sharing data in this way, the Commonwealth Bank and OnDeck are able to support important growth in the small business market whilst also providing commercial returns for both parties. The partnership was recognised at the inaugural Australian Fintech Awards in 2016 where the Commonwealth Bank received the award for the best Fintech-Bank Collaboration of the year.

2.2 Recommendation 2 – Protect customer interests

This paper recommends that the Commission re-affirm the importance of existing regulations and customer protections. These considerations – which would include privacy, security and clear rules around liability – should be prioritised.

2.2.1 Engendering customers trust

Customers entrust their data to the Commonwealth Bank, which carries with it an expectation of security and privacy, the central tenets that underlie customer trust.[10]

To maintain this trust, the Commonwealth Bank has established extensive measures to assure security of customer data.

- The Commonwealth Bank has established a broad range of Security Standards that address every step of the data life-cycle, from collection through to storage and use, and even secure

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[8] "*Xero and Commonwealth Bank beef-up their small business links*" Australian Financial Review 12 July 2016.
[9] See "*CBA does referral deal with OnDeck*" in Sydney Morning Herald 17 December 2015.
[10] Australians place a high level of trust in their financial institutions. In Deloitte's Australian Privacy Index 2016, Banks were ranked first as the most trusted industry, and five of the top ten most trusted organisations were from banking and finance.

destruction. These standards include a set of 'Security Non-Negotiables' which are practices that the Commonwealth Bank insists are followed whenever customer data is handled.[11]

- In addition to Security Standards, the Commonwealth Bank has extensive policies and processes designed to ensure compliance with applicable regulations, such as privacy laws, credit reporting frameworks and TFN regulations.[12]
- The Commonwealth Bank recognises online threats as a significant and growing area of concern and commits significant financial and operational resources to maintaining and enhancing its cyber security framework. The level of investment reflects the vast amounts of data that the organisation is responsible for, and also its role in contributing to stability in the Australian economy.
- For its retail banking customers, the Commonwealth Bank offers a '100% Security Guarantee'.[13] Under this Guarantee, customers are assured that the Commonwealth Bank will fully cover their financial loss as a result of unauthorised online transactions (provided the customer has taken steps to also protect their client number and password).

Protecting the data security of customers is critical to the Commonwealth Bank's reputation and maintaining the trust of its customers. This trust between financial services provider and customer is fundamental to an efficiently functioning finance sector.

2.2.2 Financial wellbeing

In addition to basic banking services and financial products, the Commonwealth Bank aims to provide its customers with resources to help them enhance their financial wellbeing. To do this, the Commonwealth Bank uses both in house and external expertise to produce insights and enhanced services to ensure that its customers continue to see it as an important partner in their financial wellbeing. The bank does this with tools such as notifications to provide customers information about their financial status as well as alerts to then encourage sustainable spending habits. Given its role as a key partner in our customers' lives, the Commonwealth Bank is deeply motivated to perform this role in a manner that protects customers' privacy and security.

In addition, the Commonwealth Bank has a range of controls designed to ensure broad stakeholder engagement. A comprehensive set of policies coupled with multiple levels of organisational governance encourage decisions that are customer-centric and values-driven. In addition, the Commonwealth Bank is highly regulated with a strong focus on its prudential obligations.

2.2.3 Compelling access undermines trust

Protecting consumer rights and maintaining trust is a key feature of Australia's legislation and also central to the Commonwealth Bank's vision and values. The Commonwealth Bank is firmly of the view that these principles outweigh the perceived benefit of open data access. Indeed, compelling access to customer financial data challenges the trusted relationship between financial services institutions and their customers in several ways.

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[11] Compliance with these standards would effectively affirm meeting Soc Type 2, ISAE 2 standards.
[12] The Commonwealth Bank is compliant with the Privacy Act and Australian Privacy Principles and recently passed assessment by the Privacy Commissioner. The Bank's Privacy Policy is publically available to customers and governs our credit reporting framework.
[13] The guarantee is honoured subject to certain conditions in relation to customers also taking reasonable steps to protect their own security. See https://www.commbank.com.au/security-privacy/netbank-security.html

- **Customers lose control.** By expanding access to third parties, customers potentially lose control over their data. This can lead to negative customer outcomes if customers are not involved in decisions around the use of their own data and financial wellbeing – for instance, customers should not be targeted to switch to less beneficial products or subjected to unnecessary marketing or 'spam' and their data should not be on-sold or exploited with no value add or benefit to the customer.
- **Liability is unclear.** Customers of the Commonwealth Bank have clear assurances in the form of a 100% Security Guarantee, which is supported by the provisions of the ePayments Code. If data is shared with third parties which do not offer the same level of protection, this exposes customers in the event of fraud and also puts at risk the ability of the Commonwealth Bank to continue to offer this level of assurance.
- **Security standards are compromised.** If data is shared amongst parties with different levels of security controls that data is immediately exposed to the vulnerabilities of the party with the lowest security. This could result in increased fraud, identity theft and disputed payments and could ultimately erode confidence in the financial system we take for granted in Australia (not to mention increasing costs for the entire industry, some of which may ultimately be borne by the customer). The Commonwealth Bank believes these high standards are non-negotiable and financial services organisations should be encouraged to enter commercial arrangements with partners who have similar commitments to and investment in the infrastructure and systems to maintain these standards.
- **Avoid misuse of data.** On top of ensuring security is not compromised, it is important to avoid data being misused in scenarios where there is little benefit to the customer. Mandatory access to data can erode this trust if parties who do not have adequate controls and customer-centric values are provided with broad access to customer financial data.

The Commonwealth Bank believes the decision around data access and the applicable controls should sit with the affected customer and the person with the primary relationship with that customer. It is the Commonwealth Bank's view that financial services providers are well placed to protect customer interests. Institutions like the Commonwealth Bank hold a responsibility to protect their customers' data and have, over time, developed comprehensive processes to address the risks described above. Those processes include ensuring customer consent is captured and respected, and maintaining ongoing compliance with privacy regulations.

Case Study
Engendering customer trust through the 100% Security Guarantee

In May 2016, the Commonwealth Bank customer Mr S, was a victim of malware which found its way onto Mr S's computer system. When attempting to make a NetBank transfer, the malware altered the payment destination, resulting in $38,394.36 being transferred out of his account without his authority.

Mr S had taken reasonable measures to protect his client number and password. The Commonwealth Bank worked with Mr S and ultimately he was able to rely on the 100% Security Guarantee. The Commonwealth Bank resolved the matter by reimbursing Mr S the full amount of his loss.

100% SECURITY GUARANTEE

The safety of your money is 100% guaranteed.

This means we'll cover any loss should someone make an unauthorised transaction on your account using NetBank – provided you protect your Client number and Password, and immediately notify us of the loss, theft or misuse of your password and of any suspicious activity on your account. Report suspicious activity on your account by calling 13 2221 option 4 (24 hours a day, 7 days a week).

There are other customers who enter into arrangements with data aggregators, whereby their access credentials are shared and their data exported outside the Commonwealth Bank's secure NetBank environment. Where loss occurs in those instances, the 100% Security Guarantee may not be available.

2.3 Recommendation 3 – Work collaboratively with industry

The need for ongoing innovation in the Australian economy is already well-served through creative endeavours generated by existing market participants. The Commonwealth Bank is proud of the role it has played in bringing key innovations to the Australian economy.[14] Innovation has also been generated through partnerships between existing market participants and start-ups, with market forces naturally incentivising co-creation to serve a customer need.

If the Commission wishes to explore other alternatives to broaden access to private sector data, the Commonwealth Bank recommends that further consultation be conducted to agree:

- the datasets where increased access might be justified – it is this submissions view that these would be basic datasets at most;
- the controls that should be applied before access is permitted – it is this submissions view that several controls should be considered taking into account both customer consent as well as the organisational controls desirable to ensure data integrity; and
- ways to ensure that private firms have commercial incentives to invest in data assets – the financial commitment in maintaining and securing data is significant.

This consultation and analysis should be done at an industry level, involving a cross-section of market participants. Because of the scale, nature and characteristics of data held by financial institutions, the Commonwealth Bank believes that the finance sector carries a level of complication that justifies special consideration.

4. Conclusion

The Commonwealth Bank supports the government's focus on innovation and advocates for a policy framework that recognises the significant investment and innovation by Australian companies in data access, transformation and analysis. This submission recommends that the focus of a successful framework should be on encouraging investment in innovation and market mechanisms to facilitate voluntary co-operation, and not on further regulatory intervention.

[14] A list of recent awards is set out in the attached Appendix.

Australia has strong consumer protections, privacy and security mechanisms. The Commonwealth Bank recommends the Commission use the opportunity of the Inquiry to re-affirm the importance of these considerations.

The Commonwealth Bank would welcome the opportunity to speak further with the Productivity Commission in relation to any aspect of this submission.

APPENDIX A

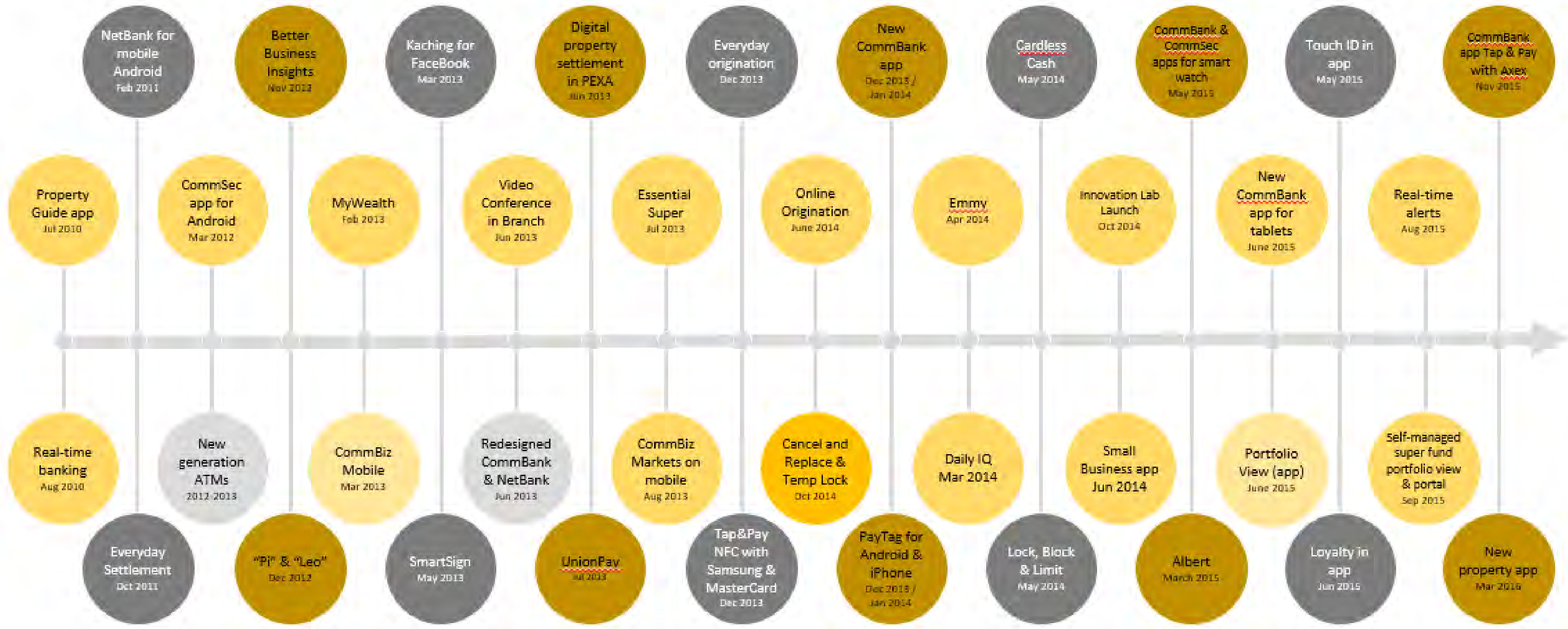
COMMONWEALTH BANK AWARDS

List of Independent Awards (2014 to 2016 only)

2014	-	BRW Commonwealth Bank 6th most innovative companies 2014
	-	Mobile App Design Awards 2014 Winner for Commonwealth Bank Mobile App
	-	CANSTAR Innovation Excellence – MyWealth
	-	CANSTAR Innovation Excellence Tap & Pay
	-	AB&F Best Innovative Retail Banking Product – Tap & Pay
	-	AB&F Best Innovative Card & Payment Product – Tap & Pay
2015	-	BRW Commonwealth Bank 15th most innovative companies 2015
	-	Money Magazine's Best Innovative Banking App of the Year
	-	Money Magazine's Banking Website of the Year
	-	CANSTAR Innovation Excellence 2015 ("Cardless Cash" and "Lock, Block and Limit")
	-	National iAward for Best Consumer Product – Commonwealth Bank Mobile App
	-	CANSTAR Innovation Excellence – Daily IQ
2016 (to date)	-	CANSTAR Award for Online Banking
	-	AB&F Award for Innovative Card & Payment Product of the Year
	-	Fintech-Bank Collaboration of the Year at the Australian Fintech Awards

APPENDIX B – COMMONWEALTH BANK AWARDS

Timeline of New Product Launches



TAB 8: Exhibit CBA-1

30 November 2018

Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

Via Email: nppsubmissions@rba.gov.au

Re: New Payments Platform Functionality and Access Consultation

The Commonwealth Bank welcomes the opportunity to provide a submission to the Reserve Bank of Australia. The Bank has contributed to submissions by AusPayNet, BPAY Group and NPPA and supports each of these submissions.

1. Accessibility

CommBank supports the current range of access levels available to new participants to connect to the central infrastructure. We are supportive of reviews to further open access at the appropriate time.

2. Functionality

CommBank supports the ongoing development and enhanced functionality of the NPP. CommBank is supportive of the ongoing rollout of OSKO services and of the NPP API sandbox and API framework.

3. Governance

CommBank is confident that the governance arrangements in place for NPPA, – including two independent directors (one of whom is the chair), the CEO of NPPA and RBA representation on the board, provide a structure to manage any conflict of interests.

The Commonwealth Bank would welcome the opportunity to discuss this submission with you.

Yours Sincerely,

Lynda McMillan

Head of Payments Representation

TAB 9: Exhibit CBA-1

CommonwealthBank
Commonwealth Bank of Australia
ABN 48 123 123 124

Level 2
1 Harbour St
Sydney NSW
2000

GPO Box
2719
Sydney

Telephone: 0437690469

Email:
michael.baumann@cba.com.au

28 March 2019

Dr Tony Richards
Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

By Email to: *PYSubmissions@rba.gov.au*

Dear Dr Richards,

Consultation on "The Operation of the Interchange Standards, February 2019"

Commonwealth Bank of Australia (CBA) appreciates the opportunity to contribute to this consultation. CBA supports in principle the majority of the proposals in the Consultation Paper. We agree that greater clarity about the interpretation of the standards will be beneficial to improve understanding of, and compliance with, our obligations. However, we have concerns that the drafting of the amended standards, in attempting to increase clarity, could now be interpreted as unintentionally restrictive. We predict challenges particularly in relation to issuers partnering with or entering into arrangements with schemes in relation to non-core value-add services, as schemes increasingly compete with other service providers in expanded lines of business. CBA would be happy to provide case studies to illustrate these issues when we meet with the RBA on 2 April 2019.

CBA considers that the 'incentive test' should be stringently applied when considering the relevance of fees, payments, 'pass throughs' and other forms of benefits to avoid capturing unrelated transactions which could lead to the unintended consequences of hindering efficiency and competition in the Australian payments system and related markets.

CBA estimates that the implementation and ongoing reporting of compliance with these Standards annually would amount to approximately 82 hours of additional work across Compliance, Finance, Risk and Senior executives.

The Issues Paper seeks the views of stakeholders on a number of proposals. These are addressed below.

Proposal 1: ***The Bank's Standards No. 1 and No. 2 of 2016 would be modified to require an accrual approach to be used to allocate Issuer Receipts and Issuer Payments to, or between, reporting periods in a manner consistent with the purpose and intent of the***

standards, such that in determining net compensation certifying entities have more scope to draw on information from financial accounts prepared in line with generally accepted Australian accounting principles. Compliance would not be permitted on a cash or quasi-cash basis.

CBA supports this approach. An accrual basis more accurately reflects the underlying commercial substance of the contractual arrangements. This is because the payments would be reported in the same period as the corresponding underlying transaction.

Proposal 2: ***Clarify that 'Issuer Payments' are those payments made by issuers in relation to core services of a scheme.***

CBA in principle supports this recommendation however we have concerns that the wording of the definitions in Appendix A do not appear to reflect the intent of the changes as described in the Consultation Paper.

CBA appreciates the simplification of the proposed definition to restrict the standard to specifically 'payments' for core services and accepts the definition of Core Services as the 'minimum necessary services' for participation in a scheme. We agree that essential services should be distinguished from value adding options. However we do not consider that such services can be neatly classified into a discernible, standardised set of services assumed by the 'global provision test'.

CBA considers that the language in (c) of the definition of Core Services is open to an inadvertently prescriptive interpretation. Subsection (c), by imposing a 'global' standardised requirement appears to contradict subsection (a) which refers to the minimum necessary services for a participant in the Scheme <u>in Australia</u>. CBA therefore recommends subsection (c) is removed from the definition of 'core services'.

Additionally CBA suggests that this amended definition of 'core services' is applied uniformly to both 'Issuer Payments' and 'Issuer Receipts' to avoid creating a mismatch that could impact the outcome of the assessment.

Proposal 3: ***Remove references to 'Acquirer' from the definition of 'Issuer Payments' in the standards.***

CBA supports Proposal 3.

Proposal 4: ***Clarify the standards with the effect that where there is a price at which the supplier is regularly supplying relevant property or services, any discount or deduction from that price that meets the incentive test is a benefit to be included in Issuer Receipts.***

Proposal 5: ***Clarify the standards with the effect that where property or services are supplied and there is not a price at which the supplier is regularly supplying the relevant property or services, the benefit to be included in Issuer Receipts, subject to the incentive test, is the amount by which the fair value of the property or services exceeds what is paid for the property or services (and if nothing is paid, then the full fair value is to be included).***

CBA accepts that there is potential for cards schemes to funnel value to issuers through discounts and non-financial benefits agreed or paid in relation to agreements for non-core services.

However, there is a risk that separate arms-length arrangements for non-core services could be included in the definition of 'Benefit' and therefore 'Issuer Receipts' which could lead to unintended consequences, such as reducing competition by schemes for such related services.

In particular, agreements between issuers and schemes relating to non-core services, such as loyalty programs, or platforms to provide customers with merchant-funded offers, may include pricing that caters for volume discounts or incentives to permit investment in start-up initiatives that may not be for the purpose of incentivising issuers to prefer that scheme's cards or encourage spend on those cards, but instead to grow the scheme's non-core services business. These discounts or incentives might however have an effect of increasing spend on that scheme's cards (e.g. if the issuer/s involved in the platform happen to issue mostly that scheme's cards). These discounts or incentives should not however solely for that reason be included in the definition of 'Benefit'.

CBA seeks clarification of the Standard to ensure that arms-length negotiated discounts or incentives are not inadvertently captured under paragraphs (b) or (c) of the definition of 'Benefit'.

In practice we consider that Proposals 4 and 5 will present a number of challenges. The standards refer to 'list, standard, usual price' in an attempt to provide a benchmark from which a discount or reduction can be measured. However, in commercial reality there will be a number of difficulties in accurately quantifying such a 'price'. For example, economies of scale, first mover incentive considerations and bespoke service offerings that have been tailored to the needs of the Issuer would all make price comparison difficult.

Overly restrictive inclusion of payments, incentives or pass throughs within the definition of 'Benefit' may inadvertently give competitors of schemes an unfair advantage in negotiations with issuers, as well as further complicate accounting and reporting under the Standards.

Proposal 6: ***Clarify that the types of entity that an issuer can receive an Issuer Receipt from include associated entities of scheme administrators, drawing on the definition of Associated Entity in the Corporations Act 2001.***

CBA in principle supports the RBA's proposal to narrow the definition of Issuer Receipts to include only benefits provided directly or indirectly from a Scheme Administrator or any of its associated entities, with the definition of associated entity drawn from the *Corporations Act 2001*. For consistency we consider that a corresponding clarification should apply to Issuer Payments. However, CBA reiterates that the relevant benefits should only be included in Issuer Receipts if they meet the incentive test.

Proposal 7:
The Bank's Standards No. 1 and No. 2 of 2016 would be modified, such that for scheme-issuer arrangements where one entity sponsors another for a card-issuing arrangement, it is only the sponsoring issuer that is required to comply with the net compensation provisions.

CBA supports Proposal 7.

Proposal 8: ***Provide transition arrangements that allow, for the reporting period ending 30 June 2019 only, an issuer to choose whether to comply fully with current standard or fully with the revised standard.***

CBA supports Proposal 8.

CBA would welcome the opportunity to discuss this feedback at the meeting with the RBA on 2 April 2019.

Yours sincerely

Dr Michael Baumann
Executive General Manager
Everyday Banking
Retail Banking Services

[Signed]

TAB 10: Exhibit CBA-1

ISO 20022 MIGRATION FOR THE AUSTRALIAN PAYMENTS SYSTEM – RESPONSES AND OPTIONS PAPER – RESPONSE TEMPLATE

Name/Organisation: Commonwealth Bank

Organisation Category: RITS Member & FSS Participant

About these consultation questions:

The focus of these questions primarily relate to direct participants in Australian payments systems and will not apply to all that wish to respond to this public consultation. Notwithstanding this focus, the RBA and APC are open to receiving responses from all organisations (regardless of whether a response was submitted to the first Issues Paper in April 2019) and invite general comments in the last question.

2.2 Proposed project scope

1. Does your organisation agree with the proposed project scope, as set out in Section 2.2?

☒ Yes
☐ No

If no, please explain your view.

While CBA supports the proposed project scope, we consider that there is still value in exploring options to leverage the NPP rails to support an ISO 20022 compliant RTGS overlay as an alternative. The distributed platform design of the NPP means it is inherently protected from the risk of single point of failure.

Consolidation and simplification of the Australian payments clearing ecosystem is a foundational requirement for enhancing system resilience and incentivising ongoing investment in innovation. If the HVCS continues to run as a separate clearing system it will need to be aligned with how the domestic economy operates, as well as align with other jurisdictions.

2. Does your organisation support the introduction of an HVCS suite of investigation, dispute resolution, and reconciliation messages?

☒ Yes
☐ No

Should use of these messages be mandatory?

☒ Yes
☐ No

Please explain your view.

The HVCS standards are generally aligned with NPP. Standardised messages will support operational efficiencies and potentially improve customer experience. They should align with messages used in the HVPS+ or CBPR+ standards.

3.1 Summary of responses – Enhanced content

3. Does your organisation have any views regarding the use of structured data in payments messaging?

☒ Yes
☐ No

CBA supports the use of structured data in payments messaging. Structured data supports straight through processing. The data structure should be aligned to CBPR+ wherever possible.

3.2 Proposed message design enhancements

4. Does your organisation support the proposed message design enhancements, as set out in Section 3.2?

☒ Yes
☐ No

Please explain your view.

The proposed message design will facilitate interoperability and efficiencies with cross border payments. There needs to be migration/phasing in of these fields over time to align with SWIFT ISO 20022 migration timeframes.

4.1 Summary of responses – Migration strategy, timing and coexistence

5. Of the options canvassed in Box C, which domestic coexistence option(s) does your organisation support? Tick all that are applicable.

☒ Option 1 – Coexistence of separate SWIFT MT and ISO 20022 CUGs
☒ Option 2 – Coexistence of SWIFT MT and ISO 20022 CUGs and mandatory to receive ISO 20022
☐ Option 3 – Mandatory capability to send and receive ISO 20022

Please explain your view.

CBA prefers Option 2 however Option 1 may be a fall back alternative as the project progresses ie. The industry should start with Option 1 which allows some financial institutions to move faster and then migrate toward Option 2 (by an agreed date for receiving/sending ISO 20022).

6. For organisations that use the RBA's AIF service, does your organisation have any initial views on the proposed high-level approach for the use of the RBA's AIF service during the coexistence phase?

☒ Yes
☐ No

CBA receives a large number of these messages everyday (between 2,000 to 3,200). It is our understanding that SWIFT is not looking at including this message type as part of the ISO changes. There may be potential for issues in processing and reconciliation if these messages migrate to

ISO20022. CBA agrees with the approach, but would like to see co-ordination across the Industry on what ISO messages will be used to replace the MT198 messages.

4.2 Proposed migration approach

7. Does your organisation agree with the proposed migration approach (like-for-like with optional enhanced content, followed by mandatory enhanced content)?

☒ Yes
☐ No

Please explain your view.

The proposed migration approach will cater for banks that want to do all their ISO migration work simultaneously but also caters for those who want to utilise the co-existence period. Key lessons from the NPP experience indicates that sufficient time should be allocated to account for the planning, design, build and test phases. Migration approach will be influenced by the developments in major payment counterpart countries such as Europe and USA as this will determine how quickly these markets adopt fully enhanced ISO20022 for cross border payments. Australia should adopt a common approach to implementing fully enhanced ISO 20022 messages in the international context, including complementary target implementation dates.

8. Does your organisation support the proposed timeline for the migration project?

☐ Yes
☒ No

Please explain your view.

More industry planning is necessary to understand what is required before setting strict timeframes. The timeline will be determined by how quickly the global community adopts fully enhanced ISO for cross border payments.

5.2 Proposed governance structure

9. Does your organisation broadly support the proposed governance structure?

☒ Yes
☐ No

Please explain your view.

As the international and domestic programs are intertwined it will be important to have representatives on the Steering Committee that are able to provide insights on both international and domestic migration.

General feedback

Does your organisation have any general comments on an Australian ISO 20022 payments migration?
The RBA needs to be cognisant of the current and unprecedented demands on the Australian payments industry including major projects, and the need to enhance and modernise operations to keep pace with new technological advances. All of these changes touch the payment system and need to be carefully sequenced to minimise operational risk. Availability of the relevant resources is also likely to be an issue.

Privacy

Unless requested otherwise, published submissions will include contact details and any other personal information contained in those documents. For information about the RBA's collection of personal information and approach to privacy, please refer to the Personal Information Collection Notice for Website Visitors and the RBA's Privacy Policy.

TAB 11: Exhibit CBA-1

Commonwealth Bank

Commonwealth Bank of Australia
ABN 48 123 123 124

RESPONSE TO REVIEW OF RETAIL PAYMENTS REGULATION – ISSUES PAPER

The Commonwealth Bank (CBA) welcomes the opportunity to participate in the Review of Retail Payments Regulation. A review is timely given technological developments and changes in payments trends that warrant re-appraisal of the existing regulatory framework. With regard to the specific policy areas identified in the Issues Paper, CBA places particular emphasis on our positions in relation to further interchange regulation, digital wallets and the need for competitive neutrality of regulation.

In general, decisions to introduce new regulation should be guided by a number of broad principles. CBA supports measures that create competitive neutrality and a fair market. Regulatory design needs to be forward looking and technologically neutral to accommodate future innovation. While payments reforms in other jurisdictions can be a useful guide for domestic regulatory reform, it is important to differentiate the Australian payments system in order to understand whether overseas legislation is applicable or relevant to the Australian context. Unnecessary or inefficient regulation should be avoided and, consistent with the RBA's approach to payments regulation, should only be contemplated when the industry is unable to address a public interest concern. Indeed, we encourage the RBA to consider removing regulations which have served their purpose and offer little prospect of additional benefits, given the burden associated with monitoring and reporting on compliance. Finally, it is important that consumer outcomes are the primary consideration when pursuing efficiency in the payments system.

Developments in retail payments

Since the previous wide ranging review of the payments system in 2015-16, the payments landscape has undergone substantial transformation as a result of technological developments, innovation, new entrants and regulation that has been accompanied by changing consumer payment behaviours and expectations.

<u>CBA</u>

CBA understands the responsibilities of being Australia's largest payment provider. We have continued to lead and innovate in payments with a number of achievements since the previous review including:

- Significant progress in roll out of the NPP, with CBA accounting for the largest proportion of payments received and as of December 2019, third highest payments sent via NPP
- Expanded the access to digital wallets for retail and business customers
- Delivered next generation point of sale terminals
- Led the development and launch of BeemIt
- Issuing bonds for the World Bank utilising blockchain technology
- Wiise – empowering SMEs by combining accounting, payroll and banking
- Supported Transport for NSW to roll out contactless open loop payment on all public transport modes and continuing to support other states.

These initiatives demonstrate the proactive approach we take to delivering better outcomes for all of our stakeholders.

Regulatory reform

As the RBA has summarised in the Issues Paper, a number of regulations have been introduced since the previous Review, including the interchange standards in 2015-16, revised interchange standards in 2017 and the review of net compensation provisions in 2018-19.

The formation of the Australian Payments Council in 2015 has facilitated the industry working together with the RBA to achieve a number of additional policy objectives including a plan for the decline of cheques, a framework to address card not present fraud and digital identity. The industry has also collaborated to respond to RBA policy objectives with the development of the NPP and least cost routing (LCR).

These factors in combination have led to significant shifts in the market, which should inform any new regulatory reform.

Consultation questions:

Q1. What major recent or prospective developments in the broader payments industry are particularly relevant to this review? More specifically, are there any gaps in functionality available to end users or any shortcomings in industry governance or operating arrangements that require regulation or coordinated industry action?

The future role of cash, cheques and DE

Cash

CBA supports the RBA's view that the progression towards a less-cash society is a positive development that brings benefits of reduced cost, increased efficiency and choice, and an opportunity to better manage payments fraud and financial crime more generally. However, as the RBA Governor has previously noted, this transition is occurring relatively quickly and organically.

The Australian Payments Council's new strategic agenda will focus on proactive measures to ensure that the payment system continues to be inclusive and accessible as Australians shift towards digital payments. As well as actively managing the transition to 'less cash', it will be important to ensure that customers who prefer to use cash continue to be able to do so. At this stage, cash remains widely accepted and continues to be available via ATMs, bank branches, Bank @ Post and cash out @ POS.

Cheques

CBA supports the work of AusPayNet to manage the decline of cheques through collaboration with impacted stakeholders. We expect the AusPayNet industry consultation on the 'Future State of Australian Payment Systems' will provide a transition plan with a definitive end date for the retirement of cheques as a payment method. CBA considers that retirement of cheques over the period of 2025 to 2030 is an achievable aim. The reduction in cheque use has reached the point where processing cheques is now very expensive, whilst numerous alternative payment methods exist that are safe, efficient and increasingly accessible. The industry will need the support and the public endorsement of the RBA and relevant government agencies to progress this necessary step in modernising the Australian payments system.

Direct Entry

In the long term, the direct entry system should be retired as part of a broader rationalisation of payment systems over the period of 2025 to 2030. CBA supports AusPayNet's industry consultation on 'A Future State for Australian Payments Systems' to co-ordinate industry activity to reach this target. For the NPP to be a viable alternative to direct entry, particularly for bulk corporate payments, the costs of processing and settlement will need to become comparable to direct entry costs.

System resilience

CBA will continue to support the work of the RBA and industry in developing a standard set of operational performance statistics for individual institutions that is accurate, meaningful and does not undermine confidence in the payments system. System resilience is the responsibility of all participants in the payments ecosystem, including new entrants that rely on the existing infrastructure.

Regardless of its longer term future, direct entry remains an efficient and cost effective payments rail. CBA is therefore supportive of initiatives that are being undertaken by the industry to build resilience into the system - such as review of the current Community of Interest Network (COIN) that provides alternative network services and connectivity between payments participants.

However, a regulatory framework anchored around payments alone will be inadequate to build system resilience. The reliance of the payments industry on infrastructure such as telecommunications, water and electricity should not be understated. CBA considers the focus of the Australian Payments Council's current strategic agenda on the continuous identification, management and reduction of risks to payments system resilience will be essential for reliable electronic payment services.

Automated and recurring payments (including direct debits)

CBA agrees that cancellation or redirection of direct debit and other automated payment arrangements is not always straightforward. Customers view recurring payments via direct debit and recurring credit card payments as a similar service, even though these payment arrangements relate to parts of different clearing streams.

From a card schemes perspective, the International Card Systems already enable automated billing updates. In the future, tokenisation, while primarily a security measure, will offer a longer term solution for greater customer control over recurring payments.

However identification of recurring direct debits via Direct Entry continues to be challenging. Given the limited future of the Direct Entry system in the long-term, the industry should be cautious of overinvestment in capabilities around life cycle management of automated and recurring payments for direct debits. As reliance on Direct Debit is expected to reduce as payments progressively move over to the NPP, CBA considers that building this capability as part of the NPP Consent and Mandate service would be preferable to adding further complexity to BECS. The NPP Consent and Mandate service will give customers more control over how they establish, maintain and cancel recurring payments.

The impact of new technologies and new entrants

New market entrants and emerging business models have contributed to today's highly competitive financial services sector with numerous diverse providers that include traditional financial institutions, neo-banks, fintech start- ups and a growing range of global technology businesses. CBA believes there are opportunities for both banks and new entrants to partner and deliver innovative experiences for consumers. We have numerous examples of mutually beneficial collaboration with the FinTech community such as our partnerships with Whitecoat, Klarna and Wiise. Through these we have brought, and will continue to bring benefits more quickly to our customers.

Some new competitors take advantage of business models that are not subject to the same level of regulatory oversight as traditional business models. Based on international experience it is likely that many of these may consider expanding and differentiating the services they offer in the future. Any new risk and associated cost imposed upon the payments system is borne by its existing users and participants. Regulators must be vigilant in managing the risks introduced to the payments system by new and innovative payment offerings. Emerging products and services also need to be supported by appropriate consumer protection measures to prevent poor customer outcomes deterring widespread adoption of new and innovative solutions.

As a network industry, the reliability and sustainability of the payments system requires the involvement and collaboration of all participants. CBA supports AusPayNet's attempts to accommodate new participants in the payments system by offering tiered membership options. The payments landscape is becoming more diverse with a range of new participants utilising an increasingly burdened payments infrastructure. The industry will need to continue to develop tailored solutions to ensure the proportionate contribution by new entrants to help support the resilience, security and maintenance of the payments infrastructure that they use.

Domestic schemes & frameworks

While CBA recognises the potential efficiency gains from consolidation, efficiency should not be at the expense of consumer benefit, competition and innovation. CBA believes that the domestic schemes all have their individual place in the payment ecosystem. The existing arrangements encourage competition to facilitate differentiated customer propositions.

We do support the work of AusPayNet in establishing a working group that can consider all scheme priorities (domestic and international) and seek alignment where possible. The objectives of AusPayNet's Payments Review Committee are to manage the strategy and roadmap resulting from AusPayNet's Consultation on the 'Future State of Australia's Payment Systems'; and manage the development of functionality and governance across Australia's payment systems, to ensure efficiency and interoperability, for the benefit, and in the best interests, of end users.

Regulatory technology

CBA sees opportunity in driving and implementing regulatory technology ('RegTech') to streamline meeting our compliance obligations and ensure better customer outcomes. The use of RegTech will help prevent the recurrence of large remediation programs and help restore trust in the financial industry.

Q2: Are there aspects of retail payments regulation that lead to market distortions or that create opportunities for regulatory arbitrage? If so, what options should be considered as a means of addressing these? Are there gaps in the regulatory regime that need to be addressed or any elements where regulation is no longer required?

AusPayNet's self-regulatory model, supported by strategic direction from the Australian Payments Council and market mechanisms is working well to provide an innovative and consumer-focused payments landscape. Industry already has self-regulatory initiatives underway to manage payment clearing systems in the medium-to-long term on a number of the areas identified in the Issues Paper.

Regulatory arbitrage can be minimised by ensuring that payments regulation is competitively neutral and creates a level playing field. Domestic self-regulation is undermined when global participants (for example acquirers) do not adhere to AusPayNet standards or device certification.

In addition to the above, the ongoing disparity between bank issued four-party credit cards and those issued by three-party schemes such as American Express continues to hamper CBA's ability to effectively compete in important segments such as business and commercial customers and affluent consumers. The most recent interchange regulations which cap individual interchange rates for programs which are typically more expensive to maintain has led to a reduction in competition in the aforementioned segments, and should be reconsidered in this Review.

Q3: Are there barriers to innovation and/or competition that may affect the costs of or provision of electronic payments and should be addressed in this review?

It has been publicised that other central banks have started to assess the viability of digitising the fiat currency, particularly as the private sector (eg Libra) aims to move into this space. CBA requests the RBA to actively consider the steps required to ensure Australia is not left behind. CBA supports proactive measures to create the necessary conditions for the eventual proliferation of an eAUD and we are committed to working with the RBA and industry in relation to this emerging issue.

Q4: How do stakeholders assess the functioning to date of least-cost routing (LCR) of contactless debit card payments? Do additional steps need to be taken regarding LCR to enhance competition and efficiency in the debit card market?

The introduction of LCR has been effective in placing pressure on interchange fees to reduce costs of card acceptance for merchants, eliminating the need for any further regulatory intervention. The implementation of LCR functionality by industry participants (including CBA) in response to the RBA's concerns provides a positive example of the successful achievement of policy outcomes without resorting to regulatory action.

<u>CBA's solution: Merchant Choice Routing</u>

The CBA solution to Least Cost Routing (LCR) is called Merchant Choice Routing (MCR) and allows the Merchant to choose settings suited to their individual business circumstances. In general, all customers currently have the option of MCR as they either have an enabled device with MCR as a default, or if they don't, CBA will upgrade to an MCR enabled device at no cost when requested by a merchant.

We have published information about the availability of MCR (including on the Commbank website https://www.commbank.com.au/business/merchant-services/merchant-choice-routing.html) and intend to take further steps to raise awareness of this offering. At this stage a small proportion of merchants have taken up MCR, with interest predominantly from larger merchants.

In light of recent publicity[1] relating to unexpected consumer charges arising from LCR, the RBA should consider regulatory solutions to enhance consumer awareness of LCR and its potential implications, and ensure that consumers understand they have a choice as to how their transaction is routed, and how they can exercise that choice.

CBA has reservations regarding the Payment System Board's concerns that the needs of smaller merchants are not being met. In CBA's experience, customer research has consistently demonstrated that small merchants prefer the convenience of bundled plans or rates that remove ambiguity and simplify the process. This is reflected in the popularity of CBA's Simple Merchant Plan.

Simple Merchant Plan

CBA's Simple Merchant Plan provides customers with an EFTPOS terminal, transaction value and a settlement account with no monthly account keeping fee. This plan offers value for money and is the simplest plan available in the market.

The Simple Merchant Plan has been in place for 4 years and allows a merchant to use a facility at a fixed monthly cost inclusive of terminal rental, business transaction account and card turnover. The resounding popularity of this solution is due to its simplicity and alignment with other offerings such as mobile phone plans.

In addition, while CBA acknowledges the benefits of MCR to merchants, it should be recognised that the development and implementation of MCR has meant that other planned innovations that may have benefitted smaller to medium sized merchants have had to be deferred. It should also be noted that with the anticipated proliferation of digital wallet acceptance over time, the effectiveness of MCR will reduce as consumers can set the default for the contactless mobile token.

CBA cautions that the desire to maximise merchant savings needs to be balanced against consumer outcomes. LCR effectively removes consumer choice and transparency by overriding cardholder preference and limits customer access to the potential benefits offered by card schemes such as travel insurance and extended warranties.

Further, the Issues Paper states that the three schemes offer similar protections to cardholders in relation to fraudulent and disputed transactions. The EFTPOS centralised disputes and chargeback rules introduced in 2017 are relatively comparable to the card schemes with regards to card present transactions. However the EFTPOS chargeback process is largely untested in the ecommerce environment which is associated with higher fraud levels and chargebacks.

Q5: Have recent and prospective developments in technology changed the case for promoting the continued issuance of dual-network debit cards? What policy actions might be needed to promote competition and efficiency in an environment where single-network cards were more prominent? Alternatively, would it be desirable to mandate (or incentivise through interchange caps) that all debit cards issued enable at least two unaffiliated/competing networks?

CBA considers that dual-network debit cards should continue to be widely available. There are sufficient incentives in the market to continue issuing multi network cards and supporting the migration of their

[1] https://mozo.com.au/debit-cards/articles/shop-at-coles-you-could-now-be-charged-when-you-tap-and-go

functionality into tokenised mobile wallet environments. Unless the above conditions materially change, there is no case for further policy intervention.

Q6. Is there a case for further policy action to enhance competition in the provision of acquiring services to merchants? If so, what form could this action take?

From CBA's perspective, merchant acquiring is an inherently high risk business that is operating in an increasingly competitive market, evidenced by the addition of 10 new acquirers in the past 10 years. Traditional acquirers are facing low margins, an increasing cost base, a high cost of maintaining infrastructure and competition from new entrants who are able to leverage the existing payments infrastructure without the equivalent regulatory obligations.

Q7. Is there a case for greater transparency in scheme fee arrangements, including their effect on payment costs? If so, what form should this take?

In principle, CBA considers that fee transparency may be a positive feature of a payments system when disclosure is meaningful, useful and does not increase regulatory burden. However, based on the attempts in Europe to increase card payment transparency, such measures may not achieve the intended policy objectives. The European Commission introduced rules in 2015 and 2016 that aimed to increase transparency of payment costs with debit or credit cards to retailers and consumers and to allow them to make efficient choices.

From a technical point of view, the European Commission rules have been difficult to implement by acquirers. In many cases, implementation by acquirers has taken much longer than anticipated and even now, many of the larger merchants continue to lack the systems to check the validity of the new data that they receive. Smaller merchants appear to have preferred the simplicity of a single unit or ad valorem fee per transaction, and many have elected to opt out under the rules.

Additionally, the roll out of least cost routing, interchange and surcharging regulations, and the entry of 10 new acquirers into the market have combined to materially reduce acceptance costs for merchants and eliminates the need for additional regulation. Additional reporting obligations on fees in this context will be expensive, onerous and unlikely to provide any further benefits to consumers or smaller merchants.

Q8: Are the existing access regimes working effectively?

CBA considers that the existing access regimes are working effectively as demonstrated by the entry of a number of new acquirers and ADI issuers into the Australian market over the past decade. As recommended in the Conclusions Paper of the NPP Functionality and Access Consultation, CBA agrees that a review of access arrangements in 2021 would be appropriate.

Q9: What are the implications of the growing importance of mobile devices and digital platforms for the retail payments system in Australia? Are there issues that arise for the Bank's regulatory regime for card payments or that are relevant to competition, efficiency and risk?

CBA considers that commercial models imposed on Australian issuers that create exclusivity for third party mobile wallets on particular mobile devices and restrictions on pass-through of the third party mobile wallet provider fees have the potential to introduce uncapped and unwarranted costs into the payments ecosystem.

The commercial model and practices employed by some mobile wallet providers (for example intercepting card on file transactions and routing through their own digital wallet - which incurs an additional charge to the issuer) are significantly increasing payment costs.

CBA believes a broadening in third-party access to NFC functionality (with appropriate security) would have clear benefits for competition and efficiency by enabling providers to install their own applications for contactless mobile payments. We welcome the international scrutiny of restrictions on NFC access that is occurring in Europe.

Q10: Is there a case for a further lowering of the credit or debit interchange benchmarks or any change in the way they are applied?

Australia is a global leader in payments despite having amongst the lowest interchange rates internationally. While the major card schemes may be considered ‘mature systems’, they continue to innovate and evolve to meet the needs of consumers and the changing payments ecosystem. Therefore, CBA considers that the current level of interchange provides the absolute minimum revenue stream required to incentivise ongoing innovation, promote competition and fund fraud mitigation initiatives and losses.

The RBA should also consider establishing an interchange fee floor as a mechanism to ensure that smaller schemes, which may not be able to sustain a prolonged “race to the bottom” continue to remain viable. An interchange floor on individual interchange rates, particularly for debit cards, could also work to reverse the current phenomenon, which has seen large merchants enjoy interchange fees well below the weighted average, at the expense of smaller merchants.

In light of the desired outcomes of interchange regulation, it remains unclear whether the cost-savings for retailers from reduction in interchange fees have in fact been passed on to consumers through lower retail prices. Many factors influence retail prices: the specific retail sector and its margin structure; the size of the merchant; acceptance of different payment instruments; and economic developments. Additionally, interchange is only one driver of the price of payment services and should not be viewed in isolation. Equal consideration should be given to other unregulated costs that are being introduced into the payment system by newer services such Buy Now Pay Later, digital wallets and AMEX.

A European Central Bank market consultation in 2017 indicated that merchant prices did not decrease in response to interchange fee regulation. The review study planned by the European Commission for 2020 may provide more insight to guide future interchange reform.

The underlying rationale for the regulation of interchange should be revisited in light of changing consumer behaviour. As card payments are now the most frequently used payment method for retail transactions in Australia, concerns regarding cross-subsidisation by those who pay with supposedly low-cost payment methods may no longer be relevant.

Q11: Should regulation of interchange be extended to inter-regional interchange fees (i.e. interchange fees applying to transactions in Australia using foreign-issued cards)? What is the typical cost of transactions on foreign-issued cards, and how much of this is attributable to interchange fees?

CBA does not believe there is a strong rationale for regulating international interchange fees, particularly given the lack of lower cost alternatives available to consumers visiting Australia.

Q12: Is there a case for applying regulation to three-party card systems? What form could this take?

CBA supports a general principle of competitive neutrality of regulatory outcomes. Unless the RBA is convinced that keeping the three party schemes relatively unregulated is not distorting market outcomes, it will need to act to ensure competitive neutrality. CBA is committed to assisting with the development of any regulatory frameworks proposed by the RBA.

Q13: Is the revised net compensation provision in the interchange standards working effectively?

CBA considers that the provision is working effectively.

Q14: What enforcement mechanisms would strengthen observance of the net compensation provision?

As the variations of the net compensation provisions only came into effect in July 2019 it may be premature to consider enforcement mechanisms in the absence of evidence of breaches that indicate the need for enforcement.

Q15: Is the surcharging framework working well? Are there any changes that should be considered?

Surcharging can improve efficiency of the payments system when it provides appropriate price signals to consumers by accurately reflecting the cost incurred by merchants. However, surcharging has a number of limitations including the impact on customer satisfaction and discouragement of adoption of electronic payments.

The European Union banned surcharging on payment methods whose interchange fees are capped under its regulation as part of the revised Payment Services Directive (PSD2), which came into force in 2018. According to the European Commission, regulated interchange fees are capped at a sufficiently low level that surcharging is no longer justified. We encourage the RBA to consider adopting a similar approach.

Q16: Is there a case for policymakers to require that BNPL providers remove any no-surcharge rules, consistent with earlier actions in regard to card systems that applied such rules?

CBA would encourage the RBA to ensure there is competitive neutrality of regulatory outcomes, to products and providers operating in the same market. Accordingly, a consistent approach should be adopted for the payment component of Buy Now Pay Later offerings in relation to surcharging rules.

Q17: Are there potential enhancements to the Bank's regulatory powers and enforcement mechanisms that could improve the effectiveness of retail payments regulation?

As the Issues Paper observes, compliance with the RBA's standards and access regimes is generally observed effectively by schemes, and payments system participants and industry participants are usually willing to provide data and information to the RBA without it having to resort to use of its formal information gathering powers under section 26 of the *Payment Systems (Regulation) Act 1998*. CBA notes that we have made proactive efforts to ensure effective information sharing, including voluntarily providing monthly updates to the RBA on our progress with the NPP, MCR and other initiatives of interest to the RBA.

In view of the RBA's presumption in favour of self-regulation by the industry, and the Government's Regulator Performance Framework objective to reduce the cost of unnecessary or inefficient regulation, it does not appear that strengthened regulatory powers and enforcement mechanisms are needed at this stage. The industry solutions that have been developed in response to the RBA's policy objectives to date confirms this view. The Explanatory Memorandum for the *Payment Systems (Regulation) Bill 1998* made clear that the intent of the legislators was for the Bank's regulatory powers to be used sparingly.

We acknowledge the RBA's concerns regarding the complexity of the net compensation provisions. However, there is a need to ensure regulation is proportionate to the regulatory risk being managed. As the variations of the net compensation provisions only came into effect in July 2019 it may be premature to consider enforcement mechanisms in the absence of evidence of breaches occurring.

The policy objectives that have been achieved to date suggest that the current regulatory model is working well. In order to maintain an efficient, reliable and competitive payments system it will be essential to reduce complexity and enable innovation. The Australian payments industry is facing unprecedented demands including major projects such as the NPP and SWIFT ISO20022 migration, in addition to the need to enhance and modernise operations to keep pace with new technological advances and maintain resilience in the face of increasing demands on our technology platforms. Collaboration and co-operation across industry and with regulators will be necessary to agree on realistic implementation timeframes, and to facilitate appropriate planning and sequencing of multiple technological changes.

TAB 12: Exhibit CBA-1

Commonwealth Bank

Submission to the Treasury Review of the Australian Payments System

22 January 2021

Public

Commonwealth Bank

1. INTRODUCTION

CBA welcomes Treasury's review of the regulatory architecture of the Australian payments system. The co-regulatory framework comprising of financial regulation and industry self-regulation has served Australia well in providing safe, reliable and efficient ways to pay. However extraordinary innovation in payments driven by new technologies and entrants is presenting new challenges and opportunities. This pace of change and diversification will only accelerate with the introduction of Open Banking and the Consumer Data Right in Australia. A future regulatory framework will need to incorporate new payment businesses and methods to ensure beneficial outcomes for end users. This review is a valuable first step to identify the limitations of the current framework and the desired features of future regulation. CBA's submission outlines the primary issues that will need to be addressed to optimise industry self-regulation and promote safe and sustainable innovation in payments. In doing so we hope to highlight the need for further consultation and comprehensive analysis to ensure the development of regulatory settings that will facilitate innovation and competition without compromising the integrity of Australia's financial system.

2. REGULATORY OBJECTIVES OF A FUTURE PAYMENTS SYSTEM

The overall objective of a future payments regulatory regime should be to enable the community to benefit from innovation and competition while still ensuring that the payments and financial system remains safe, resilient and stable.

A well designed payments regulatory architecture will be crucial to achievement of the Government's Job Maker Digital Business Plan and Australia's economic recovery and growth following the COVID-19 pandemic. As noted by the Bank of England, end-to-end operational and financial resilience across payment chains is critical for the smooth functioning of the economy.[1]

Technology has made payments cheaper, faster and more convenient. Banks have a long history of developing new ways to pay such as contactless payments and BeemIt. Newer entrants are now introducing additional services or functionality to existing payment systems or taking over some of the functions previously performed by banks.

The pace of technological change requires an agile regulatory regime that enables industry to adapt to new and emerging risks quickly through self-regulation. Formal regulation is needed to support co-ordinated and comprehensive participation in industry efforts to manage risk and protect end users. The high level of interdependence inherent in payments can expose the entire system to vulnerability when a single participant is compromised.

Payment system security and stability and innovation are not mutually exclusive. Consistent and uniform safeguards to engender trust and confidence in the payments system are essential for the ongoing widespread adoption of efficient digital payment methods.

[1] https://www.bankofengland.co.uk/-/media/boe/files/financial-policy-summary-and-record/2019/october-2019.pdf

Commonwealth Bank

3. LIMITATIONS OF THE CURRENT REGULATORY FRAMEWORK

The security, stability and resilience of the Australian payments infrastructure to date is largely due to the underlying financial regulation that governs traditional payment providers such as banks. This strong foundation has enabled innovative new services by fintechs and other new entrants to proliferate via systems and infrastructure developed and maintained by traditional payment providers.

Technological advances have transformed a linear payments value chain that historically involved predominantly financial institutions into a payments ecosystem of greater complexity and scale. New and diverse payment providers are not subject to stringent financial or banking regulations and many operate outside of industry self-regulation.

Additionally, there is a growing gap in consumer protections as digitisation of payments brings new and unforeseen threats. In line with the RBA's mandate, the current regulatory architecture is heavily weighted towards controlling the cost of payments, rather than consumer protection and customer experience considerations. ASIC's ePayments Code does not cover a range of payment options available to consumers, including digital wallets, contactless payments, tokenisation, biometrics, or the New Payments Platform.

Finally, there are clear opportunities to simplify, streamline and better co-ordinate regulation of payments. There is no avenue to create an integrated or coherent set of guiding principles for the Australian payments system. Instead, piecemeal objectives are generated through separate, numerous and at times overlapping industry, regulatory and government reviews. The detail of the government's payments policy objectives are not always clear or consistently communicated to industry. As a result participants face multiple and competing expectations and obligations, creating misalignment between government expectations and market outcomes. A lack of policy coherence also leads to contradictory objectives between different regulatory agencies, for example the tension between AUSTRAC financial crime regulation and ACCC expectations for lower pricing, innovation and competition in foreign exchange services.

4. A FUTURE REGULATORY ARCHITECTURE: OUR RECOMMENDATIONS

A future-fit regulatory framework will need to accommodate an evolving payments landscape and facilitate long term, forward looking solutions. Regulation should ensure that innovation and competition creates benefits for consumers and avoids causing harm. Failure of start-ups, security breaches, outages or financial losses will only impede growth and undermine confidence in the digital economy.

To meet the needs of end-users in relation to emerging innovations in the payments system CBA considers a future regulatory architecture requires the following features:

i. **Robust security and stability standards:** Existing minimum standards should be maintained and consistently applied. The payments system has been recognised as a potential transmission mechanism through which 'unsound' organisations can jeopardise the stability of the whole financial system. The collapse of German fintech Wirecard demonstrated how risks that are not readily apparent can have wide reaching impacts due to market interconnectedness.[2] Any party that relies on the payment rails directly or indirectly and introduces risk to the security or stability of the payments system should bear the same responsibility and liability.

ii. **Self-regulation:** The pace of change in, and the exceedingly specialised and networked nature of the payments industry, requires an ongoing central role for industry self-regulation. Industry

[2] https://www.ft.com/content/0e84428b-bee6-45e6-bef1-b03f6f9be335

Commonwealth Bank

responses need to be guided by clear and coherent government policy. Formal regulation needs to play a role in supervision and supporting comprehensive participation and alignment across sectors. Inconsistent commitment to self-regulation creates inequality within the fintech industry (when only some fintechs are members of AusPayNet), as well as with incumbents and could compromise safety and stability. For example, devices can be used to process payments that connect to the underlying payment rails, yet do not comply with AusPayNet security requirements.

iii. **Joint policy forum:** The new framework should include a formal forum to facilitate the communication of government policy objectives to industry participants and improve co-ordination between regulators, and with industry. Joint efforts between the private sector and regulators (such as pilots to trial central bank digital currencies) will be essential for technologies that are 'over the horizon'. The response to the COVID-19 crisis demonstrated the positive outcomes that can be achieved from increased collaboration between government, regulators and the private sector.

iv. **Competitive neutrality:** To stimulate innovation, new entrants and traditional providers should receive the same regulatory relief or 'safe harbour' provisions when launching similar products and services. The European Union's Expert Group on Regulatory Obstacles to Financial Innovation (ROFIEG) has recommended that regulation of the financial sector should follow the principle of 'same activity creating the same risks should be regulated by the same rules'.[3]

Large non-financial entities (for example global technology companies) with significant market share or importance to the payments landscape must adhere to rules and standards, and a level of transparency similar to traditional payment providers, to ensure innovation does not create long term detriment. For example, pricing practices should face the same scrutiny that is applied to incumbents to assess the impact on the overall cost of transactions. The UK's Competition and Markets Authority has attempted to identify large digital platforms that require closer supervision as those that have 'strategic market status'.[4]

To remain flexible to changes in the market it would be preferable to base regulation on the nature of the risk rather than the type of institution. As stated by Sir Jon Cunliffe, Deputy Governor Financial Stability of the Bank of England, 'the same risks have to be subject to the same regulation'.[5]

v. **Equal minimum consumer protections across equivalent services:** Minimum security and consumer protection requirements should not be compromised and should apply to all entities regardless of size. Poor consumer outcomes can erode confidence and deter the uptake of new and innovative payment methods. Accordingly, good consumer outcomes and streamlined customer experiences are integral to achieving policy, regulatory and commercial objectives. Consumers and businesses have the right to expect similar protections for similar services. Consistent protections and avenues for recourse when things go wrong will create certainty for customers, simplify obligations for fintechs and improve the long term prospects of new payments businesses.

vi. **Shared responsibility for investment and innovation:** Payments infrastructure will be increasingly burdened as a growing number of new entrants utilise the same payment rails. Most new innovations, including Buy Now Pay Later, digital wallets and point of sale devices are dependent on the pre-existing underlying payments infrastructure. To remain viable, the maintenance and

[3] https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/191113-report-expert-group-regulatory-obstacles-financial-innovation_en.pdf
[4] https://assets.publishing.service.gov.uk/media/5fce7567e90e07562f98286c/Digital_Taskforce_-_Advice.pdf
[5] https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/its-time-to-talk-about-money-speech-by-jon-cunliffe.pdf?la=en&hash=A39E014DBBA2C5E88D1B8339E61598CBD62BCA3E

Commonwealth Bank

ongoing modernisation of critical payments infrastructure will need to become a shared responsibility by all parties that benefit financially, directly or indirectly, from its use. Regulation should encourage proportionate contribution and fair value arrangements, and allow for sufficient returns to ensure sustainable and ongoing investment in the payments system. Commercial incentives created by Government will also need to play a role to encourage ongoing private sector investment and innovation.

vii. **Co-ordinated regulatory intervention:** In a digital environment, any regulatory change in payments will involve some impact on 'in house' technology infrastructure. The payments industry is facing a number of large scale initiatives such as the ISO20022 SWIFT migration and upscaling the New Payments Platform. The implementation of policy and regulatory objectives can be assisted greatly by co-ordination amongst regulators and consultation with the industry. Such an approach will allow participants to better manage the change burden, and ensure better outcomes by avoiding change congestion and duplication.

viii. **Alignment with broader digital policy:** The overlapping nature of digital markets requires alignment between payments system regulation and cyber, privacy and data regulation across sectors. Harmonisation with existing digital reforms is necessary to form part of a nationally co-ordinated approach to building a safe, secure and thriving digital economy. For instance, the United Kingdom has established a Digital Regulation Cooperation Forum (DRCF) to enhance co-ordination and cooperation between regulators in digital markets.

ix. **Global focus:** A future fit regulatory framework will need to reflect the global nature of digital payments. Reforms should promote interoperability, alignment with international best practice standards and co-ordinated regulatory activity across jurisdictions. The regulatory regime should support Australia's international competitiveness, protect national sovereignty and prevent disproportionate reliance on international actors for basic internal market functions that underpin the economy. The European Union's 'Vision for European retail payments' includes the availability of competitive domestic payments solutions to support Europe's economic and financial sovereignty.[6]

5. CONCLUSION

CBA recommends that further consultation is necessary to consider how existing structures, roles and mandates involved in the governance of the system should be adapted, co-ordinated or consolidated to maximise the benefits of innovation and competition in payments. Whilst we have not at this stage made a specific recommendation in relation to which government agencies or industry self-regulatory bodies should assume accountabilities in any future model, we believe it is important that any future design should preserve the specialised payments expertise accumulated by the RBA's Payments Policy Department over the past twenty years. A robust assessment of the network and flow on implications of regulatory reform aimed at stimulating competition and innovation is required to avoid long-term outcomes that are counter to the Government's policy objectives and Australia's economic recovery from the COVID-19 pandemic. Payments is the 'gateway' to financial services and payment activities are currently the focus of innovation in financial services. In a digital environment, payments regulation must be designed within the context of interrelated digital activity and impacts on the broader economy.

[6] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0592&from=EN

Commonwealth Bank

APPENDIX: THE EXISTING REGULATORY ARCHITECTURE OF THE AUSTRALIAN PAYMENTS SYSTEM

The Australian Payments System

The payments system in Australia consists of the infrastructure and institutions that together enable the exchange of value between participants in the economy. Retail payments involves the numerous ways consumers transfer money and the systems and service providers that facilitate these payment methods. In Australia a range of payment types can be used via a variety of channels (mobile, online, phone, in person or card). A number of domestic and international systems are available to clear and settle payments including BECS, BPAY, eftpos, international card schemes, NPP and SWIFT.

Multiple intermediaries co-operate to co-ordinate a range of activities to process a single payment. Each transaction is underpinned by operating procedures, a communications network to initiate and transmit payment information, and industry and regulatory and organisational frameworks that enable the transfer of funds from the payer to payee and to settle payments. Innovations in payments and value adding services provided by new entrants have largely been built upon these established systems and arrangements.

The stability and general smooth functioning of payments in Australia has meant that these processes underlying payment transactions are ubiquitous and intangible and not well understood by the broader community.

The specialised expertise, high level of interdependence, and requirement for network effects that characterises payments means more co-operation is needed between regulators and industry (as well as within industry) compared to other financial markets. As a consequence, self-regulation plays a central role in the payments regulatory architecture.

Self-regulation

A multitude of industry rules, guidelines and standards have developed and evolved over time in response to changing payments trends and technology. As a result, what are in effect 'self-regulatory' measures are interspersed through the policies and participation agreements of various members of the payments industry. AusPayNet manage regulations and standards for payments clearing and settlement yet also functions as an industry association. Each payment scheme (eg. international card schemes, eftpos, BPAY, NPPA) likewise has its own rules and obligations – some of which are commercial but many that relate to security and stability of the payment system or consumer protection (e.g. scheme chargeback rules and mistaken payment processes). Additionally, due to interdependencies in payments there are arrangements between banks such as fraud stop/indemnity agreements that developed in response to the emergence of payment scams.

Under these arrangements combined with the oversight of the RBA (described below) the payments industry has effectively responded to emerging risks including strategies to manage 'Card Not Present' fraud, the TrustID Framework and innovations such as PayID.

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Formal regulation

Payments are primarily governed through banking and financial services regulation. As noted in the Issues Paper, the Reserve Bank of Australia (RBA) is the principal payments system regulator. Central banks in most developed countries play a leadership role in payments in line with their monetary and banking policy responsibilities. ASIC, ACCC, AUSTRAC and APRA also hold discrete responsibilities relating to payments.

However even independent regulation in payments is characterised by an intermingling with other roles. There are several distinct aspects to the RBA's role in the payments system, comprising those of policymaker, overseer and supervisor, banker to the government and owner and operator of key national payments settlement infrastructure. This hybrid structure has allowed RBA's Payments Policy Department to accumulate substantial specialised payments expertise over time. However, at times these multiple roles in payments can create confusion and uncertainty for regulated entities when they interact with the RBA.

TAB 13: Exhibit CBA-1

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Submission to the Senate Select Committee on Financial Technology and Regulatory Technology

18 December 2020

1. Introduction

The Commonwealth Bank (**CBA**) welcomes the opportunity to further contribute to the inquiry of the Senate Select Committee on Financial Technology and Regulatory Technology (the Committee). This submission outlines CBA's position on a number of matters covered in both the Committee's Interim Report and second Issues Paper.

Innovation continues to play an increasingly important role in the Australian financial services industry, with financial technology (FinTech) and regulatory technology (RegTech) companies as well as incumbents competing to deliver new products and services via digital channels.

CBA is delivering more personalised digital experiences and new products and services for our customers, underpinned by our digital assets like the CommBank app and NetBank. Through x15ventures, we are also supporting the growth of start-ups and the development of innovative solutions for consumers and businesses.

Since the beginning of this inquiry, the external environment has changed significantly in response to the COVID-19 pandemic that, as noted by the Committee, has presented both challenges and opportunities for Australians and the Australian economy more broadly.

Technology and digital platforms have underpinned the ability of Australia to respond and enabled us to adapt how we live, work and conduct business during the pandemic. Most of the changes embraced have accelerated the adoption of existing capabilities amongst a broader population, such as digital wallets, tap'n'go payments, online shopping, the electronic execution of documents and flexible work arrangements. To illustrate, CBA has seen accelerated growth in digital wallet transactions over the past 12 months, with the number of monthly transactions increasing from 29 million in October 2019 to 52 million this year.

From CBA's perspective, technology enabled us to adapt and respond quickly to the changing needs of our customers, both retail and business, as the pandemic increasingly impacted their lives. This year we have:

- Responded to up to 1 million requests for assistance and supported up to 10.2 million daily logins on our digital channels at the peak of the pandemic.
- Redirected our branch staff into our contact centres and other customer support areas to ensure customers could get the help they need on the phone and online quickly.
- Provided immediate relief to households and businesses by processing over 250,000 home, personal and business loan deferrals.
- Approved more than $875 million in loans to 9,400 small and medium businesses through the first phase of the Government's Coronavirus SME Guarantee Scheme.

We were also able to leverage our digital channels, specifically the CommBank app, to send over 250 million personalised messages to our customers. Some of these messages pointed to an online Financial Support Guide that was regularly updated with information about CBA services and government assistance. The Guide has had 5.5 million visits, both from our customers and from the wider community.

Despite the challenges faced by Australians, we recognise that the pandemic offers opportunities to further Australia's transition to a digital economy, including streamlining processes, minimising inefficiencies and overall increasing productivity. These welcome benefits, however, do need to be considered alongside broader implications such as data protection and cyber security, appropriate consumer protections, and maintaining level playing fields across competitors increasingly ranging in size and scope. Importantly, these all contribute to and underpin Australia's long-term economic resilience and productivity.

2. Matters raised in Interim Report and second Issues Paper

2.1 Consumer Data Right

CBA believes that giving Australian consumers and businesses greater control over access to their data in a way that is well regulated and designed to be safe and secure, has many benefits. These include driving competition and choice for consumers, fostering a strong, innovative digital economy as well as the potential to improve the overall wellbeing of consumers.

We have made a significant investment in supporting Australia as a leading digital economy through the delivery of Open Banking. CBA will continue to invest in Open Banking to improve outcomes for customers and all Australians, and we remain committed to working with the Federal Government and all stakeholders to support its successful implementation.

To ensure Open Banking delivers the desired outcomes for consumers and its implementation can inform future expansions of the Consumer Data Right (CDR), CBA is very supportive of a post-implementation review being conducted once the full implementation of the current Open Banking regime has been completed. This will help to ensure consideration and design of any future CDR policy is informed by data-driven findings of the review and also have regard to industry innovation that has occurred in the interim.

2.1.1 Reciprocity

CBA regards that providing greater volumes of consumer data from across industries would provide further incentives for consumers to participate in the CDR regime, resulting in greater business and consumer take-up.

We view the principle of reciprocity as key to creating a 'network effect' to progress the successful implementation of the CDR and ensure the CDR fosters a dynamic and world-leading data sharing regime that brings the greatest benefit to Australia and Australian consumers.

Reciprocity is a core principle of data portability and we suggest, in the context of the CDR, the Rules should be broadened to ensure that those receiving data and benefitting from the regime are also subject to its obligations to share data, if consented to by consumers. This maintains the consumer's control over how their data is used.

Reciprocity would provide significant benefits for consumers if they could choose to share their data from one company to another; however, currently there is no incentive for companies in non-designated sectors to enable this consumer benefit.

Further, we consider reciprocity of data sharing to be critical to ensuring Australian businesses can remain competitive in the digital economy and to avoid an asymmetry between the obligations on data holders and Accredited Data Recipients (ADRs).

For example, the current lack of reciprocity for non-designated sectors adversely impacts the ability of Australian businesses to compete with international big tech, who could access CDR data sets but are not required to share their own data sets. This would allow these companies to consolidate their position and practices as data companies by overlaying their existing data insights and analytics, while the lack of reciprocity would limit the ability for data holders in Australia to compete on a level playing field.

A recent report, *Big Banks, Bigger Techs,* by the International Banking Federation, in conjunction with Oliver Wyman, highlights the powerful proposition offered by big tech in that *"they create ecosystems to serve customers in all aspects of life, including finance, increasing their "stickiness" to their core platforms"*[1]. Further, the report notes that their already large and loyal customer bases *"enables big tech to collect and use large quantities of data cheaply for customised product offerings"*[2].

With new platforms, like the CDR, allowing big tech access to additional customer data without the requirement to reciprocate, it has the potential to entrench further the scale of big tech to the detriment of competition in the Australian business landscape and the broader economy.

This is reflected in commentary by the Institute of International Finance, that access to reciprocal data *"is particularly important due to the potential for concentration in digital markets, where a few big players are accumulating huge datasets, and whose business model is mainly powered by their capacity to extract the highest value from data"*[3].

Further, the Institute states "*[a]symmetric data sharing frameworks.... provide [big tech] with access to more data, while maintaining exclusivity over their own datasets. This may further increase concentration in digital markets and ultimately harm consumers if it reduces competition and, therefore, the incentives to innovate, improve quality and keep prices low"*[4].

CBA therefore recommends that any entity prepared to receive consumer data through Australia's CDR regime should be required to reciprocate, irrespective of whether those entities are within a designated sector (currently banking or energy). The principle of reciprocity will ensure all participants in the ecosystem are incentivised to deliver the right outcome for Australian consumers.

To enable reciprocity, the future accreditation criteria of the CDR should, at a minimum, identify and include an obligation for ADRs to share any consumer data they propose to combine with

[1] International Banking Federation and Oliver Wyman, 2020, *Big Banks, Bigger Techs? How policy-makers could respond to a probable discontinuity,* p.9. Accessible online at: http://www.ibfed.org.uk/latest-news/big-banks-bigger-techs-how-policy-makers-could-respond-to-a-probable-discontinuity/
[2] As above.
[3] Institute of International Finance, 2018, *Reciprocity in consumer data sharing frameworks,* p.4. Accessible online at: https://www.iif.com/Publications/ID/1684/Reciprocity-in-Customer-Data-Sharing-Frameworks
[4] As above.

data obtained under the CDR to develop a product or service, where the consumer has consented to that data being shared.

Further, we consider the CDR Rules should be amended to enable CDR consumers to request data that is to be combined with CDR data be disclosed to the consumer or an ADR (under Part 3 and 4 of the CDR Rules). The CDR Rules should also be amended to require ADRs to maintain information on their websites about the data available to CDR consumers in their capacity as reciprocal data holders.

It is important to note that issues of competition and maintaining level playing fields is not confined to the CDR and data sharing. The use of electronic payments has rapidly increased over the past five to 10 years in the Australian financial system, with the pandemic further cementing their role in our everyday lives. As the offerings and providers of electronic payments expand, consideration of competitive neutrality and avoiding regulatory asymmetry will be required. We explore this further in Section 2.4.

2.1.2 Expansion of the CDR

As previously outlined, CBA is very supportive of a post-implementation review being conducted once the full implementation of the current Open Banking regime has been completed. This will help to ensure expansion of the regime, with respect to sectors or functionality, is informed by data-driven findings.

We note the Committee's interest in whether the CDR could still assist and facilitate choice in the superannuation sector, given the superannuation reforms announced in the 2020/21 Federal Budget.

The Your Future, Your Super reforms include important new measures to provide better information, for consumers to assess and compare funds in the near future. Despite this major policy initiative and the expected benefit provided to retirement benefits over time, we believe the application of CDR to superannuation can also offer an additional framework that provides a net benefit to consumers to compare and assess superannuation funds. However, it would be appropriate to consider the implementation timeframes and the expected impact of the Your Future, Your Super reforms alongside the CDR implementation approach for superannuation.

We would welcome the opportunity to participate in consultation on how best to apply the CDR to superannuation given the Government's reforms as well as share learnings from the introduction of Open Banking.

We also suggest the Government should look to accelerating the expansion of the CDR to government agencies, given the range of citizen data held and the reliance of many business processes on this data. Examples of the benefits from sharing government held data with private entities are outlined in Section 2.4.1.

Key considerations in relation to expansion

As the CDR in Australia expands functionality and to additional sectors, we consider that a key learning from a number of jurisdictions around the world is to ensure practical implementation timeframes are considered.

Many jurisdictions have underestimated the complexity and scale of implementing consumer data sharing regimes, often leading to slippages in timelines. For any expansion to existing regimes, collaboration and co-operation across industry and regulators will be necessary to agree on practical implementation timeframes, and to facilitate appropriate planning and sequencing of multiple technological changes. An important consideration is that individual organisations have implemented a range of technologies to underpin their processes over a number of years, with legacy systems often creating complexity when seeking to connect multiple sources of information in a consistent manner.

CBA believes there are opportunities to learn from the process for developing standards for Australia's Open Banking regime as the CDR is rolled out to new sectors, given they are subject to different regulatory frameworks and have industry-specific approaches that may not be compatible or interoperable. Where feasible, we support greater consistency with existing international standards and industry standards when undertaking data reforms. When standards are tailored for one reform or jurisdiction, this creates issues with future extensibility, security and interoperability more broadly.

The Issues Paper released as part of the Inquiry into Future Directions for the Consumer Data Right (Future Directions Inquiry) noted that when considering linkages and interoperability with existing frameworks and infrastructure, "*the CDR regime seeks to build upon and complement the arrangements businesses use*"[5]. We agree with this position, and note that the CDR regime should be integrated with the existing regulatory and governance frameworks of an industry in a way that does not adversely affect existing arrangements.

To accelerate the creation of a safe and efficient CDR ecosystem, consumers must have confidence in the security of the ecosystem and its participants. To ensure that the ecosystem remains safe and consumer confidence is maintained, CBA is firmly of the view that accountability for the end-to-end security of the ecosystem should reside with the regulator, and regular independent security reviews of the ecosystem will be required as standards change and new use cases are introduced.

Further, the accreditation model should be treated as one of the most critical processes within the CDR regime in ensuring the safe and secure sharing of CDR data. The instantaneous nature of data sharing via Application Program Interfaces (APIs) within the CDR regime means that a consumer's sensitive CDR data can be requested and shared within a matter of seconds and there is no opportunity to recall an erroneous data share. Consumers and entities rely on the accreditation model to have confidence that recipients of CDR data have been appropriately 'vetted' as suitable entities to handle CDR data.

Ensuring customer data can only be accessed by Accredited Persons through the CDR in a manner that puts consumers in control and provides them with both privacy and financial protection will be critical to ensuring both uptake of the regime and the reduction of poor customer outcomes that result from non-permissioned use or inadequate operational processes.

[5] Federal Treasury, 2020, *Inquiry into the Future Direction of the Consumer Data Right – Issues Paper*, p.6.

We note the Committee's recommendation that the Government establish a new national body to manage the implementation of the CDR and consolidate regulatory responsibilities. CBA's position is that increased planning and coordination across the distributed governance structure of the CDR is needed to support the development and implementation of a robust, secure, and consumer-focused Open Banking regime and ecosystem.

Better coordination is crucial, as while each government entity is responsible for a different component of the ecosystem, in practice there are occasional overlaps and gaps, creating additional complexity for participants (both data holders and ADRs).

We welcome the steps the Government has begun to take in relation to streamlining accountabilities within the CDR. We recognise different oversight models have been implemented in other data sharing regimes, like the United Kingdom (UK); however, we are conscious that there will be some divergences given the differences in Australia's legislative, consumer, regulatory and threat landscape.

CBA would support the creation of a centralised CDR cyber-security capability across the respective CDR governance entities, which would be accountable for intelligence gathering and coordinating responses to incidents and data breaches.

Further, CBA recommends consistency in relation to cybersecurity, data standards and privacy protections be considered more broadly across economy-wide data exchanges between industry and government, rather than solely within the CDR. This will help reduce the regulatory burden placed on industry, which is currently required to adhere to differing standards across regimes (for example, Comprehensive Credit Reporting).

As with the adoption of any new technology, building consumer trust and confidence is critical for increasing participation in Open Banking. This is another key learning from other jurisdictions, as low consumer awareness has been a barrier to uptake. For example, it has been reported that one year after Open Banking was introduced in the UK, around 5 per cent of the public understood the initiative[6].

We note the Committee states in its Interim Report that the banking industry should contribute funding towards the cost of education campaigns to drive the uptake of Open Banking. As the mandatory CDR regime will involve multiple sectors and participants (data holders and recipients), we do not believe this is appropriate and suggest Treasury and key regulators, like the ACCC and OAIC, should lead the development and implementation of consumer campaigns to ensure alignment and consistency.

Separately, we continue to take proactive steps to elevate customer understanding of safe data sharing practices, based on existing Government standards as well as lessons from industry best practice.

CBA supports the CDR being the platform adopted by all parties to share consumer data and, in turn, replace unsafe and unprotected practices. CBA notes the recommendation of the Committee to maintain existing regulatory arrangements in relation to digital data capture. We

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[6] Financial Times, 11 January 2019, *Open Banking: the quiet digital revolution one year on.* Accessible online at: https://www.ft.com/content/a5f0af78-133e-11e9-a581-4ff78404524e

believe that in order to support the uptake of the CDR by consumers and businesses, alternate methods for accessing consumer data should be prohibited, with a sunset clause introduced.

Allowing screen scraping to continue alongside the Open Banking regime will result in 'dual schemes' being in operation, to the detriment of consumers as well as take up and participation in the broader CDR regime. Further, customers who share data outside the regime will not be aware that they do not have the same consumer and privacy protections.

2.1.3 Future prospects for the CDR

We note the Committee's interest in feedback on the potential for Australia's CDR to interact with consumer data sharing regimes in other jurisdictions internationally.

An important insight from the introduction of the various regimes relates to the level of regulation required, which has ranged from prescriptive and mandated implementation to facilitating a more market driven response. In the international context, Australia has adopted a more directed process to introduce Open Banking when compared to Hong Kong and Singapore – where recommendations have focused on open API designs and technical specifications to facilitate adoption of Open Banking practices.

In jurisdictions that have taken a regulatory approach to introducing Open Banking, the development of common standards has required consensus across many stakeholders with different underlying platforms, data models and security approaches. CBA considers that, where possible, regulatory and technical frameworks should allow for the flexibility of industry and market driven solutions.

We support the learnings from the UK's post-implementation review, which recommended Open Banking *"should provide a commercial incentive for banks to grow the Open Banking ecosystem and improve the performance of their APIs"* [7]. Further, it is CBA's view that regulatory approaches should be balanced to ensure they do not impede growth and efficiency in the economy.

As outlined later in Section 2.3, CBA believes there is a greater need for consistency with existing international standards and industry standards, wherever feasible. This will be important should data sharing regimes in future seek to interact, as bespoke standards and systems creates issues in relation to future extensibility, security and interoperability with other regimes.

In relation to the Committee's interest in the future potential of the CDR combined with other data reforms, we note there has been some consideration regarding the role Digital Identity may play with respect to the CDR ecosystem in the Future Directions Inquiry.

However, we suggest that retrofitting the CDR to enable interoperability with the Digital Identity frameworks already in development (e.g. the Government's Trusted Digital Identity Framework (TDIF), currently in its fourth iteration) would provide limited benefit and hamper the progress of both.

For example, the two schemes have different accreditation and ongoing attestation requirements, and key concepts regulating the operation of a viable Digital Identity ecosystem,

[7] ODI & Fingleton, *Open Banking, Preparing for lift off*, 2019, p.5.

such as Identity Proofing levels and the roles of attribute provider (as opposed to Identity provider), are absent from the CDR Rules and standards. Attempting to incorporate these concepts would require significant redesign of the CDR and we consider there would be limited consumer benefits.

We believe using the CDR framework as the vehicle for delivering Digital Identity solutions in the Australian market could significantly slow its rollout, as the CDR regime will likely take many years to be mandated across all industries. Australians already have access to Digital Identity solutions operated by Australia Post and the Federal Government under MyGovID, while others in the industry are piloting solutions.

While the development of Digital Identity ecosystems are complementary to the spirit and intent of the CDR (in that they allow customers to control and share their data in a secure way), the Digital Identity frameworks currently being developed are fit for purpose and we consider there is no need for regulatory intervention to support better consumer outcomes.

2.2 Digital Identity

CBA supports the efforts underway to develop Digital Identity solutions for Australian consumers, and welcomes the progress within the Federal Government in relation to the development of a national Digital Identity framework.

Digital Identity is a core piece of underlying infrastructure needed if Australia's future digital economy is to thrive. Digital Identity solutions will bring many benefits to consumers, government agencies and businesses[8], from simplifying the process for individuals to prove their identity, reducing fraud, and reducing costs of doing business, resulting in overall better and more streamlined service offerings. If implemented appropriately, Digital Identity solutions should be privacy enhancing for Australians, and fix some of the vulnerabilities evident in the multitude of ways Australian businesses currently approach customer verification[9].

These benefits will flow across the economy and in particular in the financial services industry where Know Your Customer (KYC) requirements are in place under Anti-Money Laundering and Counter-Terrorism Financing (AML-CTF) obligations.

As with any new digital ecosystem, there are a number of considerations that must be prioritised to ensure consumer confidence and encourage uptake, including security of data and systems to protect consumer data against potential unauthorised access and fraud, and adherence to and application of consistent privacy principles and requirements.

[8] A number of recent studies have sought to quantify the benefits of Digital Identity solutions. The Financial System Inquiry reported that secure single sign-in solutions (which accounts for only part of the capability of a federated digital identity network), would save the Department of Human Services $547m over 10 years (Federal Treasury, 2014, *Financial System Inquiry Final Report*, p.158). McKinsey recently published a report that found Digital Identity solutions could deliver the equivalent of 3 per cent of GDP in economic value on average to advanced economies by 2030 (McKinsey, 2019, *Digital identification: A key to inclusive growth*, accessible online at: https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/digital-identification-a-key-to-inclusive-growth

[9] The recent discovery of 54,000 NSW driver's licences in an insecure AWS environment is a case in point. See: IT News, August 2020, *Over 54,000 scanned NSW driver's licences found in open cloud storage*.

We note that the Government finalised consultation, earlier this year, on version 4 of its TDIF, which provides the basis for interoperability with the private sector to expand the future Digital Identity ecosystem in Australia.

We support a Digital Identity framework that is a public/private framework rather than the public framework approach taken by Singapore, given the significant advantages of interoperability. Firstly, Digital Identity networks are two-sided markets, which benefit from network effects (i.e. consumers will not use the network if they are limited by the number of government agencies or merchants they can use it with; and government agencies/merchants will not integrate into networks if no customers are using it). As such, successful Digital Identity platforms encourage both high customer take-up and high frequency of use. While Digital Identity transactions with government deliver many benefits to citizens, customers tend to interact less frequently with government (for instance, a citizen might only need to register for a tax file number once in their career or lodge a tax return once every financial year) than with the private sector.

Another reason for public/private interoperability is that, over time, the ecosystem may integrate additional credential issuers into the network, which may include non-government providers. An example might be a university integrating as a credential provider to verify that someone has completed a university degree or 'micro-credential'. Under the TDIF, financial institutions could also issue 'Use in the Community' documents (e.g. bank statements), which could be leveraged to provide a Digital Identity for customers who would otherwise not have enough documents to do so.

Additionally, providing citizens multiple options for Digital Identity solutions will encourage competition, innovation and greater consumer choice.

The Digital Transformation Agency (DTA) has published a consultation paper on expanding the TDIF (and MyGovID platform, which operates within the TDIF) to States and Territories as well as the private sector[10]. CBA supports this expansion and the work being done through the Australian Data and Digital Council to drive adoption of the TDIF by States and Territories[11]. For instance, the expansion of digital driver's licence schemes by many jurisdictions could leverage the TDIF as a framework to allow customers to share digital credentials for private sector acceptance. This alone would deliver huge benefits to both consumers and the private sector, which would save costs and improve regulatory outcomes if each jurisdiction adopted common standards for how such credentials should be issued and shared.

CBA would support additional reforms that help pave the way for greater Digital Identity adoption and use in the Australian economy, including:

- An economy-wide digital e-Signature standard to minimise inconsistencies and make it easier for the vast majority of businesses that are currently underprepared for e-signature transactions[12]. This could include a mandate for government agencies to accept a digital signature, if that were the preferred channel for a citizen interacting with government,

[10] DTA, 2020, *Have your say on Digital Identity*, accessible online at: https://www.dta.gov.au/news/have-your-say-digital-identity
[11] Australian Data and Digital Council, 2020, *July Communique*, accessible online at: https://www.pmc.gov.au/sites/default/files/publications/addc-communique-310720.pdf
[12] Adobe, *Electronic signatures in Australia: Legal considerations and recommended best practices*, accessible online at: https://acrobat.adobe.com/content/dam/doc-cloud/en/pdfs/esignatures-best-practices-au.pdf

and is in line with the Federal Government's objective to be one of the top three digital governments by 2025[13].

- Acceptance of digital documents, by changing laws that require merchants or government agencies to make copies of "original" documents, such as a driver's licence for a mortgage. We welcome the Committee's Interim Report recommendations on enabling the use of electronic signatures to execute legal documents as well as the witnessing of official documents via videoconferencing (where witnessing is required).
- Legislative amendments to allow reliance on existing customer due diligence assessments by reporting entities under the Anti-Money Laundering and Counter Terrorism Financing Act[14] as well as other legally required verification of identity checks.

2.3 Data standards and cyber security

As outlined earlier, CBA recommends greater consistency with existing international standards and industry standards when undertaking data reforms, wherever feasible. When solutions are tailored to one system or jurisdiction, this can create issues with future extensibility, security and interoperability with other regimes.

With respect to the CDR, we have identified the following opportunities for Australia to encourage greater extensibility and interoperability:

- To enable linkages and interoperability with existing domestic and international frameworks and infrastructure, we recommend a reassessment of bespoke Australian CDR security standards to determine which standards would benefit from redesign to achieve greater consistency with existing solutions provided by international standards (such as ISO/IEC 27002 which provides a code of practice for information security controls).
- Assess opportunities for consistency of standards across government departments to rely on commons standards (e.g. API protocols) for data exchange (for example, in 2019 the Comprehensive Credit Reporting authority mandated banks submit batch files for reporting purposes).

CBA also recommends the governing bodies for international industry standards are consulted and directly involved in the development of CDR standards to ensure both best practice for the CDR regime as well as the standardisation required to enable extensibility and interoperability, both nationally and internationally. We suggest this approach should also apply for other data reforms undertaken, noting this may depend on government policy settings at the time.

We consider there is an overarching impetus for Government to coordinate and harmonise the approach to the various digital reforms underway. As an example, financial institutions are required to manage multiple and subtly different cyber regimes arising from the *Privacy Act*

[13] DTA, 2018, *Vision 2025*, accessible online at: https://dta-www-drupal-20180130215411153400000001.s3.ap-southeast-2.amazonaws.com/s3fs-public/files/digital-transformation-strategy/digital-transformation-strategy.pdf
[14] This is expected to deliver an estimated regulatory saving of $3.1 billion to reporting entities over 10 years. (APH Digest, 2020, *Anti-Money Laundering and Counter-Terrorism Financing and Other Legislation Amendment Bill 2019*, accessible online at: https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/bd/bd1920a/20bd073)

1988, APRA's CPS 234 Information Security, ACCC's Open Banking and the CDR more generally, as well as the proposed changes to Critical Infrastructure legislation.

Further, the inconsistency in their application requires greater consideration given a range of providers, from big tech to local FinTechs, are increasingly offering financial products and services to consumers as well as participating in data reforms, like the CDR regime. As an example, only APRA-regulated entities are required to comply with APRA's CPS 234 Information Security, which outlines steps that should be taken to ensure resilience against information security incidents. Broadly speaking, consumers and the community have the right to expect that where similar services are being provided, similar protections are in place.

2.4 Regulatory matters, including Regulatory Technology

CBA operates in a highly competitive environment, where organisations of all sizes are investing in digital capabilities to attract and retain customers. As the pace of technological change increases and Australia transitions to a digital economy, CBA believes there is an important need for regulations to keep pace with change and remain current.

We note the Committee's Interim Report recommendation that the Government should support self-regulation where innovative products emerge, whilst ensuring strong consumer protection. While CBA supports this recommendation, we acknowledge that formal regulation may need to play a role in supporting the effectiveness of industry self-regulatory frameworks, such as by requiring comprehensive participation and uptake by all providers in a given market. The ePayments Code, administered by ASIC, demonstrates the limitations of a purely voluntary code.

The ePayments Code is a voluntary code of practice to which most banks, credit unions and building societies, and some non-banking entities currently subscribe. The last comprehensive review of the ePayments Code occurred around 10 years ago, despite significant change taking place in the Australian payments landscape and now gathering pace following the COVID-19 pandemic.

As a result, the ePayments Code currently does not cover a range of payment options available to consumers, including digital wallets, contactless payments, tokenisation, biometrics, or the New Payments Platform. In turn, this means that consumer protections available under the ePayments Code for other transactions, like credit cards, ATMs, internet and mobile payments, are not available to consumers making use of new payment offerings, placing them at a disadvantage.

The ePayments Code, while voluntary, is contractually enforceable for those institutions that subscribe to it, creating an imbalance within the payments system and customer confusion in relation to consumer protections and liability arrangements. We note that the Financial System Inquiry[15] in 2014, Productivity Commission[16] in 2018, and the Council of Financial Regulators[17] in 2019 have recommended that the ePayments Code be mandated.

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[15] Federal Treasury, 2014, *Financial System Inquiry Final Report*, p.xxiv.
[16] Productivity Commission, 2018, *Competition in the Australian Financial System – Inquiry Report*, p.49.
[17] Council of Financial Regulators, 2019, *Regulation of Stored-value Facilities in Australia*, p.1.

To provide certainty for customers and encourage adoption of and confidence in new technologies, equal consumer protections across equivalent services should be provided by all service providers that touch the payments value chain, with mechanisms for liability allocation across the entire digital ecosystem.

While ASIC are currently undertaking a review of the ePayments Code, which commenced in 2019, the role and effectiveness of the ePayments Code and broader consumer protection needs in a digital economy should be comprehensively reviewed within the context of the Treasury review of the wider payments regulatory architecture, given the scale and pace of change in the payments landscape.

Further, we note the ACCC's inquiry into markets for the supply of digital platform services, initiated by the Government, will also provide an important mechanism to consider the wide-ranging implications of the ever-expanding role of digital platforms, including payments, in our daily lives and economy more broadly. Similar inquiries have also been undertaken internationally, including the US Congress investigation into competition in digital markets and investigations by the EU into breaches of anti-trust rules.

As mentioned in a recent speech by the RBA Governor, big tech platforms are increasingly incorporating payments functionality into their service offerings, which, while providing innovation, are raising new and complex competition and consumer protection issues[18].

We support the development of innovative products and services, and the benefits it brings to consumers. While regulation should not impede innovation, it does have a role to play in maintaining consumer protections, avoiding regulatory asymmetry and in turn supporting competitive neutrality.

These are issues that should be considered holistically through co-ordination of relevant industry, regulatory and government reviews currently underway.

2.4.1 Regulatory Technology

CBA recognises the important role that RegTech will play in enabling us to deliver on our regulatory commitments, whilst empowering us to digitise, automate and redesign our core risk and compliance processes.

This recognition has seen CBA implement a number of RegTech initiatives, from executing a range of proofs of concept to developing a Global RegTech Alliance. The range of work undertaken contributed to CBA being awarded RegTech Innovator of the Year at the RegTech Association's RegTech Awards 2020.

In relation to 'Rules as Code', CBA supports governments exploring the creation of 'Rules as Code' capabilities that objectively articulate and outline the prescriptive, deterministic rules within regulatory obligations and policy in both human and machine readable formats. If delivered, we believe this capability could increase the efficiency of compliance within regulated

[18] RBA Governor's speech, December 2020, *Innovation and Regulation in the Australian Payments System.* Accessible online at: https://www.rba.gov.au/speeches/2020/sp-gov-2020-12-07.html

entities, whilst enabling regulated entities to deliver better customer outcomes as a result of the certainty and assurance that regulators could provide through the codification of their rules.

CBA would welcome opportunities to collaborate with Federal and State Governments, alongside regulators, to co-design, create and test the use of ‘Rules as Code’ capabilities.

To help the Australian economy recover from COVID-19, CBA suggests that the priority area for the development of ‘Rules as Code’ should be the policies, legislation and regulation that is associated with the process of starting, running and managing a small business. By simplifying these processes and enabling entrepreneurs to accelerate the creation of safe, sound and secure businesses, we can support the next generation of small businesses and industries to enable our economic recovery.

For the financial services industry, CBA would suggest that the priority areas for the development of ‘Rules as Code’ be the policies, legislation and regulation connected to KYC, AML/CTF, and financial product design and distribution obligations.

To accelerate the development of ‘Rules as Code’, we consider the Government should establish a ‘Rules as Code’ incubator, focused on selecting the core technology platform to host the rules engine and creating the supporting processes that would enable regulators across the country to convert their regulation into machine-readable rules. The incubator could then work directly with regulators and impacted regulated entities in priority areas of regulatory modernisation to facilitate the conversion of static rules to machine-readable rules available through the ‘Rules as Code’ platform. We note that the scope of this should focus on the prescriptive, deterministic rules that exist within regulation and legislation, rather than principles-based elements of legislation.

Additionally, CBA welcomes the Productivity Commission’s report on Regulatory Technology and is supportive of each of the ideas outlined within the ‘pre-conditions for the adoption of RegTech’ section of the inaugural report.

There is also an opportunity for the Government to consider the creation of a certification process for RegTech providers and solutions by regulators, which would encourage the adoption of RegTech in Australia at scale.

This certification process should be the outcome of analysis of a RegTech solution by a regulator and the subsequent testing of a given RegTech solution within the proposed RegTech sandbox, or safe technology environment, which could exist between regulators, RegTech developers and regulated entities.

Certification would provide assurance over the application of the technology within regulated entities, whether they are large or small, and create greater levels of confidence in the marketplace as to the ability of a given RegTech provider to be able to support an entities compliance with a given regulator, or regulation.

As mentioned in Section 2.1.2 and previously raised with the Committee, there is also an opportunity for Government agencies to make more of the data they hold available to citizens, and enable citizens to share this data more readily, safely and securely with private sector entities. This would align with principles established under the Government's CDR regime, whereby citizens are able to authorise the sharing of their data between private sector entities.

As an example, ASIC manages the registry of Australian companies and organisations, which holds data used in processes to originate business accounts to verify company details, including ABNs, ACNs, and directors. CBA suggests there is an opportunity to explore integration, via APIs, with ASIC's registry, allowing for the real-time verification and update of company data. Access to current and verified company details would help to streamline the account opening processes for financial institutions, benefitting customers through more timely decision-making.

Further, allowing individuals to authorise a one-off sharing of certain data sets from the ATO with financial institutions when they are applying for loans would also significantly reduce the time taken for loan approvals, improving access to credit and also reducing errors.

We highlight these examples as customers are currently reliant on manual processes to provide financial institutions with their verified data held by the ATO, and they also demonstrate the need for a holistic view of how citizens can access and share their data held by both private and public entities.

2.5 Collaboration between large businesses and start-ups

CBA recognises the role that we have to play in the FinTech ecosystem and collaborating with start-ups to deliver benefits for individuals, businesses and the broader Australian economy.

We previously shared with the Committee that, in February this year, CBA launched x15ventures as an investment and venture-build entity to identify Australian start-ups with innovative solutions for our customers, and support their founders through mentoring and funding.

x15ventures is already on its way to delivering against its intention to launch more than 25 new ventures over the next five years. To date, x15ventures has helped bring to market:

- Home-in, a virtual home buying concierge;
- Vonto, a free app for small business owners to better understand their business data;
- CreditSavvy, providing users free and instant access to their credit score and credit file information; and
- Backr, a free platform to simplify the process of setting up a business.

The work of x15ventures contributed to CBA being awarded the AFR BOSS Magazine's Most Innovative Companies Award in the Banking, Superannuation and Financial Services category in 2020. The award was specifically in recognition of Vonto, which is helping small businesses to make data-driven decisions by using one platform to link multiple business tools, including Facebook, Google Analytics, Instagram, Shopify, Xero and Vend. This provides businesses a holistic view of their data without needing to switch between different platforms and completing their own analysis.

This year, x15ventures has also held two Xccelerate programs, which give Australian start-ups access to a range of CBA mentors and the chance to pitch for $150,000 in funding from x15.

The first Xccelerate program, held in July, focused on ideas that help improve the financial wellbeing of small businesses. givvable, which provides a platform for companies to find and source sustainable suppliers, was announced as the winner and awarded the $150,000. givvable are now working with x15 to further develop their service with CBA and its business customers.

In November, the second Xccelerate program was held and focused on solutions to help young Australians get ahead financially – a timely and important topic given the uncertainty being faced due to the COVID-19 pandemic.

Australian start-ups and entreprenuers were encouraged to submit innovative digital services that support positive financial habits to address daily money management, offer new ways to live in or own a home sooner; or help casual, freelance and gig workers to thrive.

Of the more than 80 start-ups that applied, Own Home was awarded the $150,000 from x15. OwnHome helps turn renters into homeowners by buying a property for the customer. The customer is able to move into the home straight away and simply make a monthly payment to OwnHome. Within the first two to five years, the customer is able to buy the property off OwnHome at a pre-arranged price.

x15ventures intends to host future Xccelerate programs to continue engaging with and supporting the local start-up industry.

2.6 Conclusion

The financial services industry in Australia is evolving with new entrants, both small and large, offering a range of innovative products and services. This competitive force within the industry will only drive further change and innovation, of which consumers will greatly benefit.

As the transition to a digital economy accelerates, we encourage greater coordination across government and regulators to ensure reforms undertaken are complementary, in both intent and implementation.

While self-regulation and the streamlining of regulation help to encourage innovation, we consider that where similar products and services are being provided, a level playing field will be key to encouraging ongoing competition, innovation and maintaining appropriate consumer protections.

TAB 14: Exhibit CBA-1

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

CBA

CBA42QW: Merchant services and low cost routing:

(a) In terms of your Point of Sale (POS) strategic merchant services:

(i) What is the total number of your POS strategic merchant services customers?

(ii) What is the number of small and medium business customers?

(b) What number and share (percentage of total) of your total strategic merchant services customers and number and share of small and medium business merchant services customers:

(i) Use the Least Cost Routing (LCR) or Merchant Choice Routing (MRC) option for multi-network debit transactions?

(ii) Have a contract for the lowest cost routing option, when including all fees associated with the transaction including interchange and scheme fees?

(c) Is LCR or MCR on multi-network debit transactions offered to all customers as an opt-out option to ensure all get access to savings? If not:

(i) Why?

(ii) Considering that the Reserve Bank of Australia has advocated LCR since 2013, why have you not found a way provide this service and the associated cost savings to all of your merchant services customers?

(iii) Do you believe you are acting in your merchants' best interests by not passing on possible savings?

(d) Are LCR or MCR services offered on all terminal types for multi-network debit transactions? If not:

(i) Which terminal types do not have LCR or MCR?

(ii) What percentage of your terminal fleet does this represent?

(iii) When do you plan to upgrade those terminal types that do not have LCR or MCR to enable those merchants with those terminal types to access LCR or MCR?

(e) Are LCR or MCR services offered on all pricing plans for multi-network debit transactions? If not:

(i) Which pricing plans do not have LCR or MCR as an option?

(ii) What percentage of your small and medium business merchant customers are on these plans?

(iii) Why?

(f) If you provided all your strategic and small and medium business POS merchant services customers access to the lowest cost scheme on all multi-network debit transactions, what would the savings be for:

(i) Your strategic merchants customers?

(ii) Your remainder of medium and small business merchant customers?

(g) If you passed on at POS the lowest cost per transaction via dynamic routing to your merchants, based upon current and eftpos 1 July 2020 pricing, what would the savings be for:

(i) Your strategic merchants customers?

(ii) Your remainder of medium and small business merchant customers?

(h) Are any additional fees or charges, such as terminal rental, added or increased for small and medium business merchant customers who elect to implement LCR or MCR?

(i) If so, why?

(ii) Do you increase the average eftpos transaction fee for customers who choose to use LCR or MCR compared to other plans? Why?

(iii) Does a customer's choice to use LCR or MCR for debit transactions impact the fees you charge for credit transactions for any of your merchant customers? Why?

Answer: (a)

(i) “Strategic merchant” is a term used by the card schemes. We are aware that ten merchants qualify for various strategic merchant interchange rates, from schemes such as Visa, Mastercard and Eftpos; but these arrangements – including the rates set under them – are determined by the respective scheme.

(ii) CBA provides POS services to approximately 130,000 small and medium business customers. (We note these small and medium business customers do not typically fall in the schemes’ categorisation of strategic merchants.)

(b)

(i) Depending on the customer’s pricing arrangements, MCR may not be relevant:

- Debit interchange fees for Strategic merchants are determined directly by the respective schemes. This then allows them to choose the scheme to which they route debit transactions. For these customers, MCR is not applicable. These merchants comprise approximately 25% of transaction volume.

- We provide bundled merchant fees to support our small merchants, who value simplicity and certainty of payment costs. Our bundled packages range from a fixed fee of $30 to $150 per month, which provides the merchant with a device and includes monthly turnover ranging from $1,500 to $12,000 respectively (effective rates of 2% and 1.25%). We have approximately 30,000 small business customers (approximately 20%) on these plans, for whom MCR is not relevant.

- Additionally, we also provide a new pricing plan that has a single transaction fee for all card types of 1.8% regardless of the card type. This approach is increasingly popular with small merchants and is also championed by global acquirers. For these customers MCR is not relevant.

For small and medium sized customers that are not classified by the schemes as strategic and are not on a bundled package, the pricing is negotiated based on a range of factors, including merchant turnover, industry, average transaction size, transaction mix and relationship. In these cases, different pricing is applied for debit cards across the schemes and MCR is relevant.

At present less than 1% of CBA’s medium sized business customers have chosen to enable MCR on their payment terminal.

We are conscious that the uptake of MCR has been low relative to the number of customers who could stand to benefit from accessing the option. For this reason, this month we will write to all of our relevant merchant customers to highlight the potential benefits of MCR and encourage them to contact us to discuss their circumstances and explore if they could benefit from MCR arrangements. We will also raise awareness through other channels we use to communicate with our customers.

(ii) Approximately 20% of our customers are on bundled pricing plans or single transaction fee for all card types, where the mix of schemes does not influence the cost of the plan. For these customers MCR is not applicable.

The remaining 80% of merchants can enable MCR on their terminal by contacting CBA without the need to change their contract. Some merchants may need their terminal replaced, at no cost, if they have a terminal that does not support MCR.

(c) MCR on contactless multi-network debit transactions is available to all CBA customers on an eligible pricing plan, on an opt-in basis.

Customers can request CBA to have MCR enabled. In some cases this first requires a software upgrade, in other cases a free replacement device and the merchant to choose their preferred MCR settings.

(i) There are many different factors that influence the cost of a debit transaction, including:

- Card type
- Fee structure
- Merchant industry
- Scheme fees
- Transaction size
- Merchant turnover

Some of these components are input variables into interchange rates, which are set by the schemes and revised as often as quarterly.

The schemes also differ, including in their approach to chargeback, dispute handling and insurance. This means that consumer outcomes are different, depending on the scheme that is chosen. We believe this should be a decision for the merchant or the consumer, not the bank.

Further, as not all terminals currently in the field are compatible with MCR, in some cases we would need to upgrade the terminal before the customer could access MCR. We are actively decommissioning all of these terminals – a process that will take two to three years – but will replace for free the terminal of any merchant requesting MCR.

We are conscious that the uptake of MCR has been low relative to the number of customers who may stand to benefit. For this reason, as outlined above we are writing to all our applicable merchant customers this month to highlight the potential benefits of MCR and encourage them to contact us to discuss their circumstances and explore if they could benefit from MCR arrangements. We aim to increase the uptake of our MCR option considerably.

(ii) Once eftpos supported contactless debit card acceptance at the end of 2016, and the RBA called upon acquirers to enable LCR in late 2017, CBA began development of our MCR solution over an 18-month period, and commenced the rollout of MCR in July 2019. At the time of the launch, the Australian Retailers Association said, "The Commonwealth Bank's solution offers amongst the richest functionality in the market, making it a big win for Australian retailers that has been a long time coming."

As outlined in our answer to i) above, it is CBA's view that the decision on routing the transaction is best made by the cardholder or the merchant, hence the manner in which the CBA MCR solution has been implemented.

(iii) Debit interchange rates for strategic merchants are determined directly by the schemes.

20% of our small and medium merchants prefer certainty and clarity of merchant fees, and utilise bundled pricing packages.

For the remainder of our merchant base, we recognise uptake of MCR has been low and as outlined above, we are taking steps to address this, to ensure we can assist our customers to make the choice that best suits their needs.

(d) MCR has not been enabled on terminal types that are being withdrawn from the market over the next two to three years. Any merchant with a discontinued terminal, wishing to enable MCR, is eligible for a replacement terminal at no additional charge.

(i) Customers using the Albert or 5100 terminal models cannot opt into MCR without replacing their terminal. A replacement is available for free for these merchants.

(ii) The Albert terminal represents ~30% of CBA's merchant terminal fleet and the 5100 terminal currently represent 3-4%. Both terminal types are being decommissioned as newer and more advanced devices are introduced into market. We expect to complete this work in two to three years.

(iii) As outlined in (ii) we are actively decommissioning legacy terminals and expect to have a fully enabled fleet over the next two to three years. Merchants with a legacy terminal requesting MCR can have their old terminal replaced at no additional cost.

(e) As outlined above debit interchange rates for strategic merchants are determined by the schemes. Additionally, we offer bundled pricing packages where MCR is not relevant. For all other customers, MCR is available.

(i) The following pricing plans do not have MCR as an option:

- Simple Merchant Plan
- Bundled
- Semi-bundled

(ii) Around 20% of our merchant customers, mainly small and medium businesses, are on one of the three plans that do not offer MCR.

(iii) These plans are for customers with a preference for certainty around total cost. As such, they provide a consistent price for all debit and credit scheme transactions irrespective of the scheme. In general, this will be in the range of 1.25% - 2% and is popular with small merchants and championed by global acquirers gaining traction in the Australian market.

(f)

(i) Debit interchange rates for strategic merchants are determined directly by the schemes.

(ii) To calculate this over a 12-month period we would need to take into account range of variables, for every payment, including:

- Card type used
- Merchant industry
- Scheme fees
- Transaction ticket size
- Individual pricing.

We would also need to exclude a range of payments, including international, chip and PIN, e-commerce and mobile wallet payments. It should be noted that the scheme interchange tables are updated as frequently as quarterly. As such we have not performed this calculation given the number of variables and complexity, as well as the need to make a number of assumptions.

(g)

(i) See response to (f)(i)

(ii) See response to (f)(ii).

(h) No.

(i) N/A

(ii) No.

(iii) No.

TAB 14: Exhibit CBA-1

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

CBA

CBA43QW: Acquiring merchant facilities:

(a) Please provide details for debit transactions through your Acquiring merchant facilities for calendar year 2019 and calendar year 2020 (to date) including:

(i) The total number?

(ii) In dollar terms?

(iii) Total fees received by the bank?

(b) Please provide details for debit transactions through your Acquiring merchant facilities for financial year 2018/2019 and financial year 2019/2020 (to date):

(i) The total number?

(ii) In dollar terms?

(iii) Total fees received by the bank?

(c) Please outline the schemes that provide debit card payments services currently contracted by the bank, including:

(i) The name of the card payments service provider.

(ii) The length of their current contract.

(iii) How far through the contract the bank currently is.

(iv) How much of the contract remains.

(v) Whether the contract involves the provision of card payments with debit, credit or other products.

(vi) Whether the contract applies incentive payment arrangements based on volume of processed transactions or other performance criteria per payment type or as an aggregate volume.

(vii) Details of the 'profit' or 'premium' charged to the business between the cost of the transaction fees charged to the acquiring bank by various schemes, and the transaction fees charged to small and medium business customers by the acquiring bank, including interchange, scheme fees, acquirer margin and terminal rental.

Answer: (a)

(i) We have attached a copy of the transaction data from the Reserve Bank of Australia, which shows both number and dollar figures for debit transactions – aggregated across the market and reflecting CBA's market share. We request this data remain confidential.

(ii) See response to (a)(i) above.

(iii) Total fees received by the bank is not a figure we have previously disclosed to the market, as it is commercially sensitive.

(b)

(i) See response to (a) above.

(ii) See response to (a) above.

(iii) See response to (a) above.

(c)

(i) CBA, via our Acquiring business, supports payment acceptance across a majority of card schemes including eftpos, Visa and Mastercard.

(ii) The issuing and acceptance licences CBA has with each of these schemes do not have a fixed term. CBA also has a range of business agreements with these schemes with varying expiry terms, which are confidential and not disclosed to the market.

(iii) Please refer to (ii) above.

(iv) Please refer to (ii) above.

(v) The licence agreements do not differentiate between card types when it comes to Acquirer arrangements, noting changes to the scheme "Honour All Cards Rule" introduced by the RBA in 2005 which relate exclusively to merchant acceptance options. The business agreements referenced above do have specific arrangements for debit and credit, however such terms are typically restricted to the issuing business. The Bank has business agreements with eftpos, Mastercard and Visa, the terms of which are confidential and not disclosed to the market.

(vi) The CBA Acquiring business does not receive any incentives based on volumes or transactions processed across any scheme.

CBA does however receive contributions from all schemes for investment in the delivery of new product capability for acquiring and issuing. CBA and the schemes jointly agree on how these contributions are reinvested in the business.

(vii) Margins vary depending on a range factors, such as industry sector, merchant volume, transaction size, merchant turnover, and card types. Similarly, the cost base is influenced by risk and operational factors that vary across these same dimensions. Given the competitive sensitivity of these pricing arrangements, we have not previously disclosed this detail to the market, but RBA data which aggregates whole of market is helpful to understand what is happening to debit card merchant acquiring margins.

Average debit card merchant fees for Mastercard and Visa transactions have reduced by 0.13% (a 21% decline) over the past three years and 0.06% over the past two years, while the input costs, mainly made up of the weighted average interchange fee, have remained relatively stable. For the same period, merchant fees for eftpos transactions have remained relatively stable, while input costs, mainly driven by scheme fees, have increased marginally. It is clear that increasing competition in the merchant acquiring industry in recent years, with the entry of a number of global acquiring monolines, has contributed to a significant reduction in merchant acquiring margins.

TAB 14: Exhibit CBA-1

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

CBA

CBA44QW: For each provider, provide the following information based on the method of calculation for each merchant category type in your debit Acquiring portfolio:

(a) Contracted provider (e.g. Visa)

(b) Interchange fee (e.g. 0.04 per transaction)

(c) Scheme fee based on an $40 transaction (e.g. $0.01 per transaction for first twenty transactions, then $0.02 for every transaction thereafter)

(d) Acquirer costs and margin (e.g. 1 per cent of transaction)

(e) Any other cost (i.e. any fee not listed above)

(f) Any 'profit' or 'premium' charged in addition by the bank that is passed onto the merchant (i.e. any fee not listed above)

(g) What is the total retail cost charged to merchant customers for each merchant category and each debit scheme, not including volume incentive payments for the following transactions:

(i) $5

(ii) $20

(iii) $40

(iv) $100

(v) $1,000

(h) What is the total Acquiring wholesale cost for each merchant category and each debit scheme, not including volume incentive payments for the following transactions?

(i) $5

(ii) $20

(iii) $40

(iv) $100

(v) $1,000

Answer: (a) Mastercard, Visa, Union Pay and eftpos

(b) Interchange fees are set by the scheme, not by the scheme participants. Details of interchange fees for each respective scheme have been provided as follows:

Mastercard
https://www.mastercard.com.au/en-au/about-mastercard/what-we-do/interchange.html

Visa
https://www.visa.com.au/about-visa/interchange.html

eftpos
https://www.eftposaustralia.com.au/about/interchange/

(c) Scheme fees are published by each of the schemes and updated by the schemes from time to time. These include a range of fees that cover processing, settlement, marketing and other services, and vary depending on a range of factors including card type, geography and mode of transaction. Given these fees are published under confidentiality provisions we cannot disclosed them without the prior written consent of the scheme.

(d) Please refer to the answer to question CBA43QW(c) above.

(e) Please refer to the answer to question CBA43QW(c) above.

(f) Please refer to the answer to question CBA43QW(c) above.

(g) CBA offers a range of bundled and negotiated pricing arrangements. Our bundled packages range from a fixed fee of $30 to $150 per month, which provides the merchant with a device and includes monthly turnover ranging from $1,500 to $12,000 respectively. Additional details on the bundled packages can be found at our website:
www.commbank.com.au/business/merchant-services/eftpos-terminals.html

The negotiated arrangements, typically for larger merchants, will depend on a range of factors including, merchant turnover, industry, average transaction size and transaction mix. It should be noted that interchange fees, which are a material component of retail merchant fees, are set by the respective schemes, and not by the participants in those schemes.

(h) Please see answer to (b) above.

TAB 14: Exhibit CBA-1

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

CBA

CBA45QW: Eftpos:

(a) Do you intend to pass on savings from the eftpos interchange wholesale repricing for routed multi-network debit card transactions that is being introduced on 1 July? If so, how much of the 2 cent reduction per transaction will be passed on?

(b) When do you intend to turn on all eftpos digital messages?

(c) Have you turned on at least the low risk transactions such as card on file and D&W that were technically available in 2018? If not, why?

(d) Do you believe turning on digital for eftpos will create more price competition and place issuer income at risk? If so, is this one of the reasons you have been slow to launch eftpos digital?

(e) Do you think you are acting in your merchants' best interests by not turning on eftpos digital transactions sooner?

Answer: (a) All customers on an "interchange plus" pricing plan who choose to route transactions to eftpos will benefit from this interchange reduction. CBA will continue to promote its MCR solution to all customers and its associated potential benefits, and as noted in our response to CBA42QW we have plans for an elevated awareness campaign to be in market over the coming weeks.

(b) Specifications relating to these capabilities have only recently become available with any great certainty and clarity. These delays not only impact on CBA's ability to prioritise the necessary resources, but also on the availability of services from vendors required to support the delivery of these capabilities to our customers.

CBA is committed to addressing gaps in the eftpos value proposition and has prioritised the necessary work to enable eftpos digital features including mobile wallet transactions, card on file, transit and deposit and withdrawal messages gradually over the next 12 to 18 months. The enablement of eftpos in our digital wallet offerings is currently on track for a November launch.

(c) See our answer to (b) above.

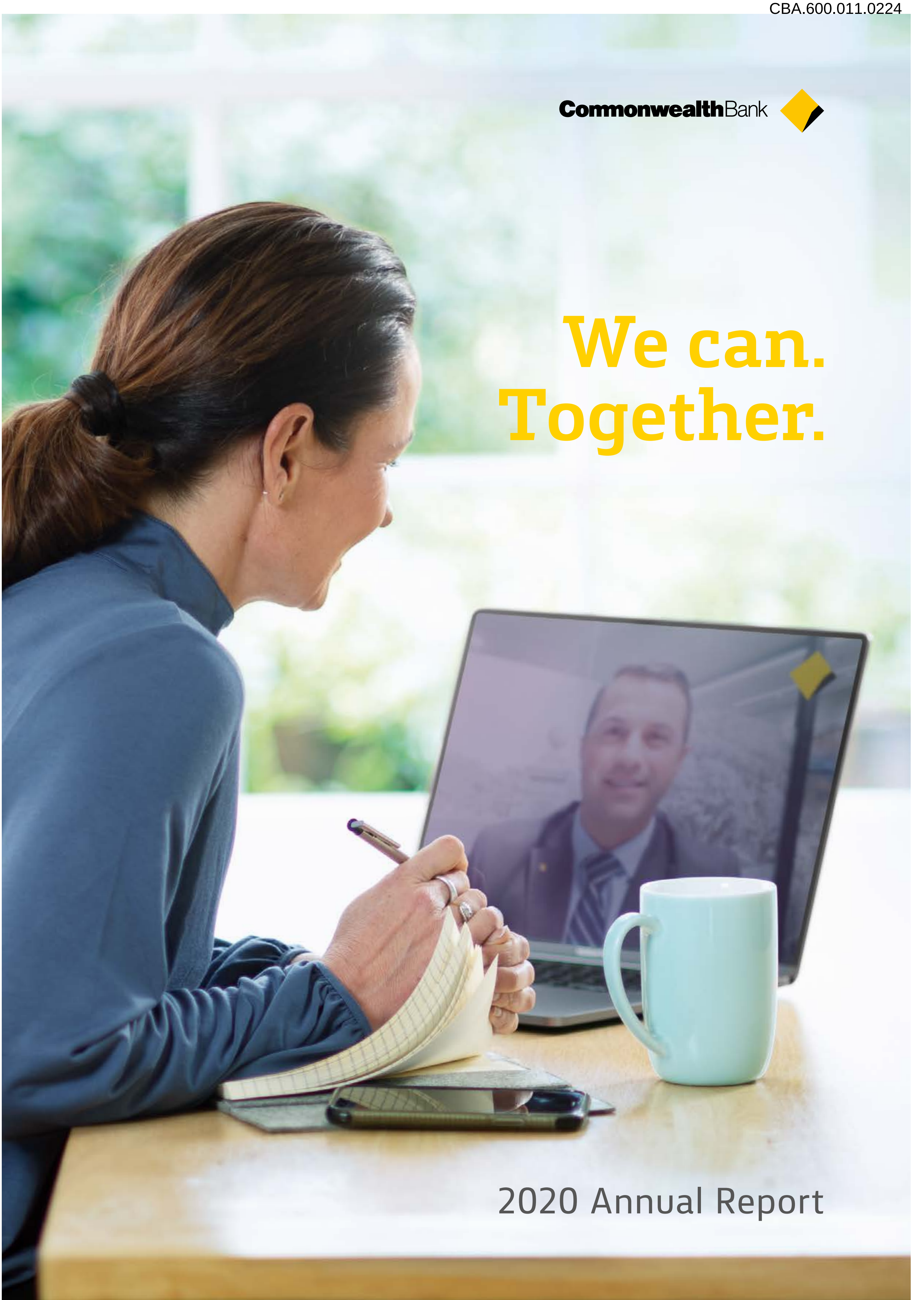
(d) As mentioned above, eftpos digital is still in the process of being delivered by CBA due to delays in the enablement of critical capability by eftpos such as automated dispute and chargeback handling, automated bill update services and the ability to provide details of recurring payments (as required under the Banking Code of Practice).

CBA's merchant acquiring business makes decisions to build support for new technology based on the demand from its merchant customers, cost, and priority against other initiatives in the pipeline to meet merchant needs, system resilience and regulatory compliance. For example, in recent years we have enabled simple access to Alipay and American Express to our merchants, both of which are likely to have a negative impact on our issuer revenues.

(e) It is not in our merchants' best interests to turn on eftpos digital before eftpos is ready to support e-commerce with a mature and tested disputes process. We are in the process of developing capability to combat and minimise fraud in e-commerce that will provide greater benefit to merchants than an earlier launch of eftpos digital.

TAB 15: Exhibit CBA-1

CBA.600.011.0224



CONTENTS

Overview

Delivering for our customers and communities

We have been focused on supporting our customers and communities, especially through this year's challenges.

How we create value

Best in digital

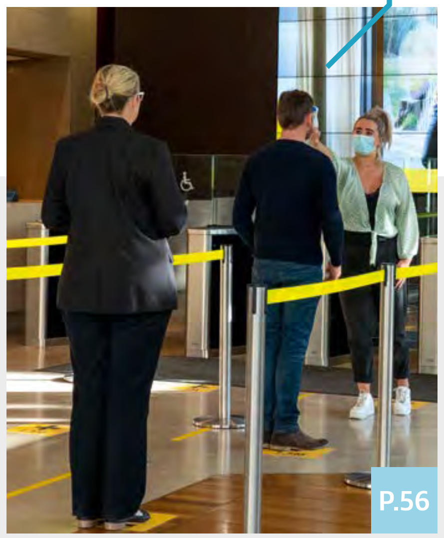
We aim to provide the best digital banking experience by bringing together market-leading service, technology and innovation.

This is an interactive PDF designed to enhance your experience. The best way to view this report is with Adobe Reader. Click on the links and use the home button in the footer to navigate the report.

The release of this announcement was authorised by Kara Nicholls, Group Company Secretary.
Commonwealth Bank of Australia I ACN 123 123 124 I Ground Floor Tower 1, 201 Sussex Street, Sydney NSW 2000 I 12 August 2020
161/2020

Responding to COVID-19 risks

We have taken action to ensure operational resilience and to address the risks associated with COVID-19.



Directors' report

Financial report

Additional information

2020

Service

Innovation

Strength

Building a more focused bank to deliver for our customers, underpinned by innovation and a strong balance sheet.

We can. Together.

2020 highlights

Our strategy is to become a simpler, better bank that delivers balanced and sustainable outcomes for our customers, community, our people and shareholders.

Our purpose

To improve the financial wellbeing of our customers and communities.

Our values

We do what is right

We are accountable

We are dedicated to service

We pursue excellence

We get things done

Our business areas

Retail Banking Services

Business and Private Banking

Institutional Banking and Markets

New Zealand (ASB)

Our brands

Commonwealth Bank is the largest bank and best known financial services brand in Australia.

Financial highlights

Group

Statutory net profit after tax (NPAT)
$9,634m
▲ 12.4%

Cash NPAT
$7,296m
▼ 11.3%

Operating income
$23,758m
▲ 0.8%

Net interest margin
2.07%
▼ 2 basis points

Capital ratio
CET1 (APRA, Level 2)
11.6%
▲ 90 basis points

Deposit funding
74%
FY19 69%

Value created

	Customers	Community	Our people	Shareholders
Our targets	#1 Net Promoter Score (NPS) in consumer and business banking	Top quartile among peer companies for reputation improvement	Top 10% globally for our employee engagement score	Top quartile TSR outperformance relative to peers
Our progress	#1 mobile app and internet banking NPS; #2 consumer NPS; #3 business NPS	**RepTrak reputation score** 61.6 Average of peer companies: 67.1	**Employee engagement** 81% Global top 10% threshold: 84%	**Total shareholder return (TSR)** 151% 10-year; 8% 5-year; (11%) 1-year

Customers	Community	Our people	Shareholders
17m customers served	**$3bn** tax expense – one of Australia's largest taxpayers	**89%** of employees are proud to work at the Bank	**888,000+** shareholders, 78% Australian owned
$106bn of new lending for Australian home buyers	**377,214** students enrolled in Start Smart financial education	**$5.8bn** paid to our 41,778 people in salaries and superannuation	**$2.98** dividend per share, fully franked
$27bn of new lending for Australian businesses	**$10m** commitment to bushfire recovery grants	**39,000+** people and delivery partners enabled to work remotely during COVID-19	**$5.3bn** returned to shareholders as dividends
$650m+ in loans under the Government's Coronavirus SME Guarantee Scheme, >50% of scheme lending	**100%** of Australian electricity needs from renewable energy sources	**41%** women in Executive Manager and above roles	**$2,420** dividend amount received by the average retail shareholder

Financials are presented on a continuing operations basis, except statutory NPAT, dividend per share and Common Equity Tier 1 (CET1) which include discontinued operations. All figures relate to the full year ended 30 June 2020 and comparisons are to the year ended 30 June 2019, except employee engagement which is 30 April 2020 compared to 30 April 2019. For data sources, see *Glossary* on page 293.

CHAIRMAN'S MESSAGE

Strength in uncertain times

Our progress on key strategic, risk and governance priorities, together with the strength of our balance sheet and capital position, mean the Bank is well placed to deliver for our stakeholders.

Shortly after the Commonwealth Bank of Australia commenced operations in 1912, the world was gripped by the Spanish flu pandemic of 1918. Now, as then, the Bank's purpose is to support the financial wellbeing of our customers and the community, and to provide strength in uncertain times.

This past year has been extremely challenging for many of our customers, the economy and the Australian community at large – initially due to bushfires and drought, and more recently due to the coronavirus pandemic. We have therefore been determined to provide financial relief to households, keep working capital and credit flowing for businesses, deliver performance for our shareholders, and facilitate economic activity and financial stability more broadly.

Our people and the Bank's leadership team have done an extraordinary job and responded quickly and effectively to the demands of COVID-19 – by meeting customer needs and supporting the delivery of the Government's stimulus initiatives. This has included helping businesses access JobKeeper and being the largest lender to small and medium sized enterprises through the Government's coronavirus loan guarantee scheme.

A simpler, better bank

Throughout the year, the Bank's leadership team has continued to deliver on our strategic priorities, with a focus on becoming a simpler, better bank. We have made substantial progress on divesting and ceasing our wealth management businesses, which has allowed management to focus on the performance of our core banking businesses and on providing the best banking experiences for customers. It has also created capacity for ongoing investment in our market-leading digital assets and in innovation for future growth. We have continued to make significant improvements in the management of non-financial risk, including better operational risk and compliance practices, thereby supporting balanced and sustainable outcomes for all of our stakeholders.

Business performance and dividends

The business performed well in 2020, with the strong focus on operational excellence driving growth in our core banking businesses. Cash net profit after tax was, however, lower primarily due to the $1.5 billion impairment provision taken for the expected impacts of COVID-19 on our customers and the economy and consequent credit losses.

Prudent balance sheet management underpinned the Bank's resilient funding and liquidity positions. Strong capital discipline resulted in a Common Equity Tier 1 capital ratio of 11.6% at 30 June, well above the Australian Prudential Regulation Authority (APRA) 'unquestionably strong' benchmark of 10.5%, and substantially above the regulatory minimum of 8%.

The Bank's strong capital position and operational performance continues to support returns for shareholders. The final dividend of 98 cents per share reflects the guidance issued by APRA in July, that for the remainder of the calendar year, banks should retain at least half of their earnings. The final dividend payout ratio is 49.95% of the Bank's second half statutory earnings. Combined with the interim dividend of $2.00, this takes the full year dividend to $2.98 per share, fully franked.

Regulatory and compliance update

We have made significant progress on implementing the recommendations from the 2018 APRA Prudential Inquiry into CBA, and have now submitted more than three-quarters of the milestones outlined in our resulting Remedial Action Plan (RAP). The Prudential Inquiry Report, information on our RAP, and the independent reviewer's (Promontory) quarterly progress reports are available at: commbank.com.au/APRA.

We are also well advanced on implementing the recommendations of the Financial Services Royal Commission. We are engaging constructively and transparently on matters that are being considered by regulators as a result of the Royal Commission or otherwise under investigation. Meanwhile, we continue to focus on remediating processes and systems, and have delivered refunds of more than $730 million to customers since 2015. Our priorities have included significant ongoing investment in our financial crime prevention and detection capabilities.

Culture, accountability and remuneration

Over the past two years, considerable attention has been given to cultural change within the organisation. The change has been values-led with strong leadership from the Board, the CEO and his renewed management team. There has been an acute focus on the skills and behaviours required of our people to deliver better stakeholder and risk outcomes. This includes our Code of Conduct, which incorporates our purpose, values and the 'Should We?' test, and guides our people on how they should act and make decisions to address customer and community expectations.

The changes we have made to incorporate risk considerations into our remuneration framework and assessment have delivered substantial improvements to both accountability and risk management maturity within the Bank. Unsatisfactory risk management outcomes and behaviours have negative remuneration consequences. Equally, to reinforce a positive risk culture, a significant proportion of senior leaders' short-term variable remuneration is tied to the successful delivery of our APRA RAP, and employees who rate 'exceptionally managed' for risk are formally recognised and rewarded.

We have continued to review the Bank's remuneration framework to ensure that it supports our strategic objectives of attracting and retaining exceptional talent, meets the spirit of anticipated regulatory change and is fit-for-purpose for the years ahead. For more details see the *Remuneration report* on page 78.

Sustainable business practice

We are committed to sustainable and responsible business practices, in accordance with the commitments outlined in our Environmental and Social Policy. We have continued to take the actions necessary to support the responsible transition to a net zero emissions economy by 2050, including ensuring that our business lending activities are aligned with this intent. This year, we reached our goal of sourcing 100% of our Australian electricity needs from renewable energy, and increased our lending to low carbon and renewable energy projects.

We also continued to support our customers and clients by providing products that incentivise emissions reduction and increase climate resilience. This year, our institutional bank has provided sustainability-linked loans that tie the borrower's cost of funding to the achievement of their emissions reduction targets, and our green mortgage initiative gave cashbacks to eligible customers with solar panels installed on their homes.

We have been embedding our human rights commitments in our operations and supply chain management, as well as in our lending and investing activities.

Board renewal

The program of Board renewal continues. Sir David Higgins retired on 31 December 2019, after more than five years of service and contribution to the Board. Wendy Stops has been an integral member of the Board since March 2015 and will retire at the conclusion of the 2020 Annual General Meeting on 13 October. In June, we announced that Simon Moutter will become a Non-Executive Director on 1 September 2020. Simon was previously Managing Director of Spark New Zealand Limited (New Zealand's largest telecommunications and digital services company) and has a background in science and engineering. He brings a deep understanding of technology, process effectiveness and business strategy to the Board.

Looking ahead

Although the year ahead will be marked by challenges and uncertainty, your Board and management team are very clear about the role the Bank must and will play in supporting our customers and the economy, while also maintaining a strong and resilient balance sheet and delivering operational performance for shareholders.

Thank you for your ongoing support.

C.B. Livingstone

Catherine Livingstone AO
Chairman

Delivering for our customers and communities

As the Bank for all Australians, we've taken decisive action to support customers, businesses, communities and the nation during one of the most challenging periods we've faced. By contributing to economic stability, we also advance the Bank's long-term success.

Serving our customers

We are dedicated to being there for our customers during some of the most significant events in their lives, and especially when we're needed most.

This year, in response to the coronavirus pandemic, our priority has been to do what we can to support our customers through the financial and business impacts of the crisis. We were able to act quickly because of the commitment of our people, our technology capabilities, and our strong financial position.

To provide immediate cash flow relief to households and businesses, we processed over 250,000 home, personal and business loan deferrals; and to get much-needed cash to businesses, we funded more than $650 million of new loans under the Government's Coronavirus SME Guarantee Scheme. Our digital channels managed 10.2 million peak daily logins, and we sent 130,000 debit cards to customers unfamiliar with digital banking to ensure they could make purchases and pay bills from home.

Contributing to our communities

Improving the financial wellbeing of communities is central to the Bank's purpose. This year we have been helping those impacted by bushfires and drought, as well as continuing to support local organisations, improve financial education and address financial abuse. To help communities rebuild after this year's devastating bushfires, we pledged $10 million in recovery grants, and also donated to and raised funds for the Australian Red Cross and Rural Aid.

For more than five years, we have been playing our part to address domestic and family violence and financial abuse. This has included equipping our frontline staff to help customers, providing direct financial assistance, and funding financial counsellors. Most recently, we funded the establishment of a Financial Independence Hub to help those impacted achieve long-term financial independence, no matter who they bank with.

Engaging our people

The improvements we've made in our management of non-financial risk have underpinned our ability to make high-quality decisions and implement them rapidly during the pandemic. This has enabled our people to go above and beyond to support customers and communities during challenging times.

Our people have been energised by our purpose and feel a strong sense of pride and confidence in the organisation. Employee engagement is up 13% this year and is now the highest it's been for more than four years.

Executing our strategy

Throughout the year, we have pursued our strategic priorities to simplify our business, lead in retail and business banking, and be the best in digital. By divesting and exiting our wealth management businesses we have been reducing complexity and risk in the Bank, and increasing our focus on driving performance in our core banking businesses.

Our retail bank extended its lead in home lending as our emphasis on operational excellence delivered consistent decisions and turnaround times for customers. Deposits continued to grow strongly, thanks to the strength of our branch network and digital assets. We have also been investing in more business bankers, and delivering faster, better service – including through our BizExpress facility, which provides business customers with same-day decisions on eligible business loans.

The current environment has accelerated the shift to digital banking and electronic payments. With the best digital assets in the market we are able to deliver richer and more personalised digital experiences and services. This includes our *Benefits finder* tool in the CommBank app which connects our customers to more than 230 government and third party benefits. Our customers clearly value the investments we've been making. We rank #1 for our internet banking and mobile app Net Promoter Score, and for the 11th consecutive year, we've been rated #1 for online banking by Canstar. Independent research firm Forrester has also rated the CommBank app as the overall digital experience leader among mobile banking apps in Australia for the fourth year in a row.

Delivering performance

Our financial results this year demonstrate the underlying strengths of our business, as well as the impacts of the coronavirus pandemic. Operating income increased 1%, due to strong operational performance, including above market growth in home lending and record growth in transaction deposits. This offset the impact of lower interest rates, COVID-19 related fee waivers, and reduced income from credit cards and international transactions due to lower consumer spending. Loan impairment expense increased significantly, due to the additional $1.5 billion provision taken for estimated future loan losses related to the pandemic. As a result, cash net profit after tax was 11% lower.

The strength of our balance sheet was a key highlight as it underpins our ability to serve our customers, drive core business outcomes and deliver returns for shareholders. We are now 74% deposit funded, up from 69% just last year and almost 20 percentage points higher since the global financial crisis. We also significantly increased our loan loss provisioning. We ended the year with a very strong capital position, putting us in the top quartile of international peer banks for capital. Our strong capital position, combined with our strong statutory profit, has allowed us to return $5.3 billion in dividends to shareholders this year.

Customers

Engaging with our customers to understand what is most important to them and helping them through challenging times.

For details see pages 30–31.

Community

Making a meaningful contribution to Australia and investing in the communities in which we operate.

For details see pages 32–33.

Strategy

Delivering a simpler, better bank that leads in retail and business banking – supported by the best digital experience for customers.

For details see pages 8–17.

Performance

Focusing on financial performance and balance sheet strength to drive core business outcomes and sustainable returns.

For details see pages 18–27.

Outlook

Our absolute priority is to help our customers and the broader economy recover. We will continue to work closely with our customers and undertake regular reviews and check-ins, to understand and support their needs.

While the duration and impact of the health crisis is unclear, Australia is relatively well positioned. We are starting from a position of fiscal and economic strength, and significant stimulus measures will continue to support the economy. There is a pipeline of infrastructure projects, and the outlook for mining and agriculture exports is strong.

We are, however, prepared for a range of economic scenarios. We've made provisions accordingly, and will monitor our lending portfolios closely as the situation evolves. We anticipate that lower credit growth and low interest rates will continue to put pressure on revenue, requiring increased focus on performance, efficiency and capital allocation.

Even in this challenging environment, operational performance in the business has remained strong. We will maintain our focus on retail, business and digital banking to further extend our franchise strength, and will innovate for future growth. We will also continue to work with our industry peers, the government and regulators to support initiatives that stimulate economic activity and jobs.

Throughout the year, and particularly in the last few months, our people have shown tremendous commitment to our customers, our strategic priorities, and to keeping the Bank running safely during a period of significant uncertainty. I thank them for their dedication, and am proud of what we have been able to do together to support our customers and the country at this time.

We remain focused on supporting our customers, driving operational excellence and delivering balanced outcomes. I am confident that given our digital leadership, balance sheet strength, and our people's care and commitment, we will continue delivering for our customers and communities, and for you, our shareholders.

Matt Comyn
CEO

Our strategic priorities

We are building on our strong foundations to drive performance and to position the Bank for long-term success.

Simplify our business

We are becoming a simpler bank by focusing on our core banking businesses and simplifying how we do business.

We have made substantial progress on divesting our wealth management businesses. This is reducing risk, cost and complexity, which together with the capital generated, supports reinvestment in our banking businesses and future returns. We have been simplifying our systems and processes to make it easier for customers and our people to get things done.

Lead in retail and business banking

We have the leading retail bank in Australia and are focused on growing our position in business banking.

We continue to strengthen our retail bank franchise by investing in exceptional customer service, the best distribution channels, leading technology and strong operational performance.
We are also investing in better business and institutional bank customer experiences through enhancements to our service, data and technology capabilities.

Best in digital

Our goal is to continue providing the best digital banking experience by making banking simple, smart and secure.

We invest in customer-facing and back-end technology to deliver easy to use, personalised, value-add and secure digital banking services. We are modernising and digitising our systems and processes to increase our capabilities. We continue to innovate both within our business and with partners.

Delivering balanced and sustainable outcomes

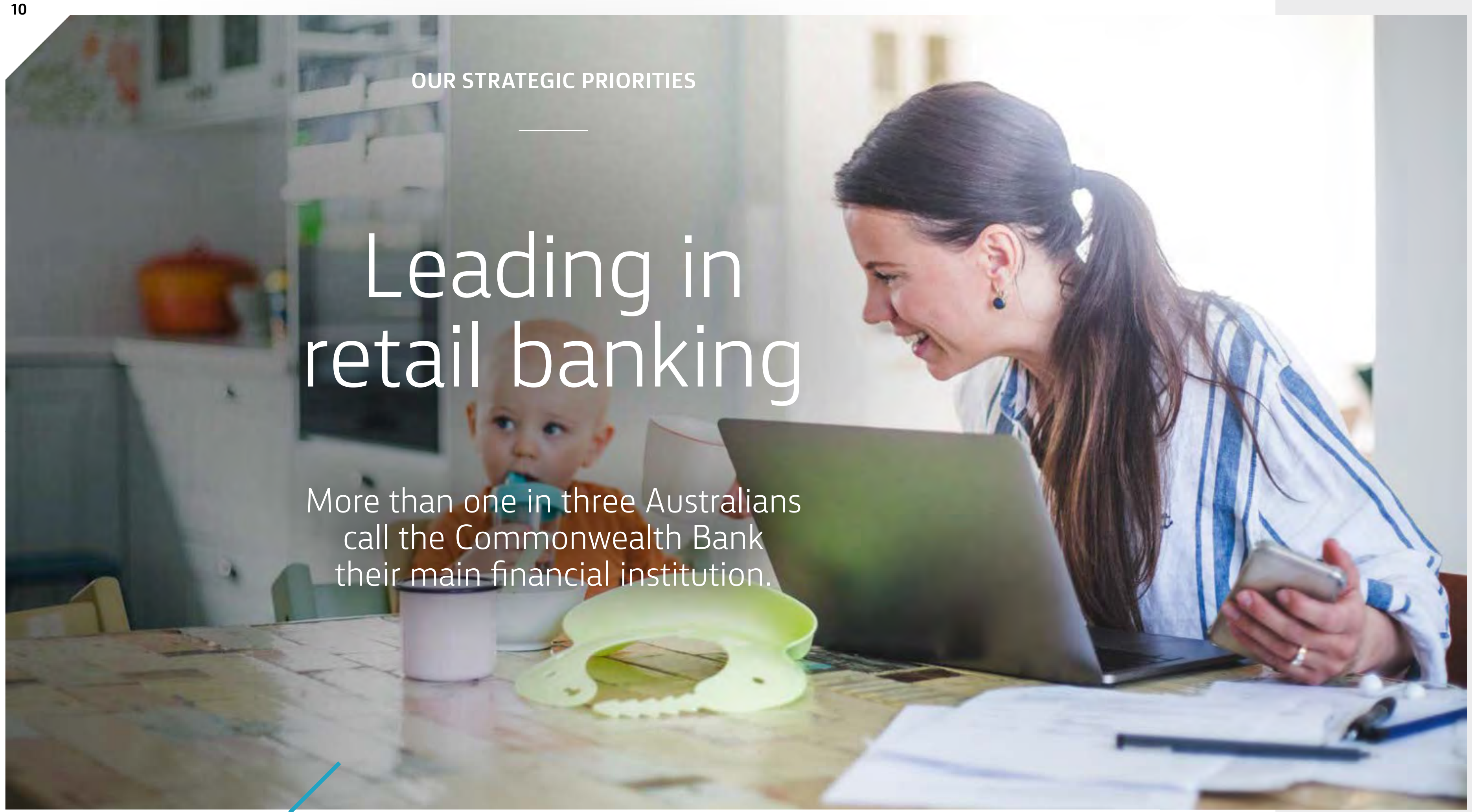
Achieving our strategic goals enables us to create value for our stakeholders.

Customers
Better outcomes

Community
Trusted and reputable

Our people
Energised, accountable

Shareholders
Long-term sustainable returns



OUR STRATEGIC PRIORITIES

Leading in retail banking

More than one in three Australians call the Commonwealth Bank their main financial institution.

Support for retail customers during COVID-19

Our priority has been to provide safe, continuous and proactive essential banking services to our customers.

We have kept our branches open with physical distancing measures in place to protect customers and our people, and have surged resources into our customer contact centres to meet the increase in demand for help. We have also used our digital channels to send personalised messages to customers to alert them to the support available.

To help households manage their cash flows, we quickly added new functionality to enable customers to apply for home loan repayment deferrals online, dropped the rates on fixed rate home loans, and reduced repayments on principal and interest variable rate home loans to the minimum required. We also offered repayment deferrals on personal loans and a special term deposit rate for our deposit customers.

We will continue to focus on relieving financial stress and supporting customers as we work towards economic recovery.

800% increase in calls to our financial assistance line

154,000 home loans deferred at peak

#1 in home lending, household deposits and credit cards[1]

1,118 branches (Group total) – largest network in Australia

1,500+ home loan specialists

2,000+ customer contact centre staff – all located in Australia

1 See *Glossary* on page 293 for source information.

Our retail banking strengths

With over 10 million retail customers, including the largest share of youth and new migrant customers, we help more Australians manage their finances than any other bank.

Our retail bank holds leading market shares in home loans, household deposits and credit cards. We aim to strengthen this position by offering innovative products and services, backed by the best systems and processes.

We are committed to providing exceptional service. Our retail bank service promise is 'simple and easy everyday, brilliant when it matters'.

Our leading distribution network enables us to serve our customers across multiple channels, including the Bank's extensive network of branches, mobile banking specialists, ATMs, and Australia-based customer contact centres, as well as our online services and apps.

To deliver a seamless experience for customers across all channels, we continue to invest in our technology, data capabilities and digital assets.

We assess our performance using Net Promoter Score (NPS), which is a measure of our customers' willingness to recommend us to their family and friends. We have seen a seven point improvement in the last 12 months in consumer NPS, indicating that customers are valuing the support and service we are providing.

Helping first home buyers

Rayen Gouli and his wife Sabina Lama kept a close eye on the property market and had saved for years, but thought a 20% deposit to buy their first home in Melbourne was out of reach.

That changed when Rayen spoke with a home lending specialist at his local Commonwealth Bank branch who explained that the couple qualified for the First Home Loan Deposit Scheme.

The home lender helped them through the loan approval process, and shortly after, Rayen and Sabina launched their house hunt.

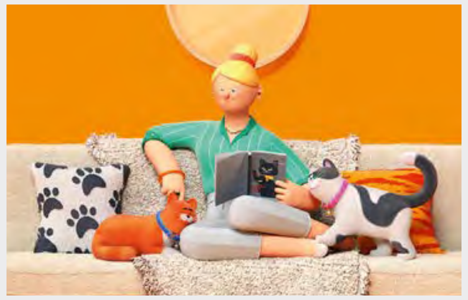
Today, the couple are enjoying being homeowners and having a place to call their own.

New home owners, Sabina Lama and Rayen Gouli.

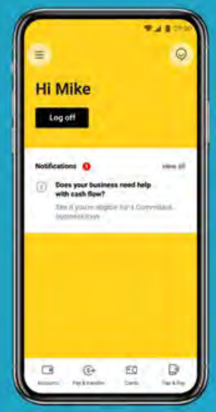
Bank less with Bankwest

Bankwest's mission is to do more for customers by asking them to do less. To deliver frictionless, customer-friendly banking, Bankwest provides a new signing service that allows customers to sign their home loan contracts digitally, from any device, in minutes – greatly reducing the time taken to prepare a home loan for settlement.

Bankwest has also continued to innovate for brokers and was voted 'Bank of the Year' in the Mortgage Professional Australia 2020 Brokers on Banks awards. The award recognises Bankwest's investment in digital tools and support. This includes a portal that enables brokers to track their clients' applications in real-time, and a dedicated single point of contact for brokers throughout the application process.



Support for business customers during COVID-19



We have been helping small business customers adapt to the current environment.

To help customers deal with the sudden shut down of the economy, we automatically enrolled eligible small business customers into our loan repayment deferral program. We also expanded our 24/7 support teams, adding further options and a dedicated helpline to help them access funds and pay their staff ahead of the Government's JobKeeper payments.

We funded more than $650 million in new lending under the Government's Coronavirus SME Guarantee Scheme, equivalent to over 50% of all fundings through the scheme.

Our teams also worked with small business customers to quickly move their business online. Using the Bank's digital capabilities, we helped customers build e-commerce enabled websites with the ability to take orders, process secure payments and arrange delivery.

86,000
business loans deferred at peak

$27bn
of new lending for Australian businesses in FY20[1]

Incentive-based finance for sustainable outcomes

Our institutional bank and Wesfarmers recently signed a $400 million three-year bilateral sustainability-linked loan – the first in Australia to be linked to achieving better social outcomes and the largest to be offered by a single lender.

Wesfarmers will receive a margin discount on its loan if the company meets its ambitious social and environmental targets, linked to Indigenous employment and reduced carbon emissions intensity.

Sustainability-linked loans deliver widespread benefits by incentivising improved organisational behaviours that build a better Australia and lead to more sustainable outcomes.

Keeping businesses moving forward

Business owners need to act quickly when circumstances change or when opportunities arise. That's why we are using our leading digital capabilities to provide them with smarter everyday banking, faster access to funds, and more support when and where they need it.

Through our BizExpress facility we are providing existing customers with same-day lending decisions for unsecured loans up to $250,000 and secured loans up to $1 million.

By using existing customer information to automate and streamline the application process, BizExpress cuts the paperwork for customers and enables our teams to get funds into customers' accounts faster.

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

OUR STRATEGIC PRIORITIES

Strength in business banking

We are investing in service, data and technology to become Australia's leading business bank.

Backing Australian businesses

This year we have focused on supporting Australian businesses to facilitate the critical role they play in the economy.

Our business bank serves business, corporate and agribusiness customers. To build on the Bank's strengths as the leading payments provider and merchant acquirer in Australia, we have been adding dedicated business bankers and providing more tailored and responsive everyday banking, deposit and lending services. Improvements have also been made to end-to-end processes and technology to enhance customers' banking experiences.

Our institutional bank serves the commercial and wholesale banking needs of large corporate, institutional and government clients. To help clients navigate the rapidly changing business environment, the institutional bank has been using its expertise in capital structuring, financial markets and risk management. This increasingly includes advising clients on end-to-end financing and helping them access alternative domestic and international sources of capital. The institutional bank is also leveraging insights from the Bank's data and analytics capabilities to help clients stay on top of emerging trends in their industries and the economy.

#1
payments provider with largest merchant base[1]

2,500+
business bankers and specialists

240+
locations supporting business customers

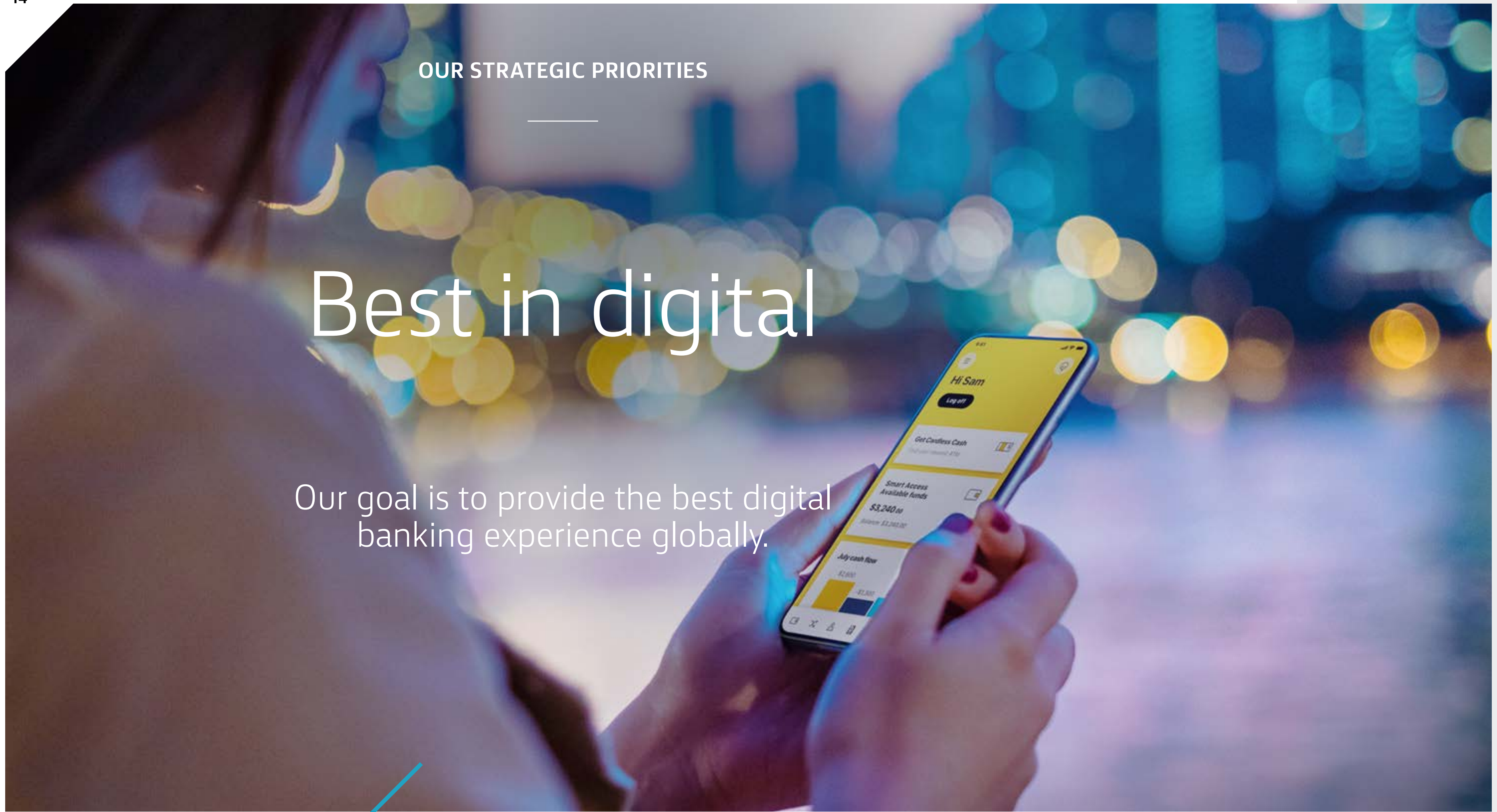
$650m+
in loans under the Government's Coronavirus SME Guarantee Scheme, >50% of scheme lending

1 See *Glossary* on page 293 for source information.

OUR STRATEGIC PRIORITIES

Best in digital

Our goal is to provide the best digital banking experience globally.



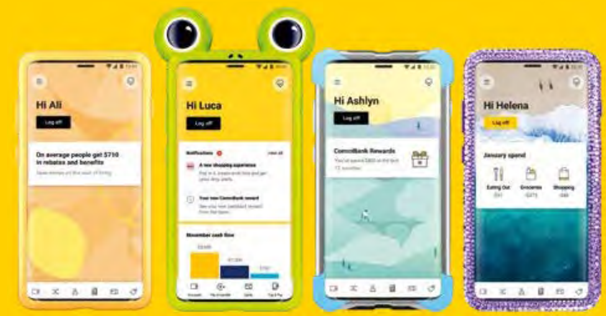
Australia's #1 banking app

Our award-winning CommBank app, used by 6.1 million active customers, now delivers personalised services and alerts to help customers better manage their money and make smarter financial decisions.

Smart features include transaction notifications, reminders for upcoming credit card payments, budgeting tools and a month-to-month spend tracker. We have also strengthened security and fraud detection to keep our customers safe and secure.

Bill prediction, the latest feature, uses data and machine learning to identify recurring bills and provide a timeline of upcoming payments.

The app also extends beyond banking to provide customers with integrated shopping and benefit features. This includes CommBank Rewards which matches customers with personalised offers and cashback rewards on everyday spending.



#1

- mobile app and internet banking NPS (Roy Morgan Research)
- online banking – 11 years in a row (Canstar)
- mobile banking – five years in a row (Canstar)
- banking app in Australia (Forrester)

66%
of CommBank transactions made digitally (by value)

See *Glossary* on page 293 for source information.

Delivering the best digital bank

We have built our leadership position in digital banking through decades of investment in digital infrastructure, assets and innovation.

We have prioritised the customer experience to deliver intuitive and user-friendly digital banking services.

We continue to invest in our Customer Engagement Engine which uses artificial intelligence, machine learning and insights from customer activity to drive highly relevant and personalised experiences.

We also continue to develop new features and functionality, and partner with other innovative companies, to add more value for customers.

Our mobile app and internet banking platform have consistently ranked number one for Net Promoter Score. We aim to maintain this position by anticipating customers' needs and expectations and by ensuring that their banking experience with us compares favourably to their best digital experience with any other product or service provider.

Extending our technology advantage

We are focusing on six key areas:

Deep personalisation
We are deploying artificial intelligence, machine learning and data insights to drive personalised and seamless service across all channels.

Integrated digital experiences
We are building new digital banking services, partnering with market leading providers and building x15ventures to deliver the best integrated digital bank experience.

Digitising end-to-end
We are automating and digitising processes to make things simpler, faster and more user-friendly for customers and our people.

Intelligent protection
We are using real-time intelligent analytics to detect suspicious activity, send real-time alerts and automatically block fraudulent transactions.

Modern, resilient platforms
We are leveraging platform-as-a-service to deliver resilient systems, cutting applications and moving 95% of computing to the public cloud.

Globally leading capability
We are partnering with global technology leaders and talent to support 24/7 operations, and providing remote working capabilities for a distributed workforce.

x15ventures

We launched x15ventures to build a portfolio of new digital businesses by combining the agility of a start-up with the support and reach of the Bank, to better serve our retail and business customers.

x15ventures has launched four ventures already: Home-in (e-conveyancing), Vonto (data insights for businesses), Credit Savvy (credit-score and marketplace), and Backr (start-a-business platform).

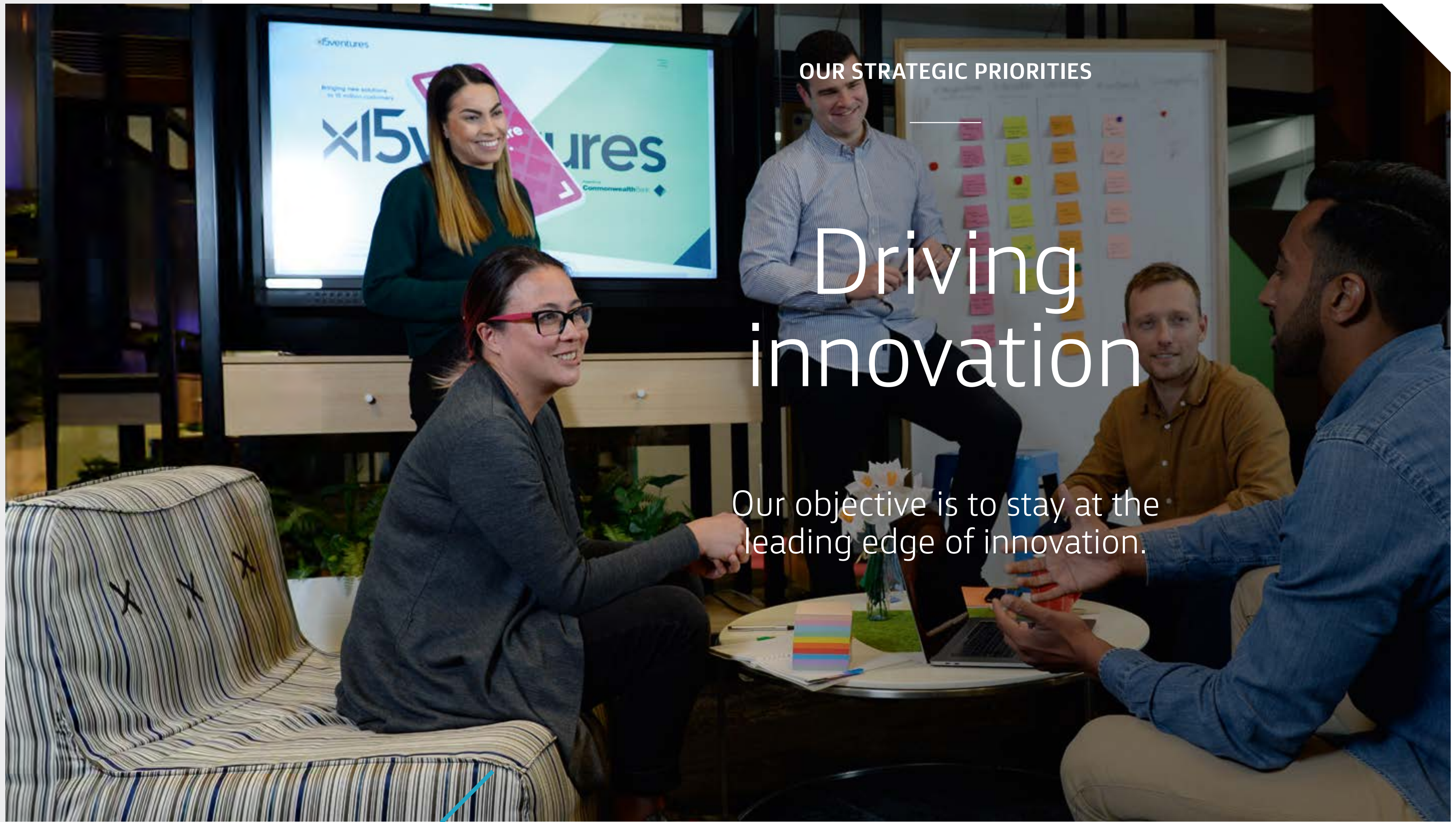
In July, x15ventures hosted Xccelerate 2020, a virtual pitch event for start-ups to battle it out in front of industry experts to receive mentoring and funding. The inaugural event is part of our commitment to partner with the fintech community, and to launch 25+ ventures over the next five years.

This year's winner is givvable, led by Frances Atkins and Naomi Vowels. Their platform helps companies find and source sustainable suppliers.

25+ new ventures in five years

- 4 in market
- 12 in development

Sophie Gilder and Simon Gireau from x15ventures at the inaugural Xccelerate event.



OUR STRATEGIC PRIORITIES

Driving innovation

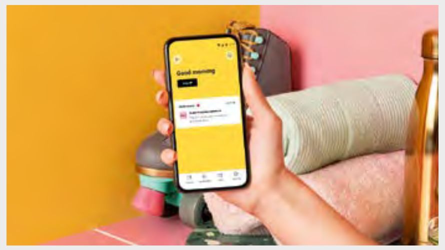
Our objective is to stay at the leading edge of innovation.

Klarna.

We have partnered with Klarna to offer a shop now, pay later experience that is used by over 85 million shoppers worldwide.

Through the Klarna app, customers can shop at almost any online store and pay with instalments using their linked CommBank debit or credit card.

Customers can create a Klarna account through the CommBank app, and once a purchase is made can track orders and upcoming payments via the app. Klarna also provides special offers and sends price drop notifications on wish list items.



backr

Backr is a go-to portal for aspiring entrepreneurs and micro-businesses looking to set up shop.

The small business-in-a-box service simplifies the process of setting up a business, giving step-by-step instructions and in-app tools to support business registration, business plan formulation, invoice creation and more.

Developed through x15ventures, Backr's official launch has been brought forward to September 2020 to help the next generation of small businesses contribute to Australia's economic recovery.

- Hire contractors
- Create website
- Register for an ABN

Innovating for growth

We invest in innovation to offer compelling customer experiences, to stand out amid increasing competition and to position the business for future growth. We innovate within our business and with strategic partners to improve our customer-facing applications as well as our back-end processes and systems.

Reimagining banking

Our innovation is structured around our core businesses – everyday banking, home buying and business banking – to enhance the services we offer today and to anticipate and lead how our customers will bank tomorrow.

We continue to simplify the home buying experience and are working with Home-in to provide customers with an end-to-end digital home buying assistant. Through Credit Savvy, our customers can track their credit score and compare products. We are helping small business customers access and interpret their data through Vonto so they can optimise and grow their business. We also launched CommSec Pocket to provide new ways to invest.

Reengineering processes

By taking a new approach to existing processes and information, we aim to deliver simpler ways of working and improved efficiency and performance for our customers and our own business.

We have invested in PEXA which digitises home loan settlement. By building direct interfaces between our systems and the PEXA settlement hub, we have achieved greater settlement certainty for our customers and significant productivity benefits for our people. As a result, four out of five Commonwealth Bank and Bankwest home loans are now digitally settled through PEXA.

Growing strategic partnerships

To drive step change innovation we partner with start-ups, fintechs, scientists, research institutes and large market-leading companies. This allows us to strategically pool talent, resources and expertise.

By collaborating with organisations such as the CSIRO's Data61 and Harvard STAR Lab we have used multi-disciplinary thinking to develop solutions that improve our customers' financial wellbeing. We have established our own vehicle for innovation, x15ventures, in partnership with Microsoft and KPMG. We have also partnered with SquarePeg and Zetta to help identify and launch future digital solutions for our customers.

FOCUS ON FINANCIAL PERFORMANCE

Financial performance overview

Our financial results for the 2020 financial year reflect the impact of COVID-19 on our customers and the economy, however, our business performance remained strong.[1]

Net profit after tax

$9,634m
Statutory NPAT[2]
▲ 12.4% on FY19

$7,296m
Cash NPAT
▼ 11.3% on FY19

NPAT was supported by strong business performance but impacted by higher loan impairment expense due to COVID-19. Statutory NPAT increased due to gains on sale from divestments.

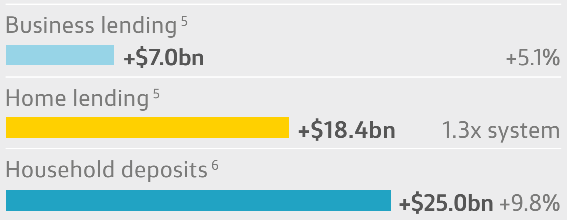
Loan impairment expense, provisions

$2,518m
▲ $1,317m on FY19

1.70%
Provision coverage ratio

The loan loss rate increased to 33 basis points[3] (bpts), inclusive of the COVID-19 provision. Peer leading total provision coverage ratio of 1.70%, up from 1.29% in FY19[4].

Volume growth in core business



Net interest margin

2.07%
▼ 2bpts on FY19

Group NIM declined due to the impact of lower interest rates, partly offset by lower short term funding costs.

Common Equity Tier 1 capital ratio

11.6%
APRA (Level 2)[2]
▲ 90bpts on FY19

Above APRA's 'unquestionably strong' benchmark of 10.5%. CET1 capital ratio of 17.4% on an internationally comparable basis.

Dividend

$2.98
Per share, fully franked[2]
▼ 31% on FY19

The final dividend was 98 cents per share, fully franked. The interim dividend was $2.00 per share, fully franked.

1 Unless otherwise stated, all information in this section is presented on a continuing operations basis.
2 Includes discontinued operations.
3 Cash loan impairment expense as a percentage of average gross loans and acceptances.
4 Total provisions as a percentage of credit risk weighted assets.
5 As reported in RBA Lending and Credit Aggregates (Home lending and Business lending). RBA collection data was aligned to the new regulatory definitions set by APRA from July 2019, therefore the home lending system multiple has been calculated for the 11 months to June 2020 annualised. Business lending includes Business and Private Banking, Bankwest and Institutional Banking and Markets (ex. CMPF) and growth is calculated for 12 months.
6 As reported in APRA Monthly ADI Statistics (MADIS) (Household deposits).

Group financial performance

Our banking businesses continued to perform well, with strong operational execution delivering above market growth in domestic home lending and deposits. This volume growth supported operating income and helped to offset the impact of historically low interest rates on our net interest margin.

Group profit – Impacted by COVID-19

Cash NPAT
$7,296m
FY19 $8,221m

Statutory NPAT including discontinued operations
$9,634m
FY19 $8,571m

Cash NPAT was 11% lower, largely due to higher COVID-19 related loan impairment expense. Operating income was up 1%, operating expenses increased by 1% and loan impairment expense increased by 110%.

Cash NPAT is management's preferred measure of the Group's financial performance. It excludes items that are non-recurring in nature and are not considered representative of the Group's ongoing financial performance.

Statutory NPAT includes non-cash items. In FY20, this included significant gains realised on the sale of businesses divested as part of our strategy to become a simpler, better bank, divestment-related transaction costs, and costs associated with the cessation of our aligned advice businesses. It also included hedging gains, mostly driven by the foreign exchange volatility observed during the year.

For more details and a reconciliation between statutory and cash NPAT, refer to page 73 in the *Directors' report*.

Operating income – Volume growth offset margin decline

Operating income
Cash basis
$23,758m
FY19 $23,577m

Net interest margin
2.07%
FY19 2.09%

Net interest income increased 2%. This was driven by above market growth in domestic home lending and household deposits, partly offset by a decrease in net interest margin due to the impact of lower interest rates.

Net interest margin (NIM) is an important measure of our financial performance. It represents the return on our interest earning assets (e.g. home loans) after accounting for the costs of funding these assets (e.g. deposits).

NIM was 2 basis points lower due to the impact of lower interest rates on deposit margins, partly offset by lower short-term funding costs.

Other operating income decreased 4%. The key drivers were:

- The removal of certain fees and charges plus fee waivers in response to the impact of COVID-19 on our customers.
- Lower commissions from lower credit card and international transaction volumes, from a decline in spend due to COVID-19.
- Impairment losses on our aircraft lease portfolio due to the impact of COVID-19 on the aviation industry.
- Lower volumes of initial advice fees, the removal of ongoing service fees and grandfathered trail commissions, and the wind down of our aligned advice businesses.
- Higher insurance claims related to bushfires.

For more details on operating income refer to Note 2.1, 2.2 and 2.3 on pages 119 to 127 in the *Financial report*.

	FY20	FY19	% change
Net interest income	**18,610**	18,224	▲ 2%
Other banking income	**4,837**	4,951	▼ 2%
Funds management income	**172**	255	▼ 33%
Insurance income	**139**	147	▼ 5%
Total operating income – cash basis	**23,758**	23,577	▲ 1%

Operating expenses – Impacted by increased staff and IT costs

Operating expenses
Cash basis

$10,895m

FY19 $10,824m

Full-time equivalent staff

41,778

FY19 41,458

Cost-to-income ratio
Cash basis

45.9%

FY19 45.9%

Excluding notable items, operating expenses were 3% higher:

Staff expenses increased 2% as a result of wage inflation, higher annual leave costs due to lower annual leave usage, and an increase in full-time equivalent staff. The staff increases were due to higher levels of resourcing in call centres, operations and financial assistance; as well as in areas related to remediation and risk and compliance.

Occupancy and equipment expenses decreased 1% due to continued branch network optimisation and lower development costs for corporate offices, offset by higher cleaning and maintenance costs due to COVID-19.

Information technology expenses increased 7% due to higher IT infrastructure costs and higher investment spend on risk and compliance.

Other expenses increased 2% primarily due to costs associated with our domestic violence programs and bushfire recovery grants.

Including notable items, operating expenses were 1% higher.

Notable items included provisions for remediation and risk and compliance costs.

	FY20	FY19	% change
Staff costs	**5,525**	5,408	▲ 2%
Occupancy and equipment	**1,060**	1,070	▼ 1%
Information technology	**1,896**	1,770	▲ 7%
Other expenses	**1,561**	1,528	▲ 2%
Operating expenses excluding notable items – cash basis	**10,042**	9,776	▲ 3%
Notable items	**853**	1,048	▼ 19%
Total operating expenses – cash basis	**10,895**	10,824	▲ 1%

For more details on operating expenses refer to Note 2.4 on pages 128 to 129 in the *Financial report*.

Tax expense

Tax expense
Cash basis

$3,052m

FY19 $3,321m

Income tax expense for the year decreased 8% mainly due to lower profits. The effective tax rate for the year was 29.5%. This is below the Australian company tax rate of 30% primarily as a result of profits earned by the offshore banking unit and in offshore jurisdictions that have lower corporate tax rates.

For more details on tax expense refer to Note 2.5 on pages 130–132 in the *Financial report*.

Tax Transparency Code

CBA is one of Australia's largest tax payers. Our Tax Transparency Code provides further information on our approach to tax risk management and additional tax disclosures – see commbank.com.au/policies.

Provisions and credit quality

Loan impairment expense – Higher due to the expected impact of COVID-19

Loan impairment expense

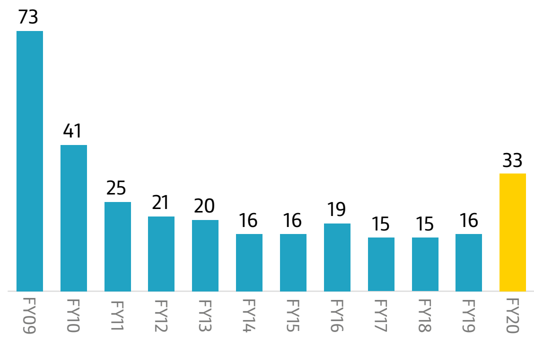
$2,518m

FY19 $1,201m

Loan impairment expense reflects changes in our estimates of expected loan losses, as well as bad debts incurred during the year net of any recoveries. The loan loss rate measures loan impairment expense as a percentage of average gross loans and acceptances.

Loan impairment expense increased as a result of forward looking adjustments made to provisions for the expected impact of COVID-19. The loan loss rate increased to 33 basis points, up from 16 basis points in FY19.

Loan loss rate (bpts)[1]



1 FY09 includes Bankwest on a pro forma basis.

Portfolio credit quality – Monitoring closely for signs of stress

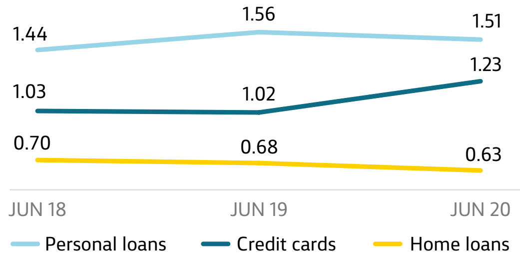
Consumer arrears

Consumer arrears show the proportion of our consumer portfolio where customers have fallen behind on their contractual loan repayments.

Arrears on home loans and personal loans remained low. In line with APRA's regulatory approach, loans deferred as part of our COVID-19 support packages are not included in arrears where the loans were otherwise performing.

Credit card arrears were higher, driven by lower card balances and increased hardship due to the impact of COVID-19.

Consumer arrears >90 days (%)

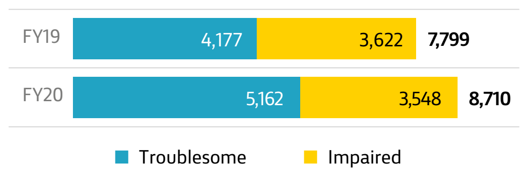


Troublesome and impaired assets

Troublesome and impaired assets include loans where customers are experiencing financial difficulties that could result in credit losses for the Group, loans to customers not meeting their repayment obligations such as loans in default and loans restructured on non-commercial terms.

The increase in troublesome and impaired assets to $8,710 million from $7,799 million in FY19 was mainly due to the impact of COVID-19 on corporate customers in transport and storage, manufacturing, culture and recreation, business services, and retail and wholesale trade, as well as continued weakness in sectors impacted by discretionary spending. There was also a small number of individual corporate impairments.

Troublesome and impaired assets ($m)



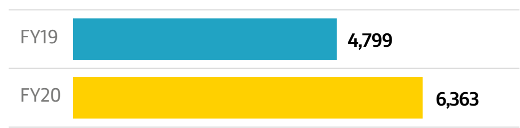
Loan impairment provisions

During the financial year, we took an additional credit provision of $1.5bn for the potential impacts of COVID-19 on our lending portfolios. This took into account the stress to the economy introduced by COVID-19 and the mitigating impacts of Government and industry assistance packages and support, such as loan repayment deferral arrangements.

Our coverage ratio – which is the ratio of total provisions to credit risk weighted assets – has increased to 1.70% from 1.29% in FY19.

We continue to monitor our lending portfolios closely and reassess our provisioning levels as the situation around COVID-19 evolves.

Total impairment provisions ($m)



For more details on loan impairment provisions, loan impairment expense and credit quality refer to Note 3.2 on pages 143–153 and Note 9.2 on pages 208–227 in the *Financial report*.

Balance sheet strength

Balance sheet strength is critical to our ability to serve our customers, drive core business outcomes and deliver strong and sustainable returns for our shareholders. Our key capital, liquidity and funding metrics strengthened further during FY20. The strength of our balance sheet means the Bank has been well-positioned to support customers and the Australian economy through challenging and uncertain times.

Capital – Unquestionably strong

Common Equity Tier 1 capital ratio

11.6%

APRA (Level 2)[1]

FY19 10.7%

The Group has a strong capital position with a Common Equity Tier 1 (CET1) capital ratio as at 30 June 2020 of 11.6%, above APRA's 'unquestionably strong' benchmark of 10.5%, notwithstanding the payment of the interim dividend and the adverse impact of the additional $1.5 billion provision for the expected impact of COVID-19.

During the year, the Group's CET1 capital was supported by:

- Risk-adjusted profits generated in the ordinary course of business (organic capital) as business fundamentals remained strong.
- The benefits from proceeds received in relation to the sales of Colonial First State Global Asset Management and PT Commonwealth Life and the phased divestment of CommInsure Life.

Additional outstanding divestments are expected to provide further capital uplifts in FY21.

The Bank is an Authorised Deposit-taking Institution (ADI) regulated by APRA. To ensure banks hold sufficient capital to protect deposit holders against unexpected losses, APRA sets minimum capital requirements for ADIs based on the Basel Committee on Banking Supervision guidelines. These requirements influence the Bank's ability to pay dividends.

The Bank's dividend policy seeks to:

- pay cash dividends at strong and sustainable levels
- target a full-year payout ratio of 70–80%
- maximise the benefits to shareholders by paying fully franked dividends.

Funding and liquidity – Continued to strengthen

Deposit funding ratio

74%

FY19 69%

Liquidity coverage ratio

155%

FY19 132%

Net stable funding ratio

120%

FY19 112%

The **deposit funding ratio** represents the proportion of home loans and other income-producing assets that are funded by customer deposits. Customer deposits are considered the most stable source of funding. The strength of our banking business has allowed us to maintain the highest share of stable, household deposits in Australia. Ensuring we are well funded has been critical to our ability to support our customers during COVID-19.

The Group continued to satisfy a significant portion of its funding requirements from customer deposits, accounting for 74% of total funding. This was due to the growth in customers' transaction and savings account balances and mortgage offset accounts.

The **liquidity coverage ratio** (LCR) represents the level of high quality liquid assets available to meet short-term obligations in a liquidity stress scenario.

The Group's average LCR for the quarter ended 30 June 2020 was 155% which was significantly above the minimum regulatory requirement of 100%. The increase in LCR during the year was driven by strong deposit growth and the Term Funding Facility introduced by the Reserve Bank of Australia to stimulate business lending as part of the COVID-19 economic support package.

The **net stable funding ratio** (NSFR) shows to what extent our long-term assets are covered by stable sources of funding.

The Group's NSFR as at 30 June 2020 was 120%, well above the regulatory minimum of 100%. The increase in the ratio was due to the growth in customer deposits, the benefit of the Term Funding Facility, and our strong capital position.

1 Common Equity Tier 1 capital ratio including discontinued operations.

Delivering for shareholders

Our aim is to deliver sector leading returns and a sustainable dividend. We achieve this by focusing on both operating performance and capital generation. We understand the importance of delivering shareholder returns at strong and sustainable levels, and that many Australians rely on the income they receive from dividends.

888,000+

shareholders hold CBA shares directly, millions more hold CBA shares through their superannuation

78%

Australian ownership

52%

direct ownership by retail shareholders

$5.3bn

returned to shareholders as dividends in FY20

$2,420

dividend amount received by the average retail shareholder

Sustaining performance

The quality of the Bank's franchise, including our customer, distribution and technology strengths, has supported strong and consistent operating performance over time. The strength of our deposits franchise means that we have reliable access to lower cost funding. We also manage our balance sheet prudently to mitigate earnings volatility, and focus on risk-adjusted returns to efficiently allocate capital across our businesses.

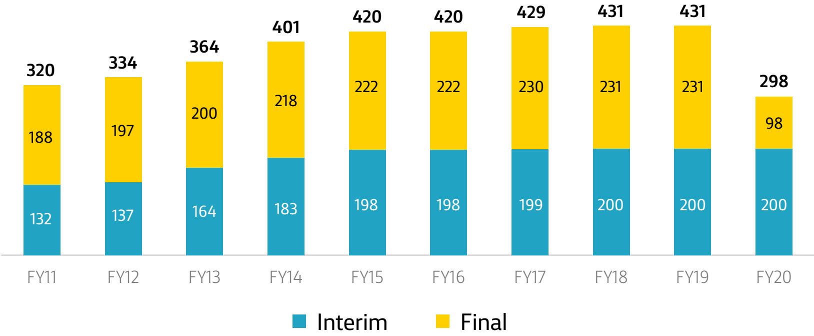
As the outlook for the economy is uncertain we remain focused on managing the business, our credit decisioning and our balance sheet carefully, to ensure that we remain well-positioned to continue supporting customers and performing for shareholders.

Dividends

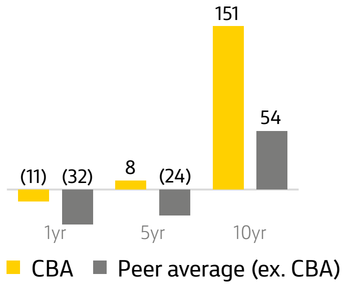
The final dividend of 98 cents per share reflects APRA's July 2020 guidance, which applies until the end of the calendar year, that banks should retain at least 50% of earnings. The final dividend payout ratio was 49.95% of the Bank's statutory earnings for the second half of this financial year.

Including the interim dividend of $2.00 per share, the full year dividend was $2.98 per share, fully franked. The Dividend Reinvestment Plan continues to be offered to shareholders. No discount will be applied to shares allocated under the plan for the final dividend.

Dividend per share (cents)

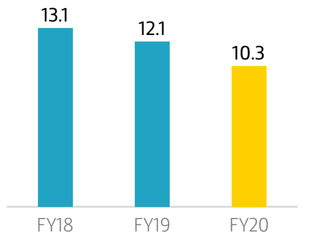


Total shareholder return
(%)



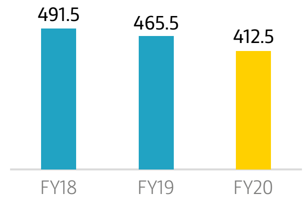
Total shareholder return (TSR) combines both share price appreciation and dividends paid. It shows the total return to shareholders over time.

Return on equity
Cash, continuing operations (%)



Return on Equity (ROE) measures the Bank's profitability. It represents the net profit generated as a percentage of the equity shareholders have invested.

Earnings per share
Cash, continuing operations (cents)



Earnings per share (EPS) measures the Bank's earnings growth. It is calculated by dividing net profit after tax by the number of shares on issue.

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

Business unit performance

Retail Banking Services

Cash NPAT

$3,997m

FY19 $3,907m

Contribution to Group profit

55%

Net interest margin

2.63%

FY19 2.55%

Brands

CommonwealthBank

bankwest

Aussie

Retail Banking Services (RBS) provides simple, convenient and affordable banking and general insurance products and services to personal customers, helping them manage their everyday banking needs, buy a home, protect their assets or invest for the future. RBS includes the retail banking businesses under the Commonwealth Bank and Bankwest brands, general insurance, mortgage broking and Commonwealth Financial Planning.

Financial performance

Cash net profit after tax was $3,997 million, an increase of $90 million or 2% on 2019. The result was driven by higher home lending volumes and lower short term funding costs. Income from credit cards and international transactions declined as spend volumes were lower due to COVID-19. Costs increased, largely due to higher staff and IT expenses as resources were boosted to meet customer needs during the coronavirus pandemic. RBS' result was also impacted by significantly higher loan impairment expense which reflects the expected increase in home loan, personal loan and credit card bad debts due to the expected impacts of COVID-19 on our customers.

Operating performance

We continued to focus on driving operational excellence in our home lending business. Our ability to deliver quick and consistent decisions for our customers allowed us to grow above market, despite competitive pricing from other lenders and low levels of housing turnover. We provided $106 billion of new home loans during the year, including to over 3,200 first home buyers who bought a home through the Government's First Home Loan Deposit Scheme.

Our strong franchise combined with our investment in digital banking helped to drive above market growth in deposits. With interest rates at historic lows, more customers chose to keep their money in at-call accounts. Customers opened more than 1 million new personal transaction accounts with us during the year. Personal loan and credit card activity was lower as customers chose to reduce debt and spend less during the coronavirus-related shutdown.

More customers than ever chose to use our digital channels and phone banking services. During the second half of the financial year we saw a peak of 10.2 million daily logins to our CommBank app and NetBank due to COVID-19, and an 800% increase in calls to our financial assistance line. Our technology capabilities also enabled us to quickly develop online home loan repayment deferral application functionality for customers.

Business and Private Banking

Cash NPAT

$2,654m

FY19 $2,931m

Contribution to Group profit

36%

Net interest margin

3.10%

FY19 3.10%

Brands

CommonwealthBank

CommSec

Commonwealth Private

Business and Private Banking (BPB) serves the banking needs of business, corporate and agribusiness customers across the full range of financial services solutions as well as providing banking and advisory services for high net worth individuals. BPB also provides Australia's leading equities trading and margin lending services through CommSec. BPB includes the financial results of business banking activities conducted under the Bankwest brand.

Financial performance

Cash net profit after tax was $2,654 million, a decrease of $277 million or 9% on 2019. Income from volume growth in deposits was offset by the impact of lower interest rates on deposit margins. Other banking income increased due to higher trading volumes through CommSec, partly offset by lower merchant income due to fee waivers during the coronavirus pandemic and the introduction of fee-free business transaction accounts. The cost of new dedicated business bankers and our investments to improve the customer experience and technology was offset by lower remediation costs. Loan impairment expense was significantly higher, as additional provisions were taken to provide for the potential impact of COVID-19 on certain business sectors and the economy.

Operating performance

Business momentum continued to grow this year as we simplified how we do things, improved our customers' banking experience and tailored our solutions to better meet their needs.

Delivering on our commitment to do better for small businesses, we added 100 new dedicated business bankers and Business Banking Managers in key branches. We also expanded the capabilities of our 24/7 Australia-based contact centres and worked to improve the end-to-end customer experience through investment in technology, digital assets and analytics.

Our new Digital Handover Tool has simplified our lending processes, enabling our teams to work more efficiently. Our ability to make high quality decisions at speed allowed us to increase lending to business customers. We also improved and extended our same-day lending facility, BizExpress, to get funds to customers faster.

Our ability to make credit decisions quickly also helped us to support business customers impacted by the coronavirus pandemic. We funded over 7,300 loans, totalling more than $650 million in new funding under the Government's Coronavirus SME Guarantee Scheme. Using our technology capabilities, we were also able to automatically enrol all eligible small business customers into our loan repayment deferral program.

Institutional Banking and Markets

Cash NPAT

$655m

FY19 $1,117m

Contribution to Group profit

9%

Net interest margin

1.00%

FY19 1.11%

Institutional Banking & Markets (IB&M) serves the commercial and wholesale banking needs of large corporate, institutional and government clients across a full range of financial services solutions including access to debt capital markets, transaction banking, working capital and risk management through dedicated product and industry specialists.

Financial performance

Cash net profit after tax was $655 million, a decrease of $462 million or 41% on 2019. Income from growth in deposit volumes was offset by lower margins due to the lower interest rate environment. Other banking income was lower as the impact of COVID-19 on travel volumes led to the impairment of certain aircraft assets owned by the Group and leased to clients. Costs were higher due to investment in systems infrastructure and risk and compliance. Profit was also impacted by significantly higher loan impairment expense related to expected loan losses in industry sectors most at risk from COVID-19.

Operating performance

The institutional lending market remained highly competitive and recent monetary and fiscal stimulus by central governments around the world increased the amount of liquidity in the market. Investment in uplifting our capital markets capabilities has allowed IB&M to meet client needs through a combination of traditional lending products and capital-light structuring and distribution activities.

To help clients manage through the impacts of COVID-19, IB&M has offered a variety of support such as facility increases and extensions, covenant waivers and new funding. Deposit inflows have been significantly higher as clients have been managing their liquidity needs. Volatility in financial markets has presented additional risks and opportunities for Global Markets' sales and trading businesses. The fourth quarter trading result was especially strong on the back of tighter credit spreads, increased volatility, market dislocations and a large increase in new bond issuance.

IB&M continued to build its capabilities to offer insights and customer solutions based on real-time data analytics that reveal trends shaping industries. Using the Bank's Household Spending Intentions research, IB&M kept clients up-to-date on changes to income and spending through the pandemic.

International Financial Services

Cash NPAT

$131m

FY19 $250m

Contribution to Group profit

2%

International Financial Services (IFS) includes the Group's Indonesian retail and business banking operations (PT Bank Commonwealth), and minority investments in China (Bank of Hangzhou and Qilu Bank) and Vietnam (Vietnam International Bank).

During the year, we completed the sale of PT Commonwealth Life, the Indonesian life insurance businesses. The sale of the Group's equity stake in BoCommLife, the Chinese life insurance business, remains subject to regulatory approval. Both are included in discontinued operations.

Financial performance

Cash net profit after tax from continuing operations was $131 million, a decrease of $119 million or 48% on 2019. The result was driven by lower other banking income reflecting lower net profits from Chinese minority investments and higher loan impairment expense reflecting the deterioration in the economic outlook mainly due to COVID-19.

New Zealand

Cash NPAT

$811m

FY19 $1,059m

Contribution to Group profit

11%

Net interest margin[1]

2.11%

FY19 2.23%

Brands

ASB

New Zealand includes the banking and funds management businesses operating in New Zealand under the ASB brand. ASB provides a range of banking, wealth and insurance products and services to its personal, business, rural and corporate customers in New Zealand.

Financial performance

Cash net profit after tax was $811 million, a decrease of $248 million or 23% on 2019. Income from growth in lending and deposit volumes was offset by lower margins due to the low interest rate environment. Other banking income declined due to lower fees from cards and merchants as a result of the impact of COVID-19 on consumer spending. Operating expenses increased due to higher staff and IT costs, and investment in risk and compliance. Profit was also impacted by a significant increase in loan impairment expense due to the expected impact of COVID-19 on customers and the economy.

Operating performance

ASB continued to deliver growth in home lending and above system growth in deposits. A key focus in the second half of the year was supporting customers impacted by COVID-19 through personal and business customer relief packages that included loan repayment deferrals and temporary overdrafts.

Throughout the year, ASB continued to advance its digital strategy to help customers save time and deliver more guidance, advice and tools to reach financial goals faster. This included adding a Save-the-Change feature in the ASB mobile banking app, digitising business term deposits and launching Josie, the chatbot.

To find innovative solutions to complex customer problems, ASB continued to collaborate with industry partners and fintechs. This resulted in the launch of TradeWindow, developed out of ASB's innovation program. TradeWindow uses distributed ledger technology to reduce the time, cost, risk and complexity surrounding international trade documentation.

ASB enhanced its market leading KiwiSaver and investments offering through the launch of a Positive Impact Fund, a portfolio with a preference for investments that generate positive and measurable social and/or environmental impact, alongside a financial return. For the second year in a row, ASB received Canstar's Outstanding Value KiwiSaver Scheme of the Year award.

1 Net interest margin is ASB Bank only and is calculated in New Zealand dollars.

Wealth Management

Cash NPAT[1]

$137m

FY19 $528m

As part of becoming a simpler, better bank we have been divesting the Group's Wealth Management businesses. We have sold Colonial First State Global Asset Management and Sovereign, the New Zealand life insurance business. We have also sold Count Financial and ceased the financial advice businesses, Financial Wisdom and CFP-Pathways. The sale of CommInsure Life is underway and we have announced the sale of a 55% interest in the superannuation and investment business, Colonial First State. All Wealth Management businesses are now classified as discontinued operations.

Financial performance

Wealth Management cash net profit after tax was $137 million, a decrease of $391 million or 74% on the prior year. The result was largely driven by the fact that profits from Colonial First State Global Asset Management are only included up to 2 August 2019 when the business was sold, and the results of CommInsure Life are only included up to 1 November 2019 when the business was deconsolidated. The result was also driven by lower earnings in Colonial First State due to lower funds management income as a result of increased competitive pressures, and an increase in provisions for remediation, compliance and legal matters.

1 Cash NPAT including discontinued operations.

For more information on discontinued operations, refer to Note 11.3 on pages 258–261 in the *Financial report*.

HOW WE CREATE VALUE

Our commitment to sustainability

Delivering balanced and sustainable outcomes for our stakeholders.

Supporting our customers

To improve our customers' financial wellbeing, we are focused on being a simpler, better bank and supporting our customers through uncertain and challenging times.

Investing in our communities

As the Bank for all Australians, we have a responsibility to improve the financial wellbeing of the communities we serve and to make a positive contribution to society.

Commitment to our people

Our people are our greatest asset and having an engaged, energised and accountable workforce delivers better outcomes for our stakeholders.

Good business practice

By conducting our business responsibly and transparently, we contribute to a strong economy and a trusted and resilient financial system.

Our approach to climate change

We are committed to supporting the responsible global transition to a net zero emissions economy by 2050.

Dr Scott Sleap and Jordarna Barber

Commonwealth Bank Teaching Award winner Dr Scott Sleap pictured with Cessnock High School student Jordarna Barber, working on her team's entry for the F1 in Schools STEM Challenge.

Our approach is guided by evolving global practices and feedback from our stakeholders on material matters.

Global principles and goals

We are signatories to international initiatives, principles and goals.

UNEP Finance Initiative – Principles for Responsible Banking · Equator Principles · PRI Principles for Responsible Investment · United Nations Global Compact · Sustainable Development Goals

Our policies and targets

We develop policies and targets to drive progress on our commitments. Key policies include:

- Environmental and Social Policy
- Supplier Code of Conduct
- Diversity and Inclusion Policy

View our policies at commbank.com.au/policies

Providing transparency

We report our progress in line with global frameworks and standards.

TCFD · SASB · GRI

Assessing our performance

We benchmark our progress using leading sustainability indices and surveys, including:

Dow Jones Sustainability Indices · MSCI · CDP · FTSE4Good

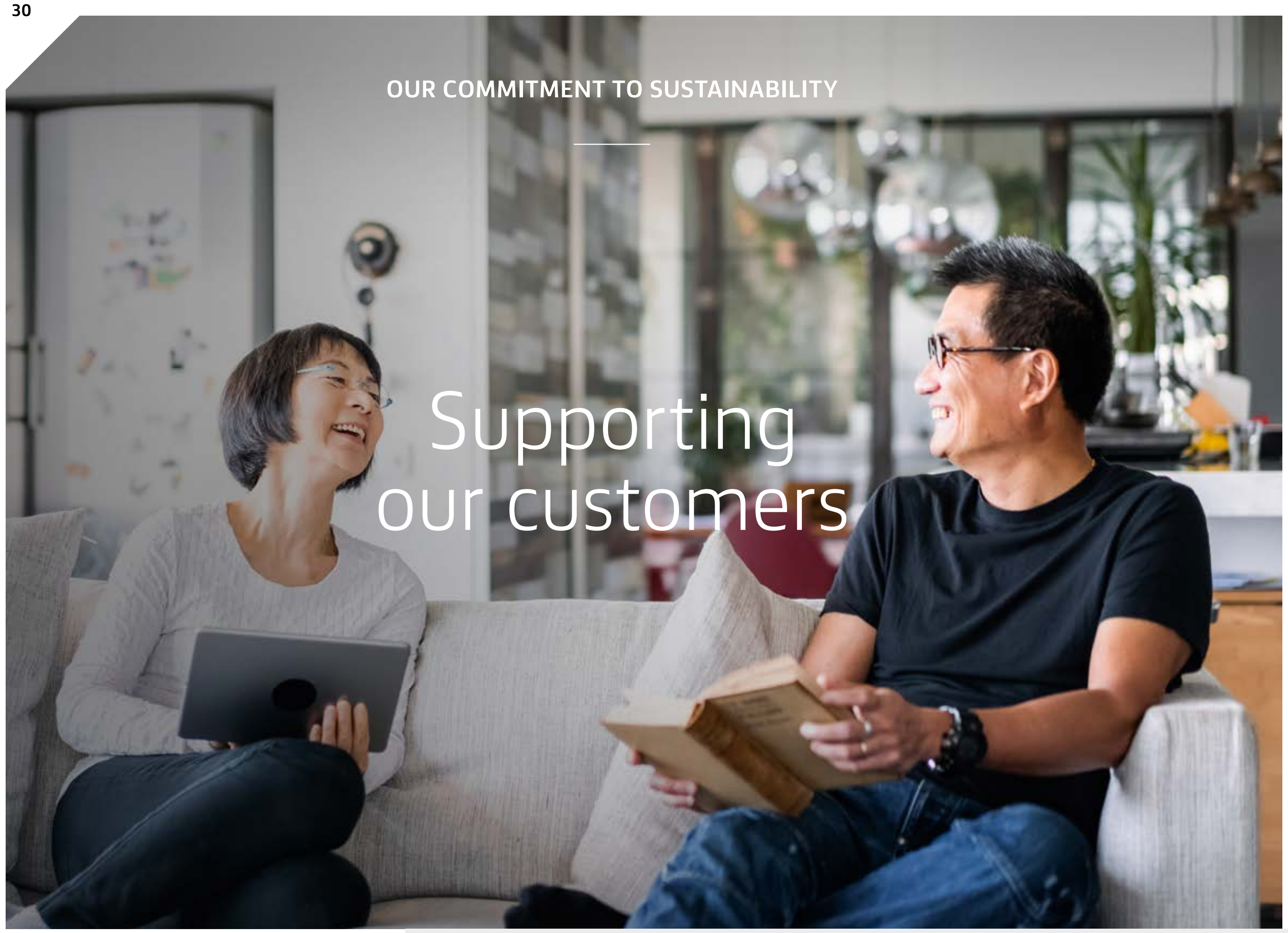
OVERVIEW

HOW WE CREATE VALUE

DIRECTORS' REPORT

FINANCIAL REPORT

ADDITIONAL INFORMATION



OUR COMMITMENT TO SUSTAINABILITY

Supporting our customers

1m+

calls and online requests for help during COVID-19

250,000+

home, business and personal loans deferred at peak

250m

personalised in-app messages offering COVID-19 support

We can. Together.

We continue to focus on being a simpler, better bank and supporting our customers through uncertain and challenging times.

This year, we have worked to maintain essential banking services and provide additional support to customers impacted by bushfires, drought and COVID-19.

Helping customers in need

Through our Emergency Assistance Package for customers affected by bushfires, floods and storms, we expedited more than $100 million in insurance claims, deferred loan repayments, restructured small business loans, and waived certain fees and charges. We also extended the package to all volunteer firefighters.

We made a Drought Assistance Package available to farmers and regional businesses affected by drought. Support measures included a loan repayment pause, waiving of fees and charges and access to a confidential telephone counselling service.

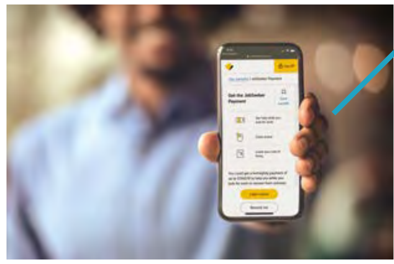
COVID-19 support

To meet the surge in demand for phone and online banking, we reskilled support and frontline employees and added new temporary recruits from the aviation industry to help in our customer contact centres. We kept our branch network open with measures in place to protect our customers and our people.

To meet the needs of customers most at risk from visiting branches, we prioritised calls from customers aged over 70, sent debit cards to those who rely on passbooks and cash, and proactively called 250,000 customers to discuss alternative ways to bank.

At the height of the crisis, we automatically deferred repayments on all eligible small business loans and quickly processed deferral requests for our home loan customers.

We will continue to work with our retail and business customers to provide the support that best meets their individual circumstances going forward.



$153m+

benefits for customers in FY20

Connecting customers with unclaimed benefits

Each year, Australians miss out on millions of dollars in benefits and rebates offered by government agencies and third parties, such as energy rebates, toll relief and carer allowances. Our *Benefits finder* tool in the CommBank app and on NetBank uses data insights and machine learning to match customers with relevant rebates and benefits. Over 690,000 claims have been started through the tool since launch. This financial year, customers have saved $69 million in utility bills and over $84 million in additional government payments.

***Benefits finder* for businesses**

To help customers who run a business, *Benefits finder* now includes COVID-19 related business support packages provided by State and Federal governments. Through the tool customers can now access facilities including instant asset write offs, cash flow assistance, tax relief options and apprentice and trainee support.

Learn more at commbank.com.au/benefitsfinder

Listening to customers

This year, our Executive Leadership Team prioritised directly talking with customers, to understand what is most important to them, and get their feedback on the Bank's performance. This included open customer forums, individual customer meetings, spending time in our branches and listening to customer calls in our contact centres.

Matt Comyn talks to customers at an open forum in Brisbane in November.

At the forums, customers asked about our deposit and lending rates, how we are rewarding loyalty, plans for our branch network, and what we are doing on financial education. Customers also wanted to hear what we learnt from the Royal Commission and how we are rebuilding trust and improving our culture.

Responding to complaints

We take customers' complaints seriously and seek to resolve any problems quickly, fairly and transparently. If customers are dissatisfied with the outcome of a complaint investigation, they can turn to our Customer Advocate team for an independent review. The Customer Advocate's decisions are final and binding for the Bank, but customers can take their dispute to an external resolution body, such as the Australian Financial Complaints Authority, if they remain unhappy with the outcome.

The Customer Advocate team also analyses complaint data to fix problems before they become systemic issues. This helps us to proactively improve our products, processes and decision-making.

Key complaint and Customer Advocate metrics are provided on page 47.

Delivering better customer outcomes

We use our technology, data and insights to help customers better manage their finances. This year we sent over 27 million smart alerts through the CommBank app and NetBank to enable our retail and business customers to avoid unnecessary overdraft and credit card fees. We provide additional resources where we have identified areas of customer vulnerability. This includes our 'Safe and Savvy' guide to help prevent elder financial abuse. We also provide fee-free banking for customers with low incomes and a dedicated Indigenous Customer Assistance Line for customers in remote communities.

Helping customers in hardship

Customers experiencing financial hardship are supported by our Financial Assistance Solutions (FAS) team. This year, the FAS team worked with 45,787 customers to provide solutions tailored to their situations. To help customers experiencing financial stress due to COVID-19, the team has more than doubled to approximately 1,500 frontline staff. Loans deferred due to COVID-19 impacts are not included in the hardship figure.

Compassionate care for mortgage customers

When our customers face a terminal illness diagnosis or lose a spouse or dependant, they need to focus on their health and caring for their family. To ensure they do not worry about making their mortgage payments, we launched Home Loan Compassionate Care in February. This complimentary insurance policy covers up to 12 months of mortgage repayments for eligible owner-occupied home loan customers.

Learn more at commbank.com.au/compassionate-care

Relevant UN Sustainable Development Goals

Investing in our communities

Farmers in Armidale received hay donated through the Bank's Christmas Drought Appeal and partnership with Rural Aid.

$332m

in community investment

377,214

students enrolled in Start Smart financial education

$10m

commitment to bushfire recovery grants

Making a positive contribution

As the Bank for all Australians, we have a responsibility to improve the financial wellbeing of the communities we serve and to make a positive contribution to society.

For more than 100 years, the CommBank Staff Foundation – our people's charity – has been supporting Australians' wellbeing. As part of the Foundation's 2020 grants program, more than 200 grants of $10,000 have been awarded to community organisations to enable them to continue the important work they are doing to help communities in need. Recipient organisations of this year's grants are working to address a diverse range of issues across our community – including homelessness, Indigenous disadvantage, domestic violence and cancer support.

This year, to raise money for communities impacted by drought, we launched the Christmas Drought Appeal. Customers and staff donated generously through our branches and the CommBank app, adding to the $1.6 million donated by the Bank. The donations were provided to four community partners including Rural Aid which delivered over 4,500 bales of hay to more than 440 affected farmers. Other beneficiaries included the Bush Children's Education Foundation, NSW Rural Financial Counselling and the Australian Red Cross.

Our commitment to education

We have a longstanding commitment to financial education to help the next generation make smart decisions about their financial wellbeing, through our school banking and Start Smart programs.

More than 3.9 million school-aged students have now received financial education through Start Smart, our award-winning financial education initiative. The free program was founded in 2007 and is designed to give young Australians the skills and confidence to make good decisions about money.

This year, with schools closed due to COVID-19, we created Start Smart Digital to take facilitators into online classrooms across the nation. More than 11,000 students have participated in online learning sessions to date.

Advancing reconciliation

Through our Reconciliation Action Plan, we are committed to achieving parity for Indigenous representation in our workforce.

Training and employment pathways are critical to accomplishing this goal. To that end, we sponsor several traineeship programs and launched an Indigenous Training Academy to encourage the take-up of careers in technology. More than 30 trainees and interns have now graduated from the Academy and many are pursuing their careers with us in areas such as engineering, end user experience and cyber security.

We are committed to increasing Aboriginal and Torres Strait Islander representation in our domestic workforce to 3% by 2026.

Indigenous workforce

2020	1.5%
TARGET 2026	3%

Awarding great teachers

Together with Australian Schools Plus, the Bank continues to celebrate outstanding Australian educators through the Commonwealth Bank Teaching Awards. Now in its fourth year, the 12 selected teachers and school leaders each receive a $45,000 Teaching Fellowship to fund a strategic project in their school and further their own professional development. This year's winners include Dr Scott Sleap, deputy principal of Cessnock High School in the Hunter Valley. Dr Sleap helps his students see new career possibilities in science, technology, engineering and maths through The Cessnock Academy of STEM Excellence.

Tackling financial abuse

For several years we have invested in programs that support customers, employees and members of the community who are affected by financial abuse in the context of domestic and family violence.

This year, we established a Community and Customer Vulnerability team to identify and respond to those in need with sensitivity and skill. Our frontline branch staff are also trained to provide support and affected customers can speak confidentially to our specialist Community Wellbeing team.

We have partnered with leading experts and community organisations to develop the resources and support networks required to help those affected get back on their feet.

We have also worked with other financial services companies and industry bodies to identify and stop abuse via digital banking platforms, such as the use of transaction descriptions to threaten and intimidate.

Fostering green shoots

Students and teachers at Quaama Public School.

From the start of the bushfire season, we used our branch network and the CommBank app to help gather donations from customers and employees. Thanks to their generosity, nearly $6 million was raised for affected communities.

To help with the rebuild and provide practical, on the ground support, we committed up to $10 million to bushfire recovery grants. Community groups were able to apply for a grant of up to $50,000 to replace lost or damaged equipment or support community wellbeing.

One bushfire grant recipient is Quaama Public School in the Bega Valley Shire. The town's residents had spent years raising money to build a teaching garden at their local public school. Less than two weeks after the garden was officially opened, fire swept through.

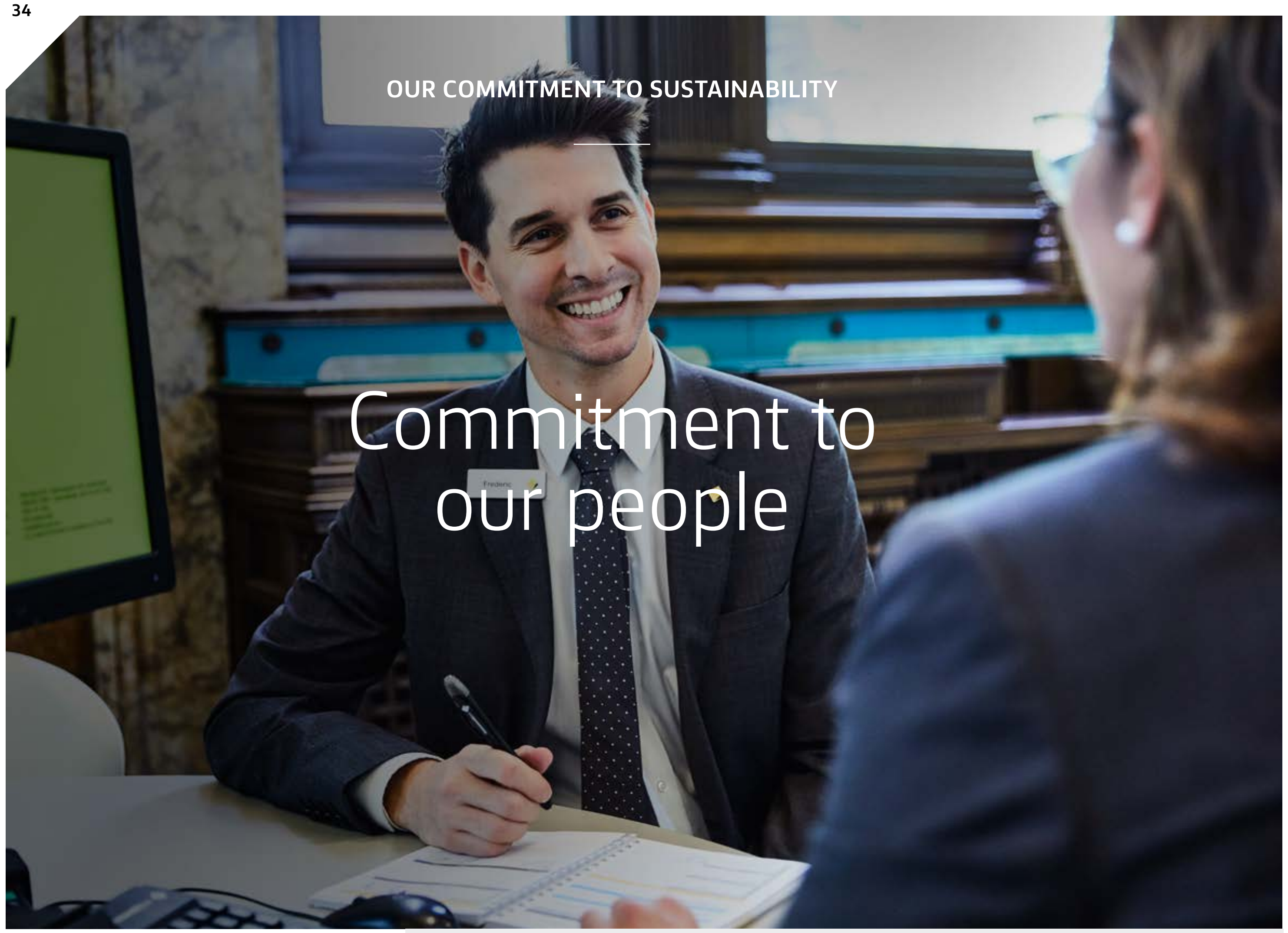
The grant will now allow the school to rebuild the garden, replace the irrigation system and get back to teaching the students how to grow food.

Focusing on reputation and trust

It is critical that we meet the community's expectations and are trusted. To rebuild trust, we have been focused on demonstrating through our actions that we are capable and reliable, doing the right thing and improving outcomes for all of our stakeholders. To emphasise the importance of rebuilding the Bank's reputation, executive leaders' long-term variable remuneration granted since FY18 is in part linked to relative improvements in our RepTrak score.

See page 90 for more details.

Relevant UN Sustainable Development Goals



OUR COMMITMENT TO SUSTAINABILITY

Commitment to our people

89%
proud to work for the Bank

90%
confident in the future of the Bank

41%
women in Executive Manager and above roles

Engaged and energised

Our people are the Bank's most important asset and an engaged, energised and accountable workforce is essential to delivering better outcomes for all of our stakeholders.

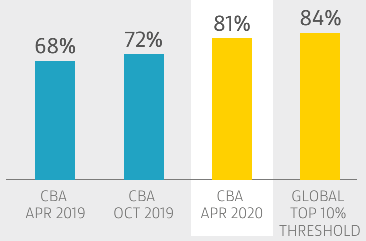
We track and measure employee engagement through the Your Voice people and culture survey. Our goal is to be among the top 10% of companies globally for our employee engagement score. Our most recent results show a significant improvement in engagement, with our people indicating they feel proud of the work we have been doing to provide essential services to customers, communities and the broader economy during this year's bushfires and COVID-19. During the pandemic, we conducted additional, focused surveys to assess our people's key concerns.

In the April survey, employee engagement was 81%, up 13% on April 2019. 89% of our people said they feel proud to work for the Bank, 90% expressed confidence in the future of the Bank, and 82% said they felt a personal sense of accomplishment in the work we are doing.

Strengthening culture and accountability

Our Code of Conduct incorporates our purpose and values, and sets expectations on how our people should act. It includes the 'Should We?' test to ensure our people do the right thing by our customers and the community. This year, further work was done to embed our Code of Conduct into our processes to support the skills and mindset required to deliver the best customer and risk outcomes. Our new recognition programs celebrate colleagues who are living our values, and allow our people to nominate those who have gone above and beyond for Excellence Awards.

Employee Engagement Index score



Prioritising health, wellbeing

This year, more than ever, our priority has been the safety, health and wellbeing of our people. To ensure we maintained essential banking services and met the surge in customer demand for assistance during COVID-19, we quickly adapted our branches and offices to maintain physical distancing and keep our people and customers safe. We also quickly scaled our remote working technologies allowing more than 39,000 of our people and delivery partners to work from home.

To help our people manage coronavirus-related health, anxiety or financial concerns, we provided a range of wellbeing and family support resources via podcasts, webinars, videos and our Thrive wellness portal. Employees were able to book free health checks through our online health hub, and access confidential counselling through our MyCoach telephone service. We also offered an interest-free cash advance to employees who were having difficulty meeting expenses due to the impact of COVID-19 on them or their families.

Promoting a SpeakUP culture

It is important that our people feel they can raise any issue or conduct that concerns them, and know that they will be taken seriously. This year, we enhanced our whistleblower policy to meet the requirements of ASIC Regulatory Guide 270 and provided additional avenues for our people to raise concerns, including the introduction of an anonymous online channel. The policy was also expanded to include spouses, dependants and relatives of employees, in addition to current and former employees, contractors, consultants and suppliers. As a result of these changes, whistleblower cases raised through our SpeakUP program increased to 103 from 30 in FY19. More broadly, general SpeakUP cases decreased to 284 for the year, from 311 last year.

Learn more at commbank.com.au/policies

Welcome aboard

We hired new colleagues from the aviation industry to help our contact centres manage the increased volume of customer assistance requests during the coronavirus pandemic. The temporary recruits, from Qantas and Virgin, bring customer service skills that transfer well from aviation to banking. To prepare them for supporting customers, we launched a 15-day training program. We also provided dedicated coaching and observation, so that our new recruits had the confidence and capability to take calls with customers.

Molly Beveridge, Scott Thompson and Louis Diamond have joined the Bank from the aviation industry.

Creating a diverse, inclusive culture

When our people and leaders reflect the diversity of our customers and when our people feel respected and supported, we can deliver the best outcomes for all of our stakeholders.

Our employee-led networks play an important role in promoting inclusion and informing solutions for our people and customers. They include WeCAN (gender equality), Yana Budjari (Aboriginal and Torres Strait Islander peoples and cultures), Unity (sexual orientation and gender identity), Mosaic (cultural diversity), AdvantAge (life-stage and age) and Enable (accessibility and inclusion for people with a disability).

We know that sharing child caring responsibilities promotes workforce participation and are happy to see male employees continue to access parental leave this year. Parents at Work, an organisation that provides work and family education and policy advice, featured the Bank in a case study on our gender-neutral parental leave. We also created Financial Wellbeing Guides to further support parents.

We have achieved the goals set in 2015 to increase the number of women in leadership roles, and so this year have set a new ambitious goal to achieve 47–50% of women in Executive Manager and above roles by 2025. We are also committed to gender pay equity and review it throughout the year as part of our remuneration review process.

While we are proud that the Bank overall is more culturally diverse than the Australian population, we will continue to focus on cultural diversity across our senior leadership roles.

Our key workforce metrics are provided on page 50–51.

Women in leadership

	2020 target	2020 actual
Executive Manager and above roles	40%	41%
Manager and above roles	45%	45%

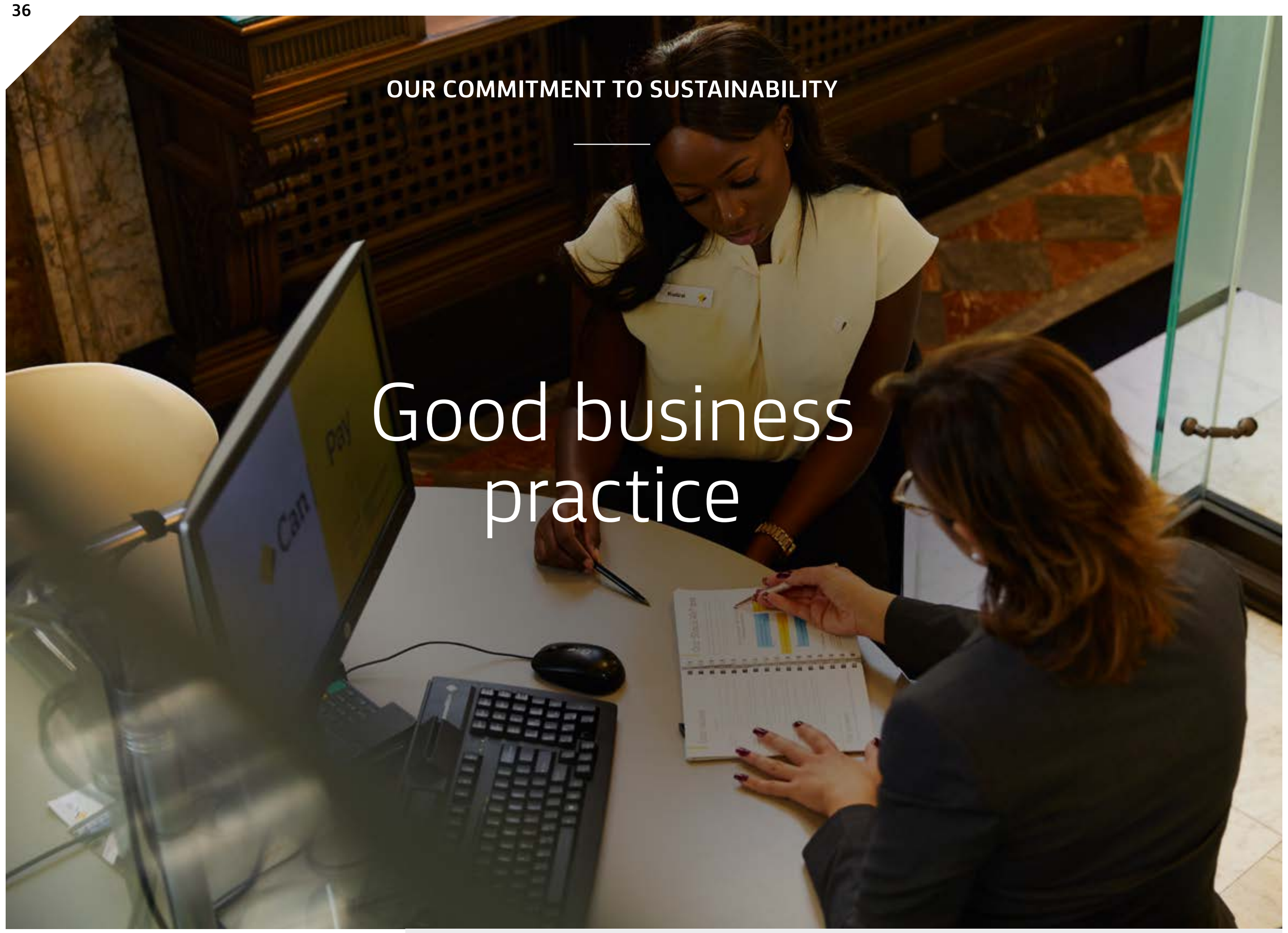
New goal
47–50% women
in Executive Manager and above roles by 2025

Support for staff impacted by domestic and family violence

Due to the size of our workforce and the scale of the issue, we know that many of our people are directly impacted by domestic and family violence. To support affected employees, we offer as much paid leave as they need to navigate their situation. We also provide up to five days' paid leave to employees helping an immediate family or household member.

Relevant UN Sustainable Development Goals

3 GOOD HEALTH AND WELL-BEING
5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES
17 PARTNERSHIPS FOR THE GOALS



OUR COMMITMENT TO SUSTAINABILITY

Good business practice

100%

of Australian electricity needs now sourced from renewable energy, 10 years ahead of target

$5.4bn

in low carbon project financing

11 days

average time to payment for small business suppliers; moved to immediate payment terms for small businesses during COVID-19

Building partnerships

The Bank's heritage and scale means that we have a responsibility to contribute to a strong economy and a trusted and resilient financial system. We can achieve this when we work transparently and constructively with government, regulators, industry associations and the community.

During the coronavirus pandemic, we have been working with the industry, the government and regulators to quickly mobilise a broad range of support and stimulus measures. By working together, we have been able to get money into the economy and take pressure off households and businesses by offering lower cost loans and loan repayment deferrals. This collaborative environment has also enabled unprecedented change and accelerated innovation in the sector, including increased adoption of electronic payments and digital engagement by the community.

To help the government and regulators get a gauge on how the economy, businesses and individuals are faring, we are providing access to aggregated real-time banking and payments data. This data will continue to help policy makers design policies that support economic recovery over the longer-term.

To drive increased customer choice, competition and innovation, we have been an active participant in initiatives such as Open Banking, Comprehensive Credit Reporting and the New Payments Platform.

To support financial and economic stability more broadly, we contribute to initiatives that address financial crime and cyber security. As a member of the Fintel Alliance we work with Australian and international regulators to combat money laundering and terrorism financing; and through our cyber security program we invest in cyber skills education and capacity building to strengthen system-wide resilience.

We are also committed to making the changes necessary to restore and maintain trust in the Bank and our industry. We have participated in more than 65 government inquiries in recent years which have led to changes in legislation, regulation and industry practice.

Managing environmental and social risks

We manage environmental and social risks in our operations, lending activities, and superannuation and investment business. This includes minimising our environmental footprint and supporting the transition to a low carbon economy, as well as identifying and improving human rights impacts through our value chain.

Our Environmental and Social Policy outlines our commitments and targets, as well as how we manage the risks and identify opportunities.

We are committed to playing our part in limiting climate change in line with the goals of the Paris Agreement and supporting the responsible global transition to net zero emissions by 2050. This year, we achieved our target to source 100% renewable electricity for our Australian power needs, 10 years ahead of our 2030 deadline. As at 30 June 2020, we had total committed exposures of $5.4 billion to low carbon projects, including $4.2 billion in renewable energy exposure.

All institutional bank loans, as well as large loans in other business units, are evaluated through a compulsory ESG Risk Assessment Tool. Annual training is undertaken by the relevant client, risk and product teams to ensure they are up-to-date with requirements.

ESG risks are also incorporated into our investment decisions to deliver sustainable, long-term outcomes.

For more information on how we manage climate change risk and opportunities, see pages 38–45.

Responsible investing

Our investment and superannuation business, Colonial First State (CFS), has exited all investments in companies associated with the production of tobacco and controversial weapons across its bond and equity portfolios. The exclusion applies to all fund managers engaged by CFS, and was achieved as at 31 December 2019.

Managing our supply chain

We have more than 7,200 Australian and international suppliers so it is important that we fulfil our responsibilities to those businesses as well as manage potential risks.

We are a signatory to the Australian Supplier Payment Code which requires us to pay eligible Australian small business suppliers on time and within 30 days of receiving an invoice. This year, our average payment time for these suppliers was 11 days; and to keep cash flowing during COVID-19 we changed all payment terms for small businesses to immediate payment.

Our Supplier Code of Conduct outlines how we manage supply-chain risks such as data security and privacy, human rights, modern slavery, environmental impact, and bribery and corruption. We require all suppliers to acknowledge this code as part of their contractual agreement with us.

Minimising the risk of modern slavery

Our approach to human rights and modern slavery is guided by our Environmental and Social Policy. We engage with new and existing suppliers to actively identify, manage and mitigate these issues. This year we added detailed questions on modern slavery to our tender questionnaires for all new supplier arrangements; and we updated our Supplier Code of Conduct to provide guidance to suppliers on how we will work with them when issues are suspected or identified.

We undertook country and industry level risk analysis of key suppliers. For our property operations, this identified that the high risk suppliers were in construction, catering, cleaning and security services. We then asked these suppliers to provide detailed information on their policies, processes and remediation mechanisms. We also sought advice from the Mekong Club on supply chain due diligence and invited Be Slavery Free to present to key property services suppliers to build awareness.

We will release our Modern Slavery Statement in the 2021 financial year as required under the *Modern Slavery Act 2018* (Cth).

Our annual Modern Slavery and Human Trafficking statement which responds to UK requirements is available at commbank.com.au/CRreporting

Banking Code of Practice

As a member of the Australian Banking Association we helped develop the new Banking Code of Practice which came into effect on 1 July 2019. The code adds new protections for vulnerable customers, loan guarantors, co-borrowers and small business customers.

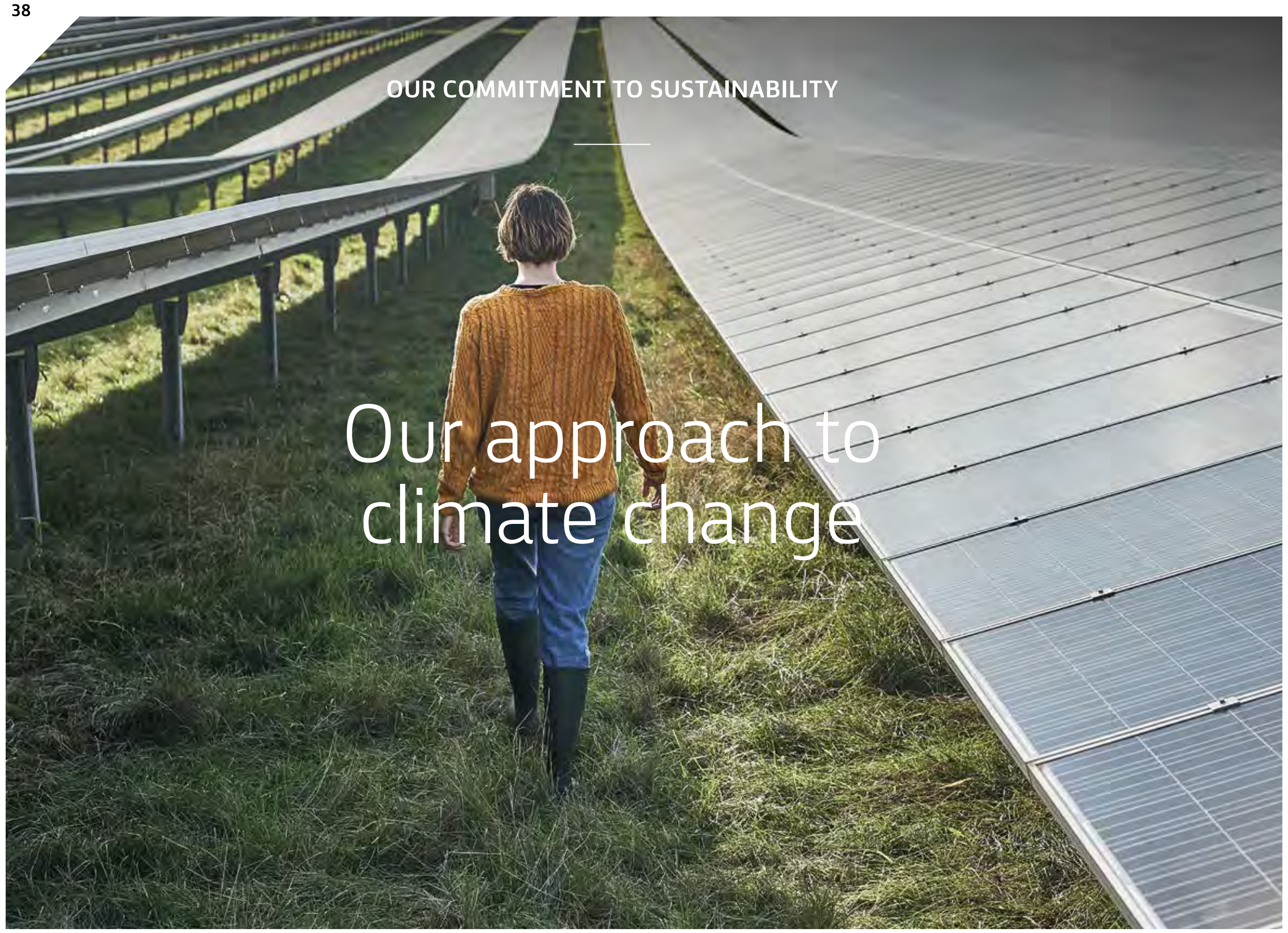
Political donations

Our Group External Communications and Engagement Policy explicitly precludes the Bank from making political donations. We may, however, pay to attend some political events aimed at the business community. To attend these events in the 2020 financial year we contributed $70,500 to the Australian Labor Party, $70,000 to the Liberal Party of Australia and $11,175 to the National Party of Australia. These payments are disclosed in line with the requirements of Federal and State governments.

Industry associations

The Bank is a member of a number of industry associations and we participate both through these associations and directly with policy makers in the development and advocacy of public policy positions. Industry associations represent a range of members with diverse interests so the policy positions adopted by an industry association should not be assumed to represent the views of the Bank.

Relevant UN Sustainable Development Goals



Climate change poses a significant risk to our environment, our economy and our community, and is a source of both risks and opportunities for the Bank. We are committed to playing our part in limiting climate change in line with the goals of the Paris Agreement and supporting the responsible global transition to net zero emissions by 2050.

To achieve the goals of the Paris Agreement, action over the next decade to 2030 is crucial while supporting the financial wellbeing of our customers, communities and the Australian economy.

Since 2018 we have been disclosing our progress, performance and plans in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The first three phases of our approach to climate change focused on establishing the governance and deep analysis required to better understand climate risks and opportunities. In the current fourth phase, we are focused on incorporating climate considerations into our strategy across all business units, and enhancing our approach to risk management.

The recent bushfires resulted in heightened attention from customers, investors, regulators and the community on the role businesses play in addressing and managing environmental and social impacts. This year, we have continued to take proactive steps to support our customers and clients, and contribute to economy-wide initiatives that support a sustainable and resilient economy.

Phase 1
Pre-FY18
Policy, due diligence, governance

Phase 2
FY18
Analysis of portfolio risks and opportunities

Phase 3
FY19
Extending scenario analysis, developing strategic responses, capability building

Phase 4
FY20–21
Embedding climate considerations into strategy, business and risk management processes

Our progress

		Phase 1–2	Phase 3	Phase 4	
	Action	Pre-FY19	FY19	FY20	FY21
Governance	Oversight of climate risks by the Board Risk & Compliance Committee and Executive Leadership Team (ELT) through the Risk Management Framework	Complete			
	Group Environmental and Social (E&S) Policy clarifying Board and subsidiary Boards' oversight and Management accountability for E&S risk, including climate change		Complete		
	Group E&S Framework outlining climate commitments (reviewed on an ongoing basis)		Ongoing	Ongoing	Ongoing
	Review and update Responsible Investment Policy in Colonial First State (CFS)	Complete		Complete	
Strategy	Commitment to support the objectives of the Paris Agreement	Complete			
	Climate scenario analysis:				
	• Business lending: transition risks. Home lending and insurance: physical risks. FirstChoice Australian Share Fund: transition risks.	Complete			
	• Agribusiness lending: physical risks.		Complete		
	• Business lending: physical risks.				Future activity
	• Retail (home lending) and insurance: transition risks.				Future activity
	Develop and integrate strategic responses to address climate change through our own business actions, as well as through our broader role with our customers and communities	Ongoing	Ongoing	Ongoing	Ongoing
Risk management	Climate incorporated into the Risk Management Framework as a strategic risk and a driver of financial and non-financial risks	Complete			
	Group Risk Appetite Statement annual review			Complete	
	Update our business lending policies in the E&S Framework to support the responsible transition to a net zero emissions economy by 2050		Complete		
	Undertake analysis of emissions intensity of our business lending portfolio and Energy Value Chain to track performance of supporting the transition to a net zero emissions economy	Ongoing	Ongoing	Ongoing	Ongoing
	Ongoing development and evolution of our ESG Risk Assessment tool for business lending	Ongoing	Ongoing	Ongoing	Ongoing
	Expansion of climate change metrics aggregated across the entire CFS portfolio			Complete	
Metrics and targets	Emissions reduction targets (Scope 1 and 2)	Ongoing	Ongoing	Ongoing	Ongoing
	RE100 commitment to source 100% renewable energy by 2030 (achieved for Australian operations)		Ongoing	Ongoing	Ongoing
	Targeting an average emissions intensity decrease of our business lending portfolio	Ongoing	Ongoing	Ongoing	Ongoing
	Set new emissions reduction targets: • Science-based emissions reduction target (Scope 1 and 2) • Scope 3 emissions reduction target				Future activity

Key: Complete Ongoing Future activity

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

Climate governance

The Board oversees the management of climate-related risks and opportunities, as outlined in the Board Charter. Specifically, the Board:

- Sets, approves and oversees the Group's approach to managing risk, including the management of financial and non-financial risks and of strategic and emerging material risks.
- Considers the social, ethical and environmental impact of the Group's activities.
- Approves with input from management, the strategic, business and financial plans to be implemented by management.
- Approves climate-related disclosures.

The Executive Leadership Team (ELT) is responsible for climate-related matters, including:

- Directing the development and implementation of environmental and social policies.
- Overseeing of progress, performance and reporting.
- Leading external engagement and advocacy.

The Group E&S Policy released in August 2019 outlines the governance and oversight in place to support embedding environmental and social considerations into our business processes and decision-making. This is supported by the Group E&S Framework outlining the minimum standards, targets and commitments we are working towards. Accountabilities for the E&S Policy are set out in the relevant Business Unit and Support Unit Procedures.

The E&S Policy also prescribes the process for subsidiary Board oversight.

See our E&S Framework at commbank.com.au/policies

Climate strategy

We are committed to playing our role in the responsible transition to a net zero emissions economy by 2050. To achieve this, we remain focused on reducing our own emissions and continuing to progress our actions in the institutional bank, ensuring our business lending activities are aligned and supporting our clients. Going forward, we recognise the opportunity to leverage our business banking and retail banking franchise to support our customers to reduce their emissions and adapt to the impacts of climate change. We will continue to evolve our approach over time. In 2018 and 2019, we undertook scenario analysis to better understand the climate change impacts, risks and opportunities for the Bank and to build the resilience of our customers and business. The insights from the analysis inform our approach to managing the short and medium term impacts, and having the right tools in place to reshape each of our portfolios to be more resilient to the long-term impacts identified.

Scenario analysis – areas of focus

Physical: Drought, Flooding, Storms, Extreme heat, Bushfires, Sea level rise

Transition: Market, Policy and Regulation, Legal, Reputation, Technology

Grains, livestock and dairy agriculture portfolios	Building insurance policies	Home loan portfolio	FirstChoice Australian Share Fund	Business lending portfolio
Potential impacts on profitability and adaptation options to reduce impact.	Potential impacts on insurance claims and affordability of insurance.	Potential damage to properties at an aggregated level due to natural perils. Home loan portfolio exposure concentrations.	Exposure of fund to growth and contraction sectors.	Economic growth and contraction by sector. Sector heat maps. Exposure of portfolio to growth and contraction of sectors.

More information on our climate scenario analysis is available at commbank.com.au/TCFD2018 and commbank.com.au/TCFD2019

We are addressing climate change through our own business actions as well as our broader role with customers and communities.

We are aligning our business lending portfolio to a net zero emissions economy by 2050 by:

- Developing climate-related products and increasing our lending to low carbon projects, tracked through our Low Carbon Target.
- Partnering with our clients and incentivising measurable action through sustainability-linked loans.
- Supporting increased renewable energy generation, while reducing our exposure to coal over time.
- Using the business lending assessed emissions analysis to identify priority areas for reducing emissions (see page 44 for details).

Supporting our customers and clients

We are developing innovative climate-related products to help customers with mitigation and adaptation. We have launched a green term deposit pilot for wholesale clients in Australia. The investment proceeds contribute to the Bank's pool of funding used to finance 'green' assets certified by the Climate Bonds Initiative. In New Zealand, ASB has developed and launched two new Positive Impact Funds available through the ASB KiwiSaver Scheme and ASB Investment Funds for customers who want a stronger approach to responsible investment. The funds have a preference for assets making a positive social and environmental impact with a lower carbon intensity than the wider market.

Sustainable finance

This year, the Bank was a joint lead manager for the AUD300 million QIC Shopping Centre Fund (QSCF) Green Bond, certified by the Climate Bonds Initiative. QSCF has committed to achieve a minimum 4-star NABERS energy rating for its core retail assets by 2023 and are targeting zero net emissions by 2028.

Supporting our agribusiness customers

Last year, we undertook climate scenario analysis to better understand the potential impacts that a changing climate may have on farm productivity and the long-term outlook for the sector. Separately, we have also used historical industry data to map productivity levels for regions in Australia for the grains, livestock and dairy sectors. A closer focus on productivity levels across these three sectors and regions helps us understand and better support individual customers' needs and circumstances. We used these insights to guide our approach to agribusiness lending for these sectors, to help our customers manage sustainability through agricultural cycles.

Green mortgage initiative

To help home loan customers benefit from more affordable and sustainable energy, we ran a pilot offering $500 cash-back to our retail customers with an installed and certified solar PV system of five kilowatts (kW) or greater.

During the six-week offer period, 4,703 customers took up the offer. The initiative prompted 16% of participating customers to install new solar panels.

Incentivising the transition to a low carbon economy

Sustainability-linked loans tie a borrower's cost of funding to their environmental and social performance. In July 2019, we provided $150 million of debt funding to Queensland Airports Limited (QAL) for the Gold Coast Airport redevelopment, with $75 million provided in the form of a sustainability-linked loan. The Gold Coast Airport financing is the first in Australia to be directly linked to a reduction in carbon emissions, aligning to a widely adopted carbon emission industry framework, the Airport Carbon Accreditation Program.

Playing our role in creating a resilient and sustainable economy

Supporting community recovery and resilience

This year's extreme weather events including drought, floods and bushfires, tested the resilience of the communities impacted. The Bank's Emergency Assistance package provided immediate support to our customers. We also supported recovery efforts for communities. See pages 32–33 for more information.

We are actively collaborating with other organisations to lift national resilience. This work allows us to proactively invest in building resilient communities, disaster reduction and disaster response.

Collaborating on new banking and industry standards

We are a member of the Australian Sustainable Finance Initiative, which supports the development of a roadmap to a more resilient and sustainable economy for Australia. In New Zealand, ASB has joined with more than 100 companies as part of the Climate Leaders Coalition.

We are actively contributing to the Climate Measurement Standards Initiative. Through the initiative, Australian banks, insurers, scientists and asset owners have been developing open-source technical and business standards for the assessment and disclosure of physical climate risks on infrastructure and real estate assets.

The Bank is also a signatory to the Equator Principles III (EPIII) – a global set of principles and guidance to assess, mitigate, manage and monitor environmental and social risks in project-related financing. CBA co-leads the Climate Change Working Group to develop additional climate change assessment requirements in the next iteration of the Equator Principles (EPIV). This will include deeper guidance to support implementation of the principles by global financial institutions.

Responsible business lending

All Institutional Bank loans, as well as large loans in other business units, are evaluated through our compulsory ESG risk assessment tool. Medium or high ESG risk profiles are subject to additional due diligence and escalated depending on the level of risk. We continue to provide guidance to our bankers on executing the business lending commitments in the E&S Framework. This year's ESG training provided bankers with prompts to understand clients' plans for climate transition and resilience to physical climate risks.

Responsible investing

Colonial First State (CFS) is the Group's investment and superannuation business. CFS assesses climate-related risks in line with its Responsible Investment Policy.

To monitor the climate-related risks of its investments, CFS assesses two metrics for the equity allocation of Assets Under Management (AUM) at a whole of portfolio level[1]:

- Carbon emissions footprint per $100,000 invested: 20.77t$CO_2$e/$100k AUD (FY20).
- The weighted average carbon intensity per US$M sales: 235.47t$CO_2$e/$1M sales USD (FY20).

Equities comprise approximately 60% of CFS' total AUM.

CFS also measures the carbon emissions of its investments by assessing forward-looking metrics such as low carbon transition and emissions management scores. This information is reported to the CFS Board Investment Committee. As CFS investments are managed by external investment managers, CFS monitors the climate-related risk within individual funds and aggregated portfolios at the selection, appointment and monitoring stages of portfolio management.

1 Excluding Avanteos Investments Limited (AIL) and Bankwest bank deposits.

Climate risk management

Environmental and social risk, including climate change, is a strategic risk managed under the Group's Risk Management Framework and has the potential to impact the achievement of our purpose and strategy.

In December 2019, we updated our Group Risk Appetite Statement to provide greater clarity on non-financial risk indicators and capture the importance of environmental and social risks as a driver of franchise value.

To support a strategic and coordinated response on E&S matters across all business areas, we are developing an E&S Risk Roadmap, focusing initially on climate risk.

More information about the Bank's current risk priorities including climate change and the key actions we are taking is on page 61.

Monitoring our exposures

Our E&S Framework outlines our climate commitments, including:

- Continuing to reduce our exposures to thermal coal mining and coal fired power generation, with a view to exiting the sectors by 2030, subject to Australia having a secure energy platform.
- Only providing Banking and Financing activity to new oil, gas or metallurgical coal projects if supported by an assessment of the environmental, social and economic impacts of such activity, and if in line with the goals of the Paris Agreement.
- Recognising and supporting gas as a transition fuel, while working with our customers in accordance with our own climate scenario analysis, which is informed by the Intergovernmental Panel on Climate Change guidance.

The energy value chain graphic below shows our exposure to energy-related assets.

Our support for the transition to a low carbon economy is reflected in our declining exposure to coal, and our increasing exposure to renewables. The increase in oil-related exposures is substantially due to foreign exchange movements in derivative hedging exposures for a single existing client.

Energy value chain exposures as at 30 June 2020[1]

Key: +/– change since FY19

Natural resources[2]	Infrastructure	Electricity generation	Network and retailers
Gas $1.2bn –6%	LNG terminals $2.2bn –22%	Gas $0.6bn –13%	Electricity and gas transmission, distribution and retailing[5] $5.2bn +4%
Thermal coal $0.35bn –6%		Renewables $4.2bn +14%	
Thermal coal within diversified miners[3] $0.16bn –25%	Coal terminals $0.9bn –5%	Coal $0.004bn –13%	
Uranium $0.0bn		Nuclear $0.0bn	
Oil[4] $2.3bn +7%			Oil distribution and refining $1.1bn +41%

1 All figures are Total Committed Exposures (TCE) excluding Commitment at Offer as at 30 June 2020. Figures represented have been specifically derived based on material client exposures, and have not been netted off against any insurance or guarantees that mitigate the Bank's risk exposure to clients. Not included are 'Other energy-related' exposures ($0.1 billion) which comprise smaller loans and exposure to energy trading entities.
2 Exposures to metallurgical coal mining ($0.02 billion), and metallurgical coal mining within diversified miners ($0.06 billion) not included.
3 Thermal coal exposure within each diversified miner is calculated as the Group's exposure to the miner, excluding exposure to coal subsidiaries, multiplied by the percentage EBITDA contribution of thermal coal in its latest annual financial statements. Exposures to coal subsidiaries of diversified miners, i.e. subsidiaries whose business activities are predominantly related to coal mining, are allocated to thermal coal.
4 Exposures in Oil (Natural resources) for 30 June 2019 have been revised due to reclassification of some clients, which impacts the year-on-year change percentages.
5 Electricity and gas transmission, distribution and retailing includes exposures to companies that operate across the electricity and gas supply chain, including vertically integrated gentailers; exposures to entities that operate domestic gas pipeline, processing and storage facilities; and exposures to companies that provide retail electricity and gas products to end-customers.

Measuring the emissions intensity of our business lending

We continue to assess the emissions arising from our business lending across Commonwealth Bank, ASB and Bankwest. The insights garnered from this analysis provide us with a quantitative basis to identify key priorities to reduce the emissions arising from our business lending portfolio.

Our sixth iteration of this annual assessment has demonstrated overall stability in the emissions intensity of the Group's business lending portfolio, at 0.26kgCO_2-e/$AUD of expenditure. With the exception of Property and business services, the emissions intensity of expenditure in each sector across our portfolio decreased in FY19. The Agriculture, forestry and fishing, and Electricity, gas and water supply sectors continue to represent the most emissions intensive sectors in the Bank's lending portfolio.

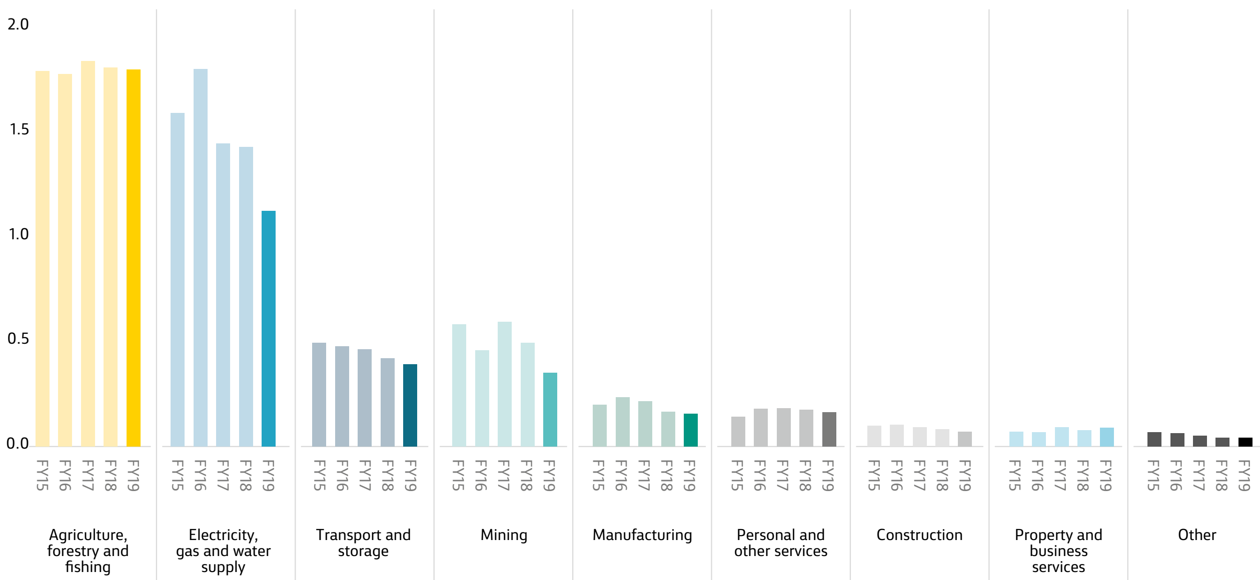
An increase in the proportion of our lending exposure to the Agriculture, forestry and fishing sector offset the broader decline in other sectors' emissions intensity. The Electricity, gas and water supply sector's emissions intensity continues to decline year-on-year, partially driven by reduced exposure to coal electricity generation. In addition, several renewable energy projects became operational, and this phase is typically less carbon intensive than the construction phase.

Within the Mining sector, metal ore mining had the largest drop in emissions intensity. The Bank's exposures to thermal coal mining also decreased in the period.

Group business lending
% of assessed emissions by sector (FY19)

Agriculture, forestry and fishing	44%
Transport and storage	14%
Electricity, gas and water supply	13%
Manufacturing	10%
Property and business services	7%
Mining	5%
Construction	2%
Personal and other services	1%
Other	4%

Group business lending emissions intensity of expenditure (kgCO_2-e/$AUD)



The full assessed emissions analysis including the detailed findings and methodology is available at commbank.com.au/CRreporting

Metrics and targets

We are committed to continually reducing the environmental impact of our operations and aim to reduce our emissions by investing in smart technologies and practices. Key milestones achieved this year include:

- Reaching our target to source 100% of our electricity needs from renewable sources for Australian operations, consistent with our 2030 RE100 commitment.
- Increasing our onsite renewable energy generation capacity using solar photovoltaic (PV) panels to 1,510kW at 80 sites across the country, exceeding our 2020 target of 1,250kW.
- Our New Zealand operations (ASB) have achieved Toitū carbonzero certification from Toitū Envirocare. The certification validates ASB as a carbon neutral organisation for its 2019 operational emissions.

We continue to track the overall performance of our Scope 1 and 2 emissions reduction target, and have committed to setting science-based emissions reduction targets for Scope 1 and 2, as well as a Scope 3 emissions reduction target.

We remain committed to offsetting unavoidable emissions to achieve carbon neutrality, and intend to achieve Climate Active carbon neutrality certification for our Australian FY21 emissions.

Supporting the low carbon economy

In February 2020, we released our Green, Social and Sustainability Funding Framework outlining the governance and asset eligibility criteria for Sustainable Funding Instruments issued by CBA. This framework provides the guidelines to support capital deployment toward new sustainable products, services and business models.

In the 2017 financial year we set a Low Carbon Target to make $15 billion of funding available to Low Carbon Projects by 2025. Eligible projects include renewable energy, 6-star rated commercial green buildings, energy efficiency projects and low carbon transport.

Metric	Target	FY19	FY20	Progress
Emissions per FTE	2.0tCO_2-e/FTE by 2020	2.1tCO_2-e/FTE	1.9tCO_2-e/FTE	
RE100 – renewable energy (Australia)	Sourcing 100% renewable energy by 2030	65%	100% (1 Jan 2020)	
Low Carbon Target	$15 billion by 2025	$5.13 billion committed exposure	$5.37 billion committed exposure	
Assessed emissions in our business lending portfolio	Net zero by 2050	0.26kgCO_2-e/$ of expenditure (2018 financial year)	0.26kgCO_2-e/$ of expenditure (2019 financial year)	

Key: Complete Commenced

FOCUS ON SUSTAINABILITY PERFORMANCE

Sustainability performance overview

To achieve our objective of balanced and sustainable outcomes, we set targets for, measure and report a range of material customer, environmental, social and governance metrics.[1]

Women in leadership
in Executive Manager and above roles by 2025

41.2%

Target **40%** by 2020

New target **47–50%** by 2025

Low carbon funding[3]

$5.4bn

Target **$15bn** by 2025

Greenhouse gas emissions

1.9tCO2-e per FTE

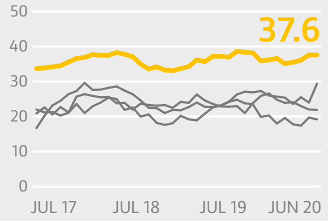
Target **2.0tCO2-e** per FTE by 2020

Mobile app NPS[2]

▲ 0.4 on FY19

Target: #1 in mobile app NPS

We continue to extend our digital leadership and have maintained our #1 position.



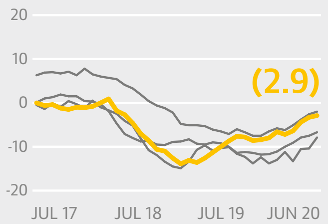
Key CBA Peers

Customer NPS[4]

▲ 7.1 on FY19

Target: #1 in consumer NPS

By focusing on delivering better customer outcomes we have seen a seven point improvement in the last 12 months.



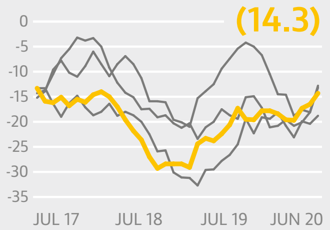
Key CBA Peers

Business NPS[5]

▲ 8.1 on FY19

Target: #1 in business NPS

We are narrowing the gap in business NPS, gaining eight points in the last 12 months.



Key CBA Peers

1 All metrics capture data of the wholly owned and operated entities of the Group, associates and joint ventures unless otherwise stated.
2 Roy Morgan Research Mobile app Net Promoter Score. See *Glossary* on pages 294–300 for details.
3 For definition see *Glossary* on pages 294–300.
4 DBM Consumer Net Promoter Score. See *Glossary* on pages 294–300 for details.
5 DBM Business Net Promoter Score. See *Glossary* on pages 294–300 for details.

Limited assurance report

PwC has provided limited assurance on these metrics (pages 47–52), for the year ended 30 June 2020, unless otherwise indicated.

The PwC Limited Assurance Report is provided on pages 53–54.

Customer metrics

We aim to deliver the best products, service and outcomes for our customers. We believe Net Promoter Score is a good overall measure of our customers' experience with us, as it subtracts our detractors from our promoters. We do not always get things right so we also measure how many complaints our Group Customer Relations team resolves. In addition, our Customer Advocate is an independent voice for customers within the Bank, and if customers are not happy with how we have resolved an issue, they can choose to have the Customer Advocate investigate and make a determination that is binding on the Bank.

Customer advocacy[1]	#	30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Commonwealth Bank – Net Promoter Score						
Consumer NPS[2,3]		**(2.9)**	(10.0)	(2.7)	(0.3)	(0.7)
– Rank		**2nd**	3rd	2nd	3rd	3rd
Business NPS[2]		**(14.3)**	(22.4)	(19.6)	(13.1)	(13.0)
– Rank		**3rd**	3rd	4th	1st	3rd
Internet banking NPS[4]		**31.1**	30.9	31.3	–	–
– Rank		**1st**	1st	1st	–	–
Mobile app NPS[4]		**37.6**	37.2	37.8	–	–
– Rank		**1st**	1st	1st	–	–
Bankwest – Net Promoter Score[3]						
Consumer NPS		**(4.6)**	(11.4)	–	–	–
– Rank		**5th**	5th	–	–	–
Business NPS		**(0.2)**	0.9	–	–	–
– Rank		**3rd**	3rd	–	–	–
ASB – Net Promoter Score						
Retail banking[5]		**32.0**	–	–	–	–
– Rank		**3rd**	–	–	–	–
Business and rural banking[6]		**4.2**	–	–	–	–
– Rank		**1st**	–	–	–	–

Customer complaints	#	30 Jun 20	30 Jun 19	30 Jun 18
Resolved[7]		**45,324**	40,588	33,530
Escalated to an external dispute resolution (EDR) scheme[8]		**5,480**	4,695	–
– Privacy complaints		**22**	22	22

Customer Advocate		30 Jun 20
Complaints reviewed by the Office of the Customer Advocate	#	**1,035**
Average business days to review complaint	days	**14**
Outcomes from review process:		
– Upheld bank decision	%	**54**
– Upheld bank decision, enhanced outcome for customer	%	**35**
– New decision	%	**11**

1 Customer advocacy metrics have not been assured by PwC as they are sourced from independent third-party providers.
2 Net Promoter Score (NPS) metrics are provided by DBM Consumer Atlas.
3 NPS methodology and service provider changed to DBM Consumer Atlas in 2019.
4 NPS metrics are provided by Roy Morgan Research. Not available prior to FY18.
5 NPS methodology and service provider changed to Retail Market Monitor in 2019. The results prior to FY20 are not comparable.
6 NPS methodology and service provider changed to Business Finance Monitor in 2019. The results prior to FY20 are not comparable.
7 Complaints based on ASIC RG165 guidance. Methodology revised in FY20 to consider only those complaints resolved after five business days, and FY19 and FY18 have been restated. FY20 complaints increased due to the CEO writing to customers and inviting feedback, a technology outage in October 2019 as well as hardship complaints due to COVID-19.
8 FY19 number restated to exclude complaints that have not been through the Group's internal dispute resolution process, based on the percentage of complaints in FY20. Excludes Bankwest complaints.

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

Environmental metrics

We manage our operations to ensure we minimise our carbon footprint, use resources efficiently and minimise costs associated with those resources. We report the Scope 1 and 2 (direct) and Scope 3 (indirect) carbon emissions for our operations in Australia, New Zealand and other overseas locations. We are also committed to supporting the transition to a low carbon economy and report our progress against our target to fund $15 billion of low carbon projects by 2025.

Low carbon transition		30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Low carbon funding[1]	$m	**5,374**	5,134	4,575	–	–
– Renewable energy lending exposure[1]	$m	**4,225**	3,644	3,716	2,800	2,200
Business lending emissions intensity[2]	$kgCO_2$-e/AUD	**N/A**	0.26	0.26	0.28	0.29
Climate bond arrangement[3]	$m	**9,490**	1,845	2,014	1,018	50

Greenhouse gas emissions	tCO_2-e	30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Group						
Scope 1 emissions[4,5]		**10,840**	7,624	8,740	9,694	9,063
Scope 2 emissions[5]		**103,528**	78,757	87,277	96,595	107,762
Scope 3 emissions[5,6]		**47,151**	99,580[7]	85,754	91,150	93,622
Total		**161,519**	185,961[7]	181,771	197,439	210,447
Scope 1 and 2 per FTE[8]		**1.8**	1.9	2.1	2.3	2.6
Australia						
Scope 1 emissions[5]		**8,306**	6,983	7,257	7,411	7,682
Scope 2 emissions[5]		**96,262**	71,128	76,866	83,723	94,255
Scope 3 emissions[5,6]		**43,341**	88,282	72,430	77,553	78,961
Total		**147,909**	166,393	156,553	168,687	180,898
Scope 1 and 2 per FTE[8]		**1.9**	2.1	2.3	2.6	2.9
New Zealand						
Scope 1 emissions[4]		**2,046**	82	733	1,348	436
Scope 2 emissions		**1,614**	1,938	2,462	2,661	3,213
Scope 3 emissions		**1,266**	4,259	5,834	3,813	4,950
Total		**4,926**	6,279	9,029	7,822	8,599
Other overseas						
Scope 1 emissions		**488**	559	750	935	945
Scope 2 emissions		**5,652**	5,690	7,949	10,211	10,294
Scope 3 emissions		**2,544**	7,039	7,490	9,784	9,711
Total		**8,684**	13,288	16,189	20,930	20,950

1 Prior year numbers have not been assured.
2 See commbank.com.au/CRreporting for methodology. Current period data is not available as the methodology relies on published client-specific data which is time delayed. Not assured by PwC. EY has provided limited assurance on the pool of assets backing the Green Liabilities in August 2020.
3 Not assured by PwC. Includes the full value of the transactions where CBA has acted as an Involved Party. FY20 number has increased due to higher demand for green bonds.
4 New Zealand operations has reclassified a proportion of their leased fleet fuel usage from Scope 3 emissions to Scope 1 emissions.
5 In FY20, CBA assumed operational control of two data centres. Emissions from these locations have been reclassified from Scope 3 to Scope 1 or 2 emissions, depending on source.
6 FY20 Scope 3 emissions exclude emissions from waste to landfill. From FY19, Scope 3 emissions include emissions from base buildings and paper use.
7 Restated due to summation error in FY19 Scope 3 emissions.
8 Emissions intensity calculations for FY20 exclude the reclassified Scope 2 emissions from the two data centres now under operational control.

Operations – Australia	tCO_2-e	30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Greenhouse gas emissions						
Scope 1: Natural gas and diesel stationary[1]		**1,124**	357	389	541	663
Scope 1: Transport		**7,182**	6,626	6,868	6,870	7,019
Scope 2: Purchased electricity: property portfolio[1]		**62,443**	71,128	76,866	83,723	94,255
Scope 2: Purchased electricity: data centres[1]		**33,819**				
Scope 3: Purchased electricity: data centres[1]		**1,475**	38,182	39,647	44,052	41,261
Scope 3: Natural gas and diesel stationary		**202**	73	79	116	133
Scope 3: Transport[2]		**10,581**	20,531	21,349	21,576	23,451
Scope 3: Hotel accommodation[3]		**2,191**				
Scope 3: Transmission and distribution losses		**10,572**	8,272	10,021	10,503	12,453
Scope 3: Office paper use[4]		**204**	30	–	–	–
Scope 3: Base building		**18,116**	19,793	–	–	–

Energy – Australia	gigajoules					
Fuels – natural gas, diesel and transport		**127,827**	112,675	112,671	129,671	142,418
Purchased electricity – property portfolio		**281,356**	313,065	339,270	365,617	399,781
– Renewable energy via power purchase agreement or retail contracts[3]		**279,932**	–	–	–	–
Electricity generated from on-site solar panels[3]		**6,106**	–	–	–	–
Purchased electricity – data centre electricity		**157,578**	168,620	173,281	189,456	174,796
Total energy consumption		**572,867**	594,360	625,222	684,744	716,995

Water and paper – Australia						
Water[5]	kilolitres	**177,047**	216,102	172,134	171,477	114,608
Office paper usage (A3 and A4)	tonnes	**483**	570	629	750	–

1 In FY20, CBA assumed operational control of two data centres. Emissions from these locations have been reclassified from Scope 3 to Scope 1 or 2 emissions, depending on source.
2 Emissions reduced due to travel restrictions as a result of COVID-19.
3 Reported for first time in FY20.
4 Paper use emissions increased as a new supplier of office products also includes non-carbon neutral paper in their range.
5 FY20 and FY19 commercial water use includes both new commercial buildings and old commercial buildings that have not been vacated.

Social – our people metrics

Employees are the Bank's most important asset and having an engaged, well-trained and accountable workforce is essential to the delivery of the Bank's strategy and delivers tangible benefits for our customers, shareholders and the communities we operate in. Flexible working practices help our people balance their goals and commitments and support a performance culture. Diversity and inclusion are an integral part of the Bank's culture, values and the way we do business.

Employees[1]		30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Total full-time equivalent (FTE)	#	**43,585**	45,165	45,753	45,614	45,129
– Australia		**36,330**	37,137	36,446	35,701	35,273
– New Zealand		**5,122**	5,038	5,538	5,409	5,518
– Other		**2,133**	2,990	3,769	4,504	4,338
Graduates		**153**	183	188	149	119
Headcount	#	**48,167**	50,482	51,371	51,779	51,120
Employee turnover – voluntary	%	**10.1**	11.3	11.8	10.1	11.3
Employee turnover – involuntary	%	**4.2**	4.0	4.2	–	–
Employment type (headcount)[2]	#					
Full-time		**32,178**	33,125	–	–	–
Part-time		**7,565**	7,900	–	–	–
Casual		**399**	438	–	–	–
Safety and wellbeing						
Lost Time Injury Frequency Rate[3]	rate	**0.9**	1.6	1.4	1.6	1.6
Absenteeism	days	**7.8**	7.2	6.0	5.9	6.0
Health, safety and wellbeing training[4]	#	**49,385**	49,977	–	–	–

Employee engagement and flexible working[5]	%	Apr 20	Oct 19	Apr 19	Apr 18	Apr 17	Apr 16
Employee engagement index – CBA[6]		**81**	72	68	72	78	77
Employees working flexibly		**–**	66.0	73.9	73.7	69.4	43.4
Employees with caring responsibilities		**–**	47.5	50.7	53.0	–	–

	%	30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Employees working part-time or job-sharing		**19.0**	19.5	19.7	19.4	19.8

Parental leave	#	30 Jun 20	30 Jun 19
Female employees who have accessed parental leave		**1,433**	1,479
Male employees who have accessed parental leave		**913**	917
Employees who have returned to work and are still employed after 12 months[7]		**1,825**	–

1 Includes discontinued operations.
2 Excludes fixed term contractors and contingent workers.
3 Prior year numbers have been restated due to claims received after year-end reporting date.
4 FY19 number has been restated. The health, safety and wellbeing training number is higher than FTE as the training is assigned annually and to new employees.
5 Sourced from the Group's people and culture survey. Survey provider changed in FY20 to Qualitrics. Due to COVID-19 not all metrics were surveyed in April 2020.
6 Employee engagement showed a significant improvement due to the Bank's support of customers, people and communities during COVID-19.
7 Reported for first time in FY20.

		30 Jun 20			30 Jun 19		
Employee training	hrs	Female	Male	Total	Female	Male	Total
Executive Managers and above roles		**29,023**	**41,060**	**70,083**	40,795	61,054	101,849
Others		**856,919**	**649,055**	**1,505,974**	795,978	577,415	1,373,393
Total		**885,942**	**690,115**	**1,576,057**	836,773	638,469	1,475,242
Per employee							
Executive Managers and above roles		**21.3**	**19.9**	**20.5**	31.6	29.7	30.4
Others		**29.1**	**25.6**	**27.5**	27.2	22.3	24.9
Average per employee		**28.8**	**25.2**	**27.1**	27.4	22.8	25.2

	#	30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
ESG training[1]		**1,560**	4,043	3,577	2,768	1,786

Gender diversity	%	30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Women in workforce		**56.9**	57.2	57.4	57.8	58.0
Women in Manager and above roles		**45.0**	45.0	44.6	44.4	43.6
Women in Executive Manager and above roles		**41.2**	39.1	37.6	36.7	35.2
Women in Senior Leadership (Group Executives)		**27.3**	22.2	20.0	–	–

Gender pay equity (female to male base salary)[2]	ratio	31 Mar 20	31 Mar 19	31 Mar 18	31 Mar 17
Executive General Manager		**0.90**	0.95	0.94	0.95
General Manager		**1.00**	0.97	0.99	1.00
Executive Manager		**0.98**	1.00	0.98	0.99
Manager/Professional		**0.98**	0.98	0.98	0.98
Team Member		**1.00**	1.00	1.00	1.00

Age diversity	%	30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
<25 years		**7.9**	7.4	7.3	8.1	8.3
25–34 years		**30.8**	31.4	33.2	34.8	35.9
35–44 years		**31.9**	31.8	31.0	29.7	29.5
45–54 years		**19.6**	19.9	19.5	18.9	18.5
55–64 years		**8.6**	8.4	8.0	7.6	7.2
65+ years		**1.0**	0.9	0.8	0.6	0.6

Other diversity dimension[3]	%	Oct 19	Apr 19	Apr 18	Apr 17	2016
CBA Indigenous workforce (ancestry)[4]		**1.5**	0.9	1.0	0.8	–
2016 Australian Census (Aboriginal or Torres Strait Islander)		**–**	–	–	–	*2.8*
Employees who identify as having a disability		**8.7**	10.5	11.9	–	–
Employees who identify as LGBTI		**3.3**	3.4	3.4	–	–

Cultural diversity based on ancestry (Oct 2019)[3]	Cultural Diversity Index #	Australia, NZ, British, Irish %	Europe %	Asia %	Africa, Middle East %	Americas %	Indigenous, Pacific Islanders %
CBA overall	0.72	57.37	11.04	23.87	3.42	1.39	2.91
General Manager and above	0.49	75.38	12.16	6.38	2.74	2.43	0.91
Executive Manager and above	0.57	70.59	13.78	9.52	3.06	1.97	1.09
2016 Australian Census (ancestry)	0.59	69	12	14	4	1	1

1 FY19 number restated due to incorrect capture of training modules. FY20 number has decreased due to postponement of training as a result of COVID-19.
2 Methodology changed in FY20, to improve representation of management levels. Reported values exclude employees seconded to their role at the time of reporting. All prior year numbers have been restated.
3 Sourced from the Group's people and culture survey. Survey provider changed in FY20 to Qualitrics. Due to COVID-19 not all metrics were surveyed in April 2020.
4 Metric can be volatile due to small sample size.

Social – community metrics

We contribute to our communities through community investment and financial education. We also provide support for Indigenous communities in keeping with our purpose of improving the financial wellbeing of customers and communities.

		30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Community investment	$m					
Total community investment[1,2]		**332.3**	288.4	290.0	266.0	262.6
– Cash contributions[2]		**57.5**	41.6	55.5	37.2	37.8
– Time volunteering[3]		**0.7**	1.1	1.1	1.2	1.4
– Forgone revenue[1]		**261.4**	231.5	220.3	215.9	211.8
– Program implementation costs		**12.7**	14.2	13.2	11.7	11.6
Community investment as a percentage of pre-tax profit[4]	%	**3.2**	2.4	2.2	2.0	2.0
Financial literacy programs	#					
School banking students (active)[3]		**174,997**	244,636	299,074	321,389	325,797
Start Smart students (booked)[3,5]		**377,214**	427,527	568,649	574,246	557,475
Indigenous community support						
Indigenous Customer Assistance Line (calls received)	#	**206,436**	202,444	180,225	168,218	170,789
Australian Indigenous supplier spend – first tier	$'000	**4,395**	2,959	–	–	–

Governance metrics

Strong governance is key to the Bank's ability to deliver on our purpose and strategy. Having independent and diverse Non-Executive Directors supports strong oversight and quality decision-making by our Board. It is also important that our people know what is expected of them and are confident to speak up about any issues or concerns.

		30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Board composition[6]	#					
Total Directors		**9**	10	10	10	12
– Female		**5**	5	4	4	4
– Male		**4**	5	6	6	8
Independent Directors		**8**	9	9	9	11
Female Directors on Board	%	**56**	50	40	40	33
Group compliance training[7]	%					
Training completion rate – Code of Conduct		**92.7**	96.7	99.4	97.6	–
Training completion rate – mandatory learning		**96.4**	93.6	94.4	96.9	–
Conduct and whistleblowing	#					
Substantiated misconduct cases		**1,851**	1,869	1,259	1,022	–
Misconduct cases resulting in termination		**136**	187	–	–	–
SpeakUP Program cases		**284**	311	143	171	–
– Whistleblower cases[8]		**103**	30	33	44	–

1 Forgone revenue methodology has changed in FY20. The FY19 number has been restated. Increase in FY20 is mainly due to expanding the age eligibility for fee waivers on Smart & Complete accounts in October 2019, increase in Streamline accounts and pricing changes to transaction fees in November 2019.
2 The FY20 increase is mainly due to the launch of the Next Chapter program to address domestic and financial abuse, and donations for bushfire and drought relief.
3 FY20 metrics impacted by COVID-19.
4 Cash net profit from continuing operations before tax.
5 Start Smart program for vocational students ceased in FY19.
6 As numbers are actuals, no assurance by PwC is provided.
7 The training completion rates are not 100% as allocated training may be scheduled for completion after 30 June or training may be overdue. There are remuneration consequences for employees who do not meet their training obligations.
8 The FY20 increase in whistleblower cases is in part attributable to an expanded definition of an Eligible Person and Reportable Conduct as per changes to the Corporations Act applicable from 1 July 2019.

Independent assurance report on sustainability performance metrics

For the year ended 30 June 2020

To: the Board of Directors of the Commonwealth Bank of Australia

Scope

In accordance with the terms of our engagement letter dated 18 May 2020, we were engaged by Commonwealth Bank of Australia and its subsidiaries (the Group) to perform an independent limited assurance engagement in respect of the Non-financial Performance metrics (Customer, Environmental, Social and Governance metrics) (the Performance Metrics) for the Group for the year ended 30 June 2020 (the Period), presented on pages 47 to 52 of the 2020 Annual Report. The definitions (the Criteria) against which we assessed the Performance Metrics are established by management and are presented on pages 294 to 300 of the 2020 Annual Report.

Management's responsibilities

The Management of the Group is responsible for the Performance Metrics and for the preparation of the Performance Metrics in accordance with the Criteria.

Our Independence and Quality control

We have complied with relevant ethical requirements related to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements the firm maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities

Our responsibility is to express a limited assurance conclusion based on the procedures we have performed and the evidence we have obtained.

Our engagement has been conducted in accordance with the Australian Standard on Assurance Engagements (ASAE 3000) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. That standard requires that we plan and perform this engagement to obtain limited assurance about whether anything has come to our attention to indicate that the Performance Metrics have not been prepared, in all material respects, in accordance with the Criteria, for the Period. The procedures we performed were based on our professional judgement and included:

- Enquiries of relevant staff responsible for preparing the Performance Metrics;
- Enquiries about the design of the internal controls and systems used to collect and process the Performance Metrics;
- Where applicable, enquiries of third parties responsible for the preparation of data included in the Performance Metrics;
- Enquiries about the design of the systems used by third parties to collect and process the Performance Metrics;
- Comparing the Performance Metrics to relevant underlying sources on a sample basis; and
- Reading the Performance Metrics to determine whether they are in line with our overall knowledge of, and experience with, the corporate responsibility performance.

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

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The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Use of report

This report was prepared for the Board of Directors of the Commonwealth Bank of Australia. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Board of Directors of the Commonwealth Bank of Australia, or for any purpose other than that for which it was prepared.

Inherent limitations

Because of the inherent limitations of any assurance engagements due to the selective testing of the information being examined, it is possible that fraud, error or non-compliance may occur and not be detected. A limited assurance engagement is not designed to detect all instances of non-compliance of the Performance Metrics with the Criteria, as it is limited primarily to making enquiries, of management, and applying analytical procedures. The limited assurance conclusion expressed in this report has been formed on this basis.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Performance Metrics have not been prepared, in all material respects, in accordance with the Criteria for the year ended 30 June 2020.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
12 August 2020

HOW WE CREATE VALUE

Managing our changing risk landscape

The external operating environment altered materially this year, resulting in rapid and dynamic changes to the risk landscape. The recent strengthening of our risk framework has positioned the Bank well to respond to these risks and support our customers and the community.

In recent years, banks have been adapting to a range of new and evolving risks such as uncertain macroeconomic conditions, the advancement of new technologies and competitors, and increasing societal and regulatory expectations.

Events of the last year have introduced new risks or altered existing risks:

COVID-19 impacts – uncertainty exists regarding the duration and severity of COVID-19 impacts and the associated disruption to the domestic and global economy. While there has been significant government support and stimulus, we expect challenging economic conditions ahead. In the longer term we anticipate increased credit losses from business insolvencies, higher consumer defaults due to unemployment and slower overall growth.

Global tensions – geopolitical issues and trade disputes are creating uncertainty for Australian and global businesses, which could further exacerbate economic conditions and increase cyber and privacy risks.

Increase in financial crime – the availability of financial support packages creates new opportunities for financial criminals to exploit the larger number of vulnerable people and businesses.

Climate change risk – this year's bushfires and floods have highlighted the physical impacts of climate change and the increased frequency and severity of extreme weather events.

Increased regulatory scrutiny – the Bank and its operations are subject to heightened regulatory scrutiny and requirements as well as potential regulatory and legal action.

The Board and Management of the Bank understand the importance of good risk management to the financial wellbeing of our customers, shareholders, the community and the broader economy.

We therefore remain focused on improving the Bank's risk management discipline. This focus in recent years, including on business continuity planning, has equipped our teams to exercise sound judgement and mobilise rapidly to support customers through the challenges of the bushfires, drought and the COVID-19 pandemic.

Our historically sound credit risk management practices and resilient systems have also enabled the Bank to offer a range of relief measures to support individuals and businesses. Positive customer feedback has reinforced that the investment and efforts being made to improve the Bank's risk culture are driving meaningful change.

Responding to COVID-19 risks

The COVID-19 pandemic rapidly introduced an array of new and elevated risks to the safety of our people, the resilience of our operations, the strength of our balance sheet and the financial security of our customers and the community. Action has been required to address these risks, particularly in the following areas:

Employee health and safety

The increased risk to the safety and welfare of our workforce has been of paramount concern during the COVID-19 pandemic. The measures introduced to support and protect our people, and to ensure they are equipped with the information and resources they need, are outlined in *Commitment to our people* and *Board priorities during 2020* on pages 34–35 and 63, respectively.

Customer welfare

The long term prosperity of the Bank ultimately depends on the financial wellbeing of our customers. The prolonged closure of businesses, particularly in the service industry, combined with the impact of restrictions on regional and international travel, has threatened the livelihoods of millions of Australians. We have been committed to supporting our customers during this time, while still focusing on maintaining responsible credit risk decisions. The assistance and relief measures we are providing are outlined in *Supporting our customers* on pages 30–31.

Operational resilience

During the initial stages of COVID-19, the Bank had to respond quickly to changing circumstances. This increased the risk of introducing operational vulnerabilities into our processes, and created general uncertainty over the stability of global supply chains and the potential impact on third-party suppliers. The shift to remote working also added a level of disruption to our operations, and increased our cyber, privacy and conduct risk profiles.

During this time, our focus was on protecting the stability of the Bank's critical operations and supporting our customers. To ensure there was no disruption of services to customers, we initiated a temporary technology production change freeze.

We also implemented infrastructure changes to increase the reliability and speed of remote working operations for critical functions, and increased our oversight of critical suppliers. To enable our teams to prioritise customer support, we slowed certain non-essential projects – excluding those with regulatory commitments – and temporarily moderated risk framework requirements for lower risk activities. We also hired new employees and redeployed almost 500 team members to service increased customer queries and hardship requests.

Financial strength

Notwithstanding the range of relief measures made available to businesses and individuals, the depth and severity of COVID-19 related impacts on the economy are uncertain.

In anticipation of the potential impact on our customers, we have increased our forward-looking loan loss provisions. These have been determined based on a range of plausible economic and industry stress factors, and take into account the mitigating impacts of Government and industry assistance packages and support, including loan repayment deferral arrangements. We continue to monitor our lending portfolios closely, with stress testing forming the basis for ongoing re-assessments of provisioning levels as the situation evolves.

Cyber risk

There has been a global increase in cyber crime during COVID-19 as cyber criminals seek to gain financially from people's vulnerability, or exploit potential weaknesses introduced through rapid operational changes implemented by businesses. Through our cyber security program, we continue to enhance the Bank's cyber defences and have focused on educating staff and customers on the dangers of cyber crime activities.

Financial crime

Social distancing restrictions during the height of the pandemic made complying with customer verification obligations under the Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) regime difficult where customers are required to present in person at a branch. Special relief was provided by AUSTRAC to allow alternative verification procedures in these situations, such as video calls.

The significant number of financial support packages made available to millions of Australians whose employment has been impacted by COVID-19 has increased the opportunity for those seeking to commit financial crimes. This new risk has been factored into our financial crime detection processes and staff financial crime compliance education and awareness programs.

Managing market volatility

In early March, global markets experienced extreme volatility, mainly due to COVID-19 and the oil price shock. In response, the Board approved a temporary three-month increase in the Market Risk intervention levels outlined in the Group Risk Appetite Statement.

Volatility is expected to continue in the current environment, requiring ongoing close monitoring by management.

Ongoing monitoring

The COVID-19 situation continues to evolve both locally and globally and will likely present new challenges and risks in the short to medium term. The Board and Management continue to actively monitor the situation and adapt our response as required to maintain our financial strength and ensure our customers and the community are supported through these challenging times.

Our risk framework

Overview

The diagram below outlines the Risk Management Framework – including risk governance structures – for managing the Group's Material Risk Types. It incorporates the requirements of APRA's prudential standard for risk management (CPS 220). Integral to our approach to managing risk is:

- The **Group Risk Appetite Statement** that articulates the type and degree of risk the Board is prepared to accept and the maximum level of risk that the institution must operate within.
- The **Group Strategy** that articulates the Group's approach to the implementation of its strategic objectives.

The framework is delivered through governance and reporting processes, risk policies and procedures, risk infrastructure (risk systems, tools and processes), and people with the risk skills and capabilities appropriate to managing the varying risk types.

The specific risks we manage within each of our Material Risk Types will be either existing risks or forward-looking emerging risks that require action now to minimise their impacts in the future.

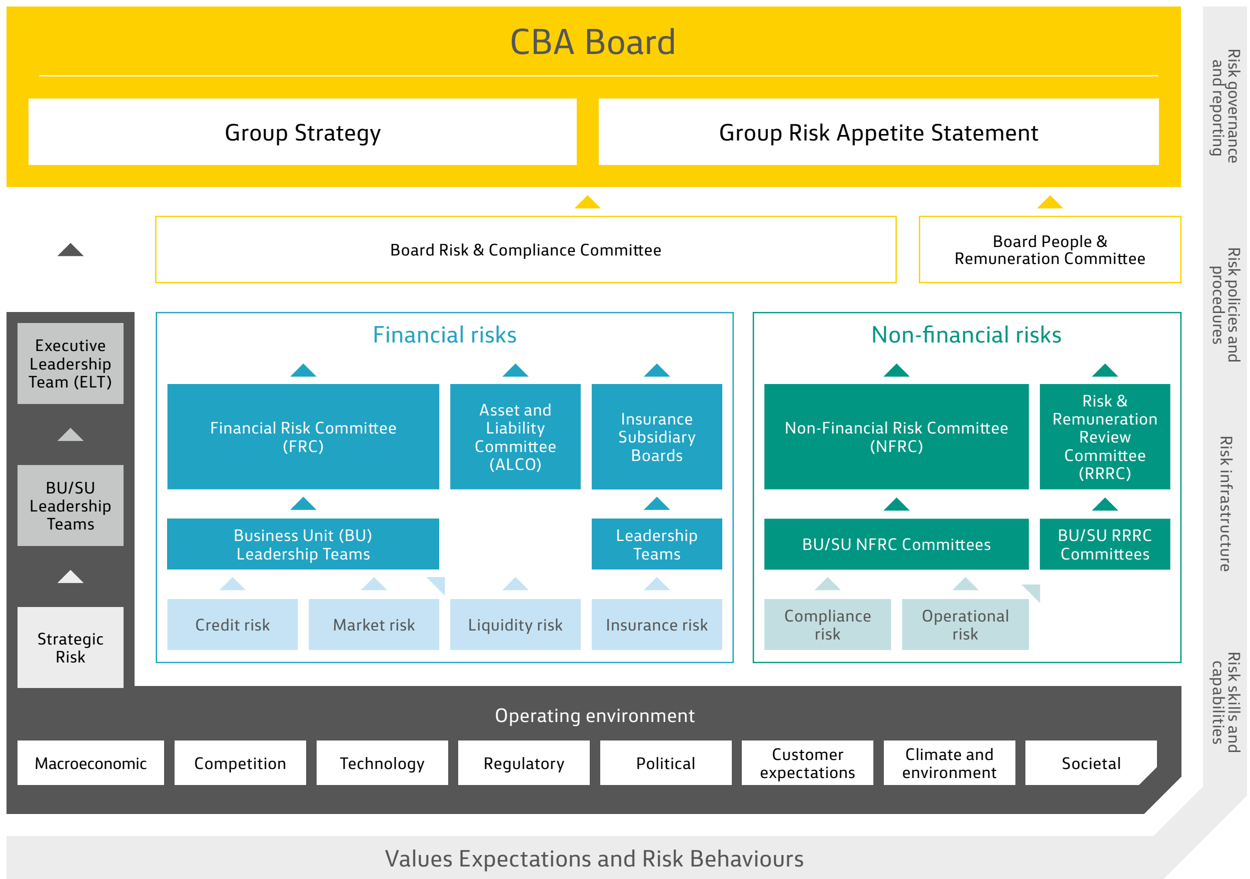
Strengthening our risk framework

We have developed and improved the Bank's Risk Management Framework to ensure it is robust and fit-for-purpose. This means evolving our risk management practices for better risk and compliance outcomes, and to take account of changes in the Bank's operating context. This includes heightened regulatory change and shifting consumer preferences – two trends that are likely to continue into the foreseeable future. Significant investment is underway in a number of areas, including:

- Our comprehensive Remedial Action Plan to strengthen the Bank's operational and compliance risk framework is in its third year, after the 2018 APRA Prudential Inquiry exposed a lack of maturity in the Bank's non-financial risk management practices. Progress has been made on enhancing our risk governance and business ownership of risk outcomes, elevating the status of the Risk Management function within the organisation, and investing in risk systems for improved analytics, reporting and better decision making.
- Strengthening our financial crime policies, standards and controls, improving our Know Your Customer operational practices and embedding a new Anti-Bribery & Corruption (AB&C) framework.
- Implementing data quality initiatives to improve the structure and quality of data to support reporting and decision making.
- A cyber security program to enhance the Bank's cyber defences against a continually increasing threat environment.
- A data centre and network modernisation program, which is improving the security and resilience of our technology infrastructure.
- Initiatives to improve the quality and quality of data used in non-retail credit risk reporting and portfolio management.

Underpinning each of these initiatives is the Bank's strategic imperative of becoming simpler and better. These initiatives are being managed through strong governance and accountability structures and by setting clear priorities for business areas.

For further details on our Risk Management Framework refer to Note 9 on page 201 in the *Financial report*.



Our current risk priorities

This section describes the specific risks within our material risk types where the Board and the Executive Leadership Team are focusing their efforts. It includes a mix of existing and emerging risks that could materially impact our ability to serve our customers or deliver our strategy.

Macroeconomic environment

Our business performance is closely linked to the performance of the Australian and New Zealand economies, which in turn are impacted by events in the global economy.

The COVID-19 pandemic has resulted in prolonged closures of businesses, predominantly in service industries. We expect challenging economic conditions ahead. In the longer term we anticipate increased credit losses from business insolvencies, and higher consumer defaults due to unemployment.

Credit growth has slowed and house prices may decline due to increasing unemployment and a sharp fall in immigration rates.

Uncertainty exists regarding the duration and severity of COVID-19 impacts and the associated disruption to the local and global economy.

Geopolitical tensions and trade disputes are creating uncertainty for businesses, which could further exacerbate economic conditions.

Key actions we are taking

- The Bank has the backing of a strong balance sheet with strong deposit funding, significant excess liquidity and unquestionably strong capital.
- We undertake regular stress tests to understand how our business performs and to prepare alternative action plans for a range of economic scenarios.
- We will continue to support our customers whilst adhering to, and if necessary, revising credit policies, procedures and tools to support responsible credit decisions in this new environment.
- We have increased our loan loss provisions in anticipation of the potential impact of COVID-19 on our customers, and continue to monitor our lending portfolios closely, with detailed stress testing forming the basis for ongoing re-assessments of provisioning levels.
- Investment is underway to enhance the systems and data necessary for credit reporting and portfolio management, particularly in the non-retail parts of our business.
- We regularly discuss the macroeconomic challenges with both regulators and government.

Cyber security and data management

The Bank manages a large volume of sensitive data. The regulatory landscape is increasingly focused on the privacy, integrity and appropriate management of data throughout its lifecycle. Data governance tools, standards and procedures to meet these expectations are currently not consistently embedded across the Group.

Information security risks for the Group have increased in recent years due to the evolution and development of new technologies, the Group's increasing use of digital channels, and the increased sophistication and broadened activities of cyber criminals.

Cyber attacks have the potential to cause financial system instability. A successful cyber attack could result in a serious disruption to customer banking services or compromise customer data privacy.

Currently, cyber criminals are also motivated to exploit potential or perceived weaknesses introduced through rapid operational changes implemented in this environment.

Key actions we are taking

- A cyber security program is in place to enhance the Bank's cyber defences against a continually increasing threat environment. This includes focus on enhanced detection and monitoring infrastructure, as well as security configuration and vulnerability management capabilities.
- We also collaborate with a range of government, community and industry bodies to strengthen system-level resilience and to reduce the possibility of cyber attacks and the impact of fraud and scams on the community.
- Our data management program of work is focused on strengthening our Data Management Framework across the Group. This involves enhancing our methodology, architecture, tools, standards and procedures across all business areas, to ensure the quality and integrity of data throughout its lifecycle. As part of this work, we are prioritising the data management practices for the most critical data elements across the Group.
- The Bank has a privacy strategy to enhance our data privacy processes, capabilities and awareness to ensure compliance in all jurisdictions where we have a presence.

Financial crime

Banks have a critical role to play in combating financial crime and protecting the integrity of the financial system. Not detecting or preventing financial crimes can have a significant impact on our customers and the community and can result in material fines and penalties for the Bank.

The Bank's Program of Action continues to address the underlying causes of the Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Act failings that resulted in AUSTRAC commencing enforcement action against the Bank in 2017.

There is currently a higher risk of financial crime because of increased opportunities through the number of financial support packages available, combined with an increase in the number of vulnerable people and businesses.

Key actions we are taking

- Improvements being made through our multi-year Program of Action include:
  - Enhanced financial crime policies and procedures.
  - Investment in new technology, including enhanced transaction monitoring systems and processes, aimed at the detection of financial crime.
  - Establishing mechanisms and processes to improve customer data integrity through core systems.
  - Revision of our Anti-Bribery & Corruption (AB&C) Policy and Standard, development of new tools, and implementation of a Group AB&C control framework.
  - A significant increase in specialised Financial Crime Compliance team members and enhanced financial crime compliance education and training for staff aimed at deterring and detecting financial crime.
  - A high level of engagement with the Fintel Alliance.
  - Constructive engagement with AUSTRAC and international regulators.
- Given the links between human trafficking and financial crime, we continue to strengthen our supply chain due diligence by embedding new modern slavery requirements into procurement policies, processes and capabilities.
- We also collaborate with not-for-profit organisations that work with the private sector to detect and end modern slavery, including the Mekong Club.

Digital disruption

Emerging technologies and regulatory changes such as Open Banking and Comprehensive Credit Reporting are making it easier for neobanks, fintechs and technology companies to compete directly in banking.

The emergence of new technologies, like Artificial Intelligence (AI), is driving the digitisation and automation of processes and requires a different set of skills that may be difficult for the Bank to attract and retain.

The adoption of AI can be a differentiator. However, if poorly implemented or managed in areas such as lending decisions, the use of AI could create data privacy concerns or deliver incorrect results with potentially poor financial, regulatory, conduct or reputational outcomes.

Key actions we are taking

- Being 'Best in digital' is a key pillar of the Bank's strategy. We continue to invest to deliver the best digital banking experiences for our customers through new digital services, market-leading technology, seamless service across channels and data driven insights.
- We have invested in digital infrastructure and assets over many years to achieve a leadership position in digital banking. Most recently, this includes our Customer Engagement Engine which uses AI and machine learning to drive personalised and innovative services for customers.
- Our mobile banking app and internet banking platform both consistently score highest among major bank peers for Net Promoter Score and in independent surveys.
- We are investing in digital businesses that add to our core product offering and extend our 'Best in digital' leadership. This includes the launch of our x15ventures incubator which is working with innovators to identify, fund and build new digital banking businesses.
- We are modernising and simplifying our systems and digitising our end-to-end processes to reduce risk and cost and to improve system availability and resilience.
- We have developed tools and guidelines for the safe and fair use of AI across our business. We are also actively engaged in the development of national and international standards regarding the safe and fair use of AI.
- We monitor emerging technologies and research and test the adoption of new, innovative capabilities to maintain our technology leadership.

Business resilience

The continuity and resilience of our operations are crucial for serving our customers, upholding community trust, and maintaining our reputation. The extended outage of the Bank's payments platform in October 2019 highlighted the impact such disruptions can have on customers and the community.

The risk of potential disruption to parts of our operations is currently elevated due to: the possibility that COVID-19 clusters could impact the safety of employees, disrupt operations and reduce productivity; uncertainty over the stability of global supply chains and the impact on third-party suppliers; and natural disasters such as bushfires and floods.

Key actions we are taking

- The safety and welfare of our employees is of paramount importance. To manage risks from COVID-19, physical distancing measures have been implemented at branches to protect staff and customers, and we have implemented a range of measures to provide our non-branch team members with the necessary tools and skills to maximise productivity in a remote working environment.
- We monitor the health of our systems and perform contingency planning for disruptions to critical systems and processes.
- A data centre and network modernisation program is improving the security and resilience of our technology infrastructure.
- We are driving greater agility and alignment in our supplier partnerships to ensure we effectively mitigate risks across the supply chain.
- Our supplier initiatives are driving greater consistency and rigour over supplier governance and performance monitoring, especially over partners supporting critical systems, or the infrastructure on which those systems rely.

Skills and capabilities

Our people are critical to the success of our strategy and an inability to attract or retain the right talent and capabilities could prevent us from delivering our long-term goals.

The progression of new technologies, changing macroeconomic conditions, and increasing regulatory expectations, increases the need for leaders with new and different skill sets, as well as deep banking expertise, to deliver the performance expected by our stakeholders.

These skills may become more difficult to attract and retain, particularly with the emergence of non-traditional technology competitors who aim to compete directly in banking.

Key actions we are taking

- We continue to invest in our value proposition as an employer through:
  - Offering flexible working models, competitive benefits, wellbeing programs and fostering an inclusive and diverse workforce.
  - Leadership initiatives to develop the capabilities of our leaders and to equip them with the skills and approaches required to lead cultural and behavioural change throughout the organisation.
  - Strengthening our culture and remuneration frameworks to ensure employees are clear on expectations and accountabilities, always do what is right, are empowered to address issues, and demonstrate risk behaviours that lead to appropriate outcomes for all stakeholders.
- We have targeted training programs to develop our people, including senior management, and our talent and career approach seeks to attract and retain high-calibre people by providing career opportunities that recognise people's expertise, potential and aspiration.
- We are piloting opportunities to re-skill and support our people to be ready for the workforce of the future, and are engaging with educators, government and the community to build these changes into our long-term workforce plan and capability roadmaps.
- We continue to review the Bank's remuneration framework to ensure that it supports our strategic objectives of attracting and retaining exceptional talent.

Trust and reputation

Trust in the Bank and our reputation was impacted by the failings identified in the APRA Prudential Inquiry Report into CBA and highlighted by the Financial Services Royal Commission.

We recognise that trust takes time to build and can easily be eroded through poor decisions, failure to meet customer and community expectations, or by not complying with our regulatory obligations. As a provider of financial services, the Bank and its operations are currently subject to heightened regulatory scrutiny and requirements, particularly those relating to product development and distribution practices, privacy and customer complaints management.

The current high volume of new and proposed legislation will impact a number of areas in our business and will require material changes to operational processes. Failure to effectively implement these changes within the required timeframes could result in severe penalties and loss of trust by regulators and the community.

Key actions we are taking

- Through our Remedial Action Plan, good progress is being made in driving towards a risk culture of accountability, empowerment, constructive challenge, reflection and striving for best practice risk management.
- We are addressing the Royal Commission recommendations and implementing the necessary changes.
- Our Code of Conduct ensures all staff have a clear understanding of what it means to do the right thing by asking 'Should We?' when making decisions.
- Trust and reputation is a performance measure in Group Executives' long-term variable remuneration.
- We work with government and regulators to deliver industry-wide improvements and initiatives to support a trustworthy and reliable financial services sector.
- Our SpeakUP/Whistleblowing program allows current employees – their spouses, dependants and relatives – as well as former employees, contractors, consultants and suppliers, to anonymously raise a conduct issue.

Climate change

Australia has been experiencing frequent and extreme weather events, including the recent bushfires and east coast floods. This highlights the risks to our customers and our business of damage to property and assets.

There is also an increasing risk of financial impacts to our business and our customers' businesses as a result of the policy, legal, technology and market changes associated with the transition to a low carbon economy.

We seek to identify, assess and manage climate change risk in our core business areas, including lending and insurance.

We also seek to manage the risk that the Bank's assets, including those held as collateral or investments, could become impaired as a result of permanent physical damage or misalignment with new policy or community expectations.

Importantly, the transition to a low carbon economy also creates opportunities for the Bank.

Key actions we are taking

- We have implemented policy frameworks for considering environmental, social and governance (ESG) issues, including climate change.
- We are progressively performing climate change scenario analyses on our credit and insurance portfolios to understand potential impacts and opportunities.
- We are developing strategic responses to climate change, which includes strengthening our due diligence processes, considering our range of products and services, and building internal and customer capabilities to support the economy's transition to net zero emissions by 2050.
- Our approach to climate governance, strategy, risk management and metrics and targets, in line with the recommendations of the Task Force on Climate-related Financial Disclosures, is discussed in detail on pages 38–45.

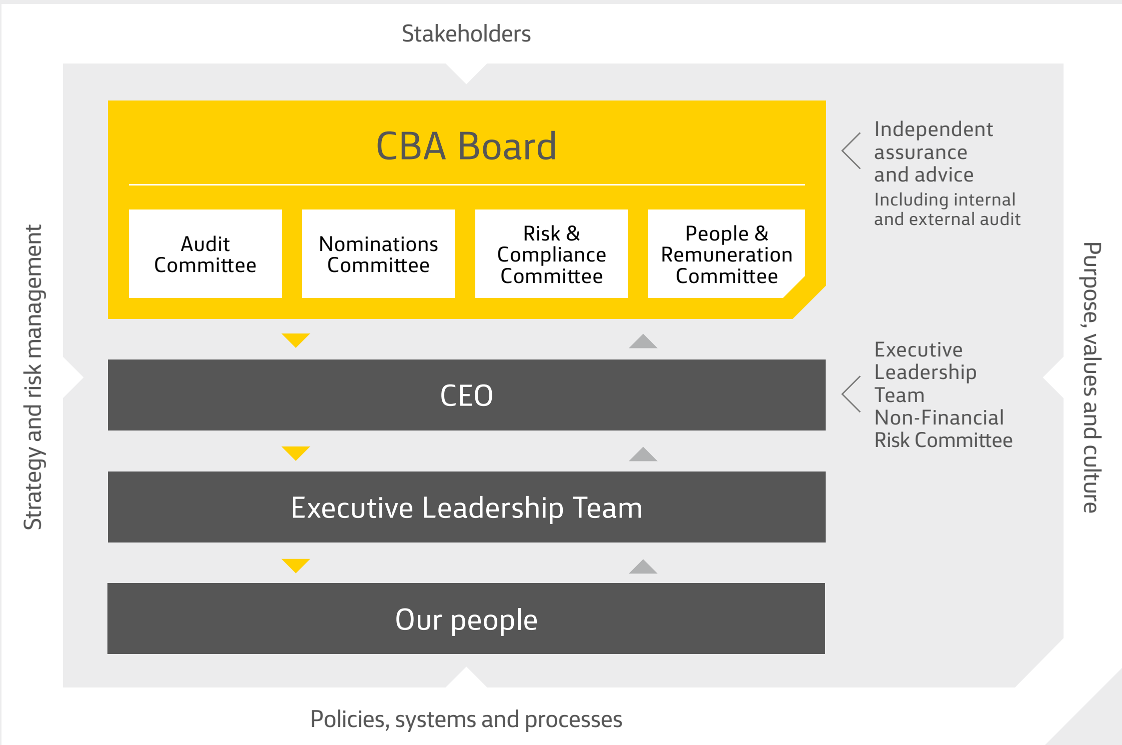
Our approach to corporate governance

Good governance is key to the Bank's ability to deliver on our purpose and strategy.

We are continuing to improve governance, accountability and risk management. Clearer lines of accountability and stronger risk management practices are improving our ability to meet regulatory and compliance obligations and deliver on the expectations of our customers and the community more broadly.

Our Corporate Governance Framework

Our Corporate Governance Framework is based on accountability, effective delegation and adequate oversight to support sound decision-making. The Board is responsible for setting the strategic direction and risk appetite of the Bank, and for leading the culture, values and behaviours of our people. The Chief Executive Officer (CEO) and Executive Leadership Team (ELT) are responsible for the management of the Bank and for bringing important issues to the attention of Board. The Board monitors and assesses performance and holds management to account.



Key Delegation Accountability

Corporate Governance Statement

Our Corporate Governance Statement (Statement) provides detailed information on our corporate governance frameworks.

The Statement and the Board and Board Committee Charters are available at commbank.com.au/corporategovernance

Board priorities during 2020

Governance

The Final Report of the 2018 APRA Prudential Inquiry into CBA sets out five key recommendations relating to the role of the Board.

1. Board visibility.
2. Board practices and processes.
3. Coordination between Board Committees.
4. Enforcement of accountability through the Audit Committee.
5. Reporting to Board on non-financial risks.

Under the Bank's Remedial Action Plan (RAP) the Board has designed and implemented target states for each recommendation. This year, the focus was on embedding changes and developing sustainability plans to ensure that the target states are consistently achieved and continuously improved.

Promontory is the independent reviewer of the Bank's RAP. On 30 June, Promontory issued their final assessment of Recommendation 1 and deemed it closed, with the target state achieved and the sustainability plan operationalised.

The Board has also continued to exercise greater oversight and scrutiny of the risks facing the Bank. In particular, the Board focused on the identification and management of non-financial risks, including regulatory compliance, conduct and cyber security.

To strengthen corporate governance practices across the Group, an entity governance framework has been developed to apply to all CBA entities. The Audit and Nominations Committees are responsible for monitoring and oversight of the framework.

The Final Report of the APRA Prudential Inquiry into CBA, our Remedial Action Plan, and the independent reviewer's progress reports can be read at: commbank.com.au/APRA

Strategy

The Board regularly considered the relevance and effectiveness of the Bank's strategy in the context of current and potential future market conditions. In accordance with its recurring schedule of strategic updates, the Board considered new product initiatives, emerging opportunities in new digital businesses, and the Bank's technology and innovation strategies. Business and Support Units also provided regular updates on the key strategic issues pertaining to their areas.

Regular reporting was provided to the Board on customer complaints and management's program in identifying and proactively remediating systemic issues with a view to continuously improving the Bank's products, services and processes. Ongoing consideration was also given to the Bank's sustainability commitments.

Operations

The Board remained focused on ensuring the Bank is positioned to operate safely and effectively, and implemented further measures to elevate the prominence of compliance matters at the Board and Committee level. This included emphasising the compliance oversight role of the Board's Risk Committee and renaming it the Risk & Compliance Committee.

The Board increased its focus on people matters, including the health, safety and wellbeing of employees. The Remuneration Committee's remit was expanded to include a greater focus on people matters and the committee was renamed the People & Remuneration Committee.

Governance during COVID-19

From the onset of the COVID-19 pandemic, the Board received regular updates to ensure it was well informed and in a position to provide oversight and guidance to management during the challenging and rapidly changing environment. The Board's key areas of focus included:

Health, safety and wellbeing

The health and safety of our people, their families, our customers and communities has been paramount. The Board has encouraged and supported management's efforts to establish frequent and transparent communications to help our people feel safe, act responsibly, and stay fully informed about the Bank's support for employees, customers and communities.

Operational and risk oversight

The Board received daily updates from the CEO, and met as required to ensure it was equipped to oversee management's efforts to identify, prioritise and manage potentially significant risks to business operations. The ELT met daily during the first six weeks of COVID-19 to ensure they had a comprehensive view of operational and risk matters and to monitor the wellbeing of our people and the impact on customers.

Business continuity and crisis management

The Bank's Crisis Management Team was activated. The Board reviewed the Group Business Continuity Management Policy in February to ensure it was fit-for-purpose. Changes were also made to provide employees with the resources and support required to work remotely with limited or no impact on customers.

Continuous disclosure

Temporary delegations were approved by the Board to allow decisions regarding disclosure to be made in the event the full Board was unable to convene promptly due to unexpected circumstances.

New ways of working

Drawing on feedback and insights shared by our customers and our people, the Board and management have been considering what ways of working were well executed during COVID-19. The changes that have been well received will be leveraged to support simpler, better banking for our customers and new ways of working for our people.

Assessing board effectiveness

The Board recognises the importance of continuously monitoring and improving its performance and the performance of its Committees.

An independent external evaluation of the Board and its Committees is conducted every three years. The CEO, each of the CEO's direct reports, each Non-Executive Director, and the Group Company Secretary are interviewed and surveyed. An independent external review was held in 2020 and the results will be available in August 2020. Internal evaluations are undertaken in the intervening years.

Evaluation cycle

Year 1
Externally facilitated
(we are here)

Year 3
Internal review

Year 2
Internal review

Performance focus areas

This year, as a result of the internal evaluation conducted in 2019, the Board focused on the following four areas:

1 The working relationship between the Board and management

The Board strengthened governance and oversight between the Board and management through increased engagement, including: management inclusion at the Board's annual strategy education and offsite strategy sessions; scheduled one-on-one meetings between the Chairman and each member of the ELT; Board and ELT workshops; the Chairman joining the ELT meetings on a quarterly basis; and management attendance at Board and Committee meetings. As a result, the Board continues to have a positive influence on the behaviours within the Group, and is engaged and visible with management.

2 Culture including customer outcomes, conduct, compliance and reputation

The Board focused on building an accountable, customer-focused and transparent culture, and on achieving better customer and risk outcomes with an emphasis on capability, accountability and consequences. The Board's annual risk culture assessment was conducted in February 2020, and targeted initiatives were developed to further mature the risk culture of the bank in areas of need. This includes reinforcing senior leader behaviours of reflection, constructive challenge and accountability to drive better risk outcomes.

3 Longer-term strategy and the impact of emerging technology and innovation

More opportunities for strategic discussions on innovation were incorporated into the Board's planning cycle. The Board received regular updates from management on projects and programs across technology, cyber security and data management. This enabled the Board to address weaknesses and consider investment prioritisation, while maintaining a focus on improving IT risk management governance, operations and processes.

4 Enhanced Board reporting and processes

The Board increased its examination, identification, and understanding of non-financial risks and new and emerging risks. The Board receives a regular Non-Financial Risk Committee update from the CEO and Chief Risk Officer, which informs discussions and decisions on the management of non-financial risk. The Board has observed an improvement in the quality and quantity of non-financial risk information, as well as an improvement in insights provided.

Board composition and renewal

It is essential that Non-Executive Directors are independent, collectively have the relevant skills and experience, and represent a diverse range of views and thinking. This supports sound decision making and enables the Board to effectively discharge its responsibilities.

After more than five years serving the Board, Sir David Higgins retired as a Non-Executive Director and Chairman of the People & Remuneration Committee on 31 December 2019. Paul O'Malley was appointed Chairman of the People & Remuneration Committee with effect from 1 January 2020. Paul ceased as a member of the Nominations Committee on 31 October 2019 and was appointed a member of the Risk & Compliance Committee with effect from 1 November 2019.

Under the Board Appointment, Renewal and Performance Policy, the Chair of each Board Committee, other than the Nominations Committee Chair, is required to rotate after a term, usually every three years. Accordingly, Shirish Apte retired as Chairman of the Risk & Compliance Committee with effect from 31 October 2019. He remains a member of both the Risk & Compliance Committee and the Audit Committee.

Rob Whitfield AM was appointed as Chairman of the Risk & Compliance Committee and a member of the Audit Committee with effect from 1 November 2019. He remains a member of the Nominations Committee. Anne Templeman-Jones remains the Chairman of the Audit Committee, and Catherine Livingstone AO remains the Chairman of the Nominations Committee. Genevieve Bell AO was appointed a member of the Nominations Committee with effect from 1 November 2019. On 12 June 2020, it was announced that Simon Moutter will be appointed as an independent Non-Executive Director with effect from 1 September 2020.

On 10 August 2020, it was announced that Wendy Stops will not be standing for re-election at the 2020 Annual General Meeting. Wendy has been a Non-Executive Director since March 2015.

Board skills and experience

The Board Skills Matrix sets out the skills and experience considered essential to the effectiveness of the Board and its Committees.

The matrix is reviewed annually by the Nominations Committee to ensure the prescribed skills and experience address the Bank's existing and emerging business and governance issues. The matrix is also used to guide the identification of potential director candidates as part of the ongoing Board renewal process.

Skills and experience

Skill	Description	Practised/direct experience	High competency and experience
Enhanced customer outcomes	Demonstrated ability to understand the needs of customers and enhance their experience and outcomes		9
Financial acumen	Proficiency in financial accounting and reporting, capital management and/or actuarial experience	1	6
Financial services	Experience in banking, as relevant to CBA, and financial regulation	1	4
Global perspective	Having a global perspective through exposure or responsibility for international operations	2	7
Leadership	Held CEO or similar position in an organisation of significant size	3	6
Legal acumen	Proven ability and understanding in the application of legal principles	5	1
Listed company	Experience as a Non-Executive Director of at least two other listed entities (Australia or overseas)	2	3
Risk management	Proven ability in identifying, assessing and managing macro, strategic, operational and financial risks that could impact our business	3	6
Stakeholder engagement	Demonstrated ability to build and maintain key relationships with industry, government or regulators	4	5
Strategy	Demonstrated experience in developing, implementing and delivering strategic business objectives	3	6
Technology	Experience in technology strategies and innovation	3	4

Key Practised/direct experience High competency and experience

Board diversity

Female	**55%**
Male	**45%**

Exceeds 2020 target of 40% female

Board tenure

0–1 year	–
1–3 years	**56%**
3–6 years	**33%**
6–9 years	**11%**

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

Committee priorities

The Board Committees assist the Board with discharging its duties. The Charter for each Committee sets out its role, responsibilities, powers and authorities, and is reviewed at least annually.

Nominations Committee

Responsibilities: Board and Board Committee composition; succession planning and Board renewal; CEO performance review; Non-Executive Director induction and appointment; election and re-election of Non-Executive Directors of the Group Board and CBA subsidiary boards.

Committee members: Catherine Livingstone AO (Chairman), Genevieve Bell AO, Mary Padbury and Rob Whitfield AM.

2020 focus areas
- Reviewing the induction and ongoing education program for Directors.
- Considering and setting out the governance policies that apply to key operating subsidiaries.
- Measuring progress against the board gender diversity target across nominated Group subsidiaries.
- Enhancing entity governance and the endorsement of an entity governance framework.

Audit Committee

Responsibilities: The external reporting of financial information for the Group and its subsidiaries, the internal control framework, the internal auditor and the internal audit function, the external auditors, and the Group's Risk Management Framework in conjunction with the Risk & Compliance Committee.

Committee members: Anne Templeman-Jones (Chairman), Catherine Livingstone AO, Shirish Apte, Wendy Stops and Rob Whitfield AM.

2020 focus areas
- The Committee's remit was expanded to support the Nominations Committee to oversee and monitor the efficient management of entity formation and liquidation governance arrangements under the entity governance framework.
- Achieving improvements in reporting on the Group's internal control environment.
- Following-up on progress with the remediation of audit findings, and reporting from the Group Audit and Assurance function.

Risk & Compliance Committee

Responsibilities: The oversight and governance of risks impacting the Bank and its subsidiaries; the design, implementation and operation of the Group's Risk Management Framework, and Risk Management Approach; monitoring of the Group's risk appetite and assessing the overall risk profile of the Group; monitoring the effectiveness of the compliance management framework; oversight of the Group's risk management function, and risk culture.

Committee members: Rob Whitfield AM (Chairman), Catherine Livingstone AO, Shirish Apte, Paul O'Malley and Anne Templeman-Jones.

2020 focus areas
- Consideration of the Group's risk frameworks and policies for managing financial and non-financial risks.
- Endorsing the risk culture roadmap.
- Financial risk focus areas included key industry sector and portfolio reviews, the potential impacts of COVID-19, climate change and stress testing.
- Non-financial risk focus areas included financial crime prevention, conduct, data management, supplier governance and increased reporting of cyber security and technology risks.

People & Remuneration Committee

Responsibilities: Remuneration strategy and policy, remuneration arrangements and outcomes, and performance management frameworks. Early in the financial year, the Committee's remit was expanded to provide an enhanced focus on people matters, and health, safety and wellbeing.

Committee members: Paul O'Malley (Chairman), Catherine Livingstone AO, Mary Padbury and Wendy Stops.

2020 focus areas
- Reviewing the Group's remuneration strategies and performance within the Risk Management Framework.
- Reviewing relevant policies and share plans.
- Ongoing assessment of senior leader talent.
- Development and succession.
- Continued delivery of the Group's cultural change roadmap.
- Reporting on the health, safety and wellbeing of employees.

The Board Committees' charters are available at commbank.com.au/corporategovernance

Board of Directors

Catherine Livingstone AO **Chairman** BA Hons (Accounting), FCA, FTSE, FAICD, FAA

Appointed: Non-Executive Director from 1 March 2016, Chairman from 1 January 2017

Board Committees: Nominations (Chairman), Audit, Risk & Compliance, People & Remuneration

Catherine has extensive business, finance and executive leadership experience and has contributed to the development of Australia's banking, telecommunications, science, technology and innovation sectors. She has held a number of senior roles, including as Chairman of Telstra Corporation Ltd and of the CSIRO, and as Managing Director and Chief Executive Officer of Cochlear Ltd. Catherine has also served on the boards of WorleyParsons Ltd, Macquarie Bank Ltd, Macquarie Group Ltd, Goodman Fielder Ltd and Rural Press Ltd and is a former President of the Business Council of Australia and the Australian Museum.

Catherine is Chancellor of the University of Technology Sydney. She is also a member of the Steering Committee for the CSIRO Australia Telescope National Facility and the Growth Centre Advisory Committee.

Directorships of other listed entities in the last three years: WorleyParsons Ltd (July 2007 – October 2019)

Matt Comyn **Managing Director and Chief Executive Officer** BAv, MCom, EMBA, GMP

Appointed: 9 April 2018

Board Committees: Nil

Matt has 20 years' experience in banking across business, institutional, retail and wealth management and has held a number of senior leadership roles since joining the Bank in 1999. As CEO, Matt is focused on building a simpler bank fully aligned to meeting the needs of customers in core markets, underpinned by stronger risk management and a continuing commitment to innovation and customer service. From 2012 until his appointment as CEO, Matt was Group Executive Retail Banking Services, the Bank's largest operating division, which accounts for more than half of the Bank's profit and also leads the development of digital products and services for the Bank. Between 2006 and 2010, Matt was Managing Director of the Bank's biggest digital business, CommSec, overseeing a significant modernisation of its technology platform and growing market share and profitability.

Matt is the Chair of the Australian Banking Association and serves on the Board of UNICEF Australia and the Financial Markets Foundation for Children.

Directorships of other listed entities in the last three years: Nil

Shirish Apte **Independent Non-Executive Director** ACA, BCom, MBA

Appointed: 10 June 2014

Board Committees: Audit, Risk & Compliance

Shirish has more than three decades of international banking experience at Citi, where he focused on corporate, investment banking, and risk management, and managed commercial and retail banking businesses at country and regional level. His roles included Co-Chairman of Citi Asia Pacific Banking, Chief Executive Officer of Citi Asia Pacific, Co-Chief Executive Officer of Europe, Middle East and Africa, and Country Manager and Deputy Chairman of Citi Handlowy, Poland.

Shirish is an Advisor to Virtusa Corporation, a Director of Fullerton India Credit Company Limited, a Director of Clifford Capital Holdings, and a Director of Keppel Infrastructure Pte Ltd.

Directorships of other listed entities in the last three years: IHH Healthcare Berhad (September 2014 – present) and Citi Handlowy (Member of the Supervisory Board) (March 2016 – present)

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

Genevieve Bell AO **Independent Non-Executive Director** PhD, MA, MPhil, BA

Appointed: 1 January 2019

Board Committees: Nominations

Genevieve is a cultural anthropologist, technologist and futurist with deep knowledge and understanding of technology in society and business. She is adept at bringing together social science, design, computing and engineering to enhance customer experiences. Genevieve is also an experienced business executive, having spent 18 years working at Intel Corporation in Silicon Valley, including as Vice President. She remains a Senior Fellow at Intel and is Vice President of Intel's Product Assurance and Security Group.

Genevieve is a Distinguished Professor at the College of Engineering and Computer Science at the Australian National University (ANU) and is the university's inaugural Florence Violet McKenzie Chair. She is also the Director of the Autonomy, Agency and Assurance Innovation Institute at ANU, a member of the National Science and Technology Council, and an Engelbart Distinguished Fellow of SRI International. In 2020, Genevieve was awarded the Order of Australia and has been nominated to contribute her expertise to the Global Partnership on Artificial Intelligence.

Directorships of other listed entities in the last three years: Nil

Paul O'Malley **Independent Non-Executive Director** BCom, M. App Finance, ACA

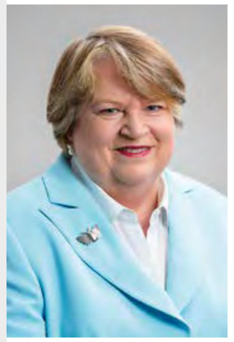
Appointed: 1 January 2019

Board Committees: People & Remuneration (Chairman), Risk & Compliance

Paul has broad executive leadership and operational experience. He served as Managing Director and Chief Executive Officer of BlueScope Steel Ltd for 10 years, after joining the company as Chief Financial Officer. Previously, Paul was the Chief Executive Officer of TXU Energy, a subsidiary of TXU Corp based in Dallas, Texas. He also has a strong background in finance and accounting and worked in investment banking and audit. Paul is a former Director of the Worldsteel Association, Chair of its Nominating Committee, and Trustee of the Melbourne Cricket Ground Trust.

Paul serves as the Chairman for Australian Catholic Redress Ltd.

Directorships of other listed entities in the last three years: BlueScope Steel Ltd (August 2007 – December 2017)



Mary Padbury **Independent Non-Executive Director** BA LLB (Hons), GAICD

Appointed: 14 June 2016

Board Committees: Nominations, People & Remuneration

Mary is an intellectual property and trade practices lawyer with over 35 years' international legal, governance and technology experience. Mary served as the Chairman of Ashurst Australia before its full merger with Ashurst LLP, and was the global Vice Chairman of the post-merger firm. She retired as a Partner of Ashurst at the end of April 2018.

Mary is the Chairman of the Macfarlane Burnet Institute for Medical Research and Public Health Ltd, and Clinical Genomics Technologies Holdings Pty Ltd, a private technology company. Mary is a member of Chief Executive Women as well as a member of the Victorian Legal Admissions Committee.

Directorships of other listed entities in the last three years: Nil

Wendy Stops **Independent Non-Executive Director** BAppSc (Information Technology), GAICD

Appointed: 9 March 2015

Board Committees: Audit, People & Remuneration

Wendy has significant experience in the information technology and consulting sectors. She has a deep understanding of digital trends, business strategy and risk and quality management. Wendy has worked across multiple industries, geographies and cultures, particularly in the Asia-Pacific region. She has held a number of senior leadership positions at Accenture Ltd, including Senior Managing Director, Technology (Asia Pacific), Director of Operations (Asia Pacific), and Global Managing Director of Technology Quality & Risk Management and of Outsourcing Quality & Risk Management. Wendy also served on Accenture's Global Leadership Council.

Wendy is Chairman of the Melbourne Business School's Centre for Business Analytics Advisory Board, a Council Member of the University of Melbourne, a Director of Fitted for Work Ltd, a member of the Australian Institute of Company Directors Technology Governance & Innovation Panel, a member of the Digital Technology Taskforce Advisory Committee for the Department of Prime Minister and Cabinet and a member of Chief Executive Women.

Directorships of other listed entities in the last three years: Coles Group Ltd (November 2018 – present) and Altium Ltd (February 2018 – November 2019)

Anne Templeman-Jones **Independent Non-Executive Director** BCom, EMBA, MRM, CA, FAICD

Appointed: 5 March 2018

Board Committees: Audit (Chairman), Risk & Compliance

Anne is an experienced listed company director with substantial operational risk, banking and strategy experience. Anne is a Director of G.U.D. Holdings Ltd and WorleyParsons Ltd. During her 30-year executive career, Anne held a number of leadership positions in corporate and private banking with domestic and offshore banks including Westpac Banking Corporation, Australia and New Zealand Banking Group Ltd and Bank of Singapore. Anne is the former Chairman of Commonwealth Bank's financial advice companies and has served on the boards of The Citadel Group Ltd, Cuscal Ltd, HT&E Limited, Pioneer Credit Ltd, TAL Superannuation Fund and HBF's private and general insurance companies.

Anne is a Director of the Cyber Security Research Centre Ltd and a member of the Cyber Security Research Committee.

Directorships of other listed entities in the last three years: HT&E Limited (June 2013 – May 2018), G.U.D Holdings Ltd (August 2015 – present), The Citadel Group Ltd (September 2017 – May 2020) and WorleyParsons Ltd (November 2017 – present)

Rob Whitfield AM **Independent Non-Executive Director** BCom, Grad Dip Banking, Grad Dip Fin, AMP, SF Fin, FAICD

Appointed: 4 September 2017

Board Committees: Risk & Compliance (Chairman), Nominations, Audit

Rob has extensive leadership experience across banking, finance and risk in both the private and public sectors. During Rob's 30-year executive career with Westpac Banking Corporation he held a number of senior leadership positions including Chief Executive Officer of the Institutional Bank, Chief Risk Officer, Group Treasurer and Chairman of the Asia Advisory Board. In these roles, Rob developed a deep knowledge of equity and capital markets and was instrumental in developing Westpac's risk management function and strategies.

Rob is a Director of GPT Group. He is a former Chairman and Director of New South Wales Treasury Corporation, former Secretary of NSW Treasury, former Secretary of NSW Industrial relations, and a former Deputy Chair of the Australian Financial Markets Association.

Directorships of other listed entities in the last three years: GPT Group (May 2020 – present)

Simon Moutter will be appointed to the Board as an independent Non-Executive Director with effect from 1 September 2020.
Wendy Stops will retire as a Non-Executive Director at the conclusion of the 2020 Annual General Meeting.

Executive Leadership Team

Pascal Boillat
Group Executive, Enterprise Services and Chief Information Officer

Appointed: October 2018
Priorities: Pascal is responsible for IT, cyber security, technology infrastructure, digital delivery, operations and IT procurement. He is focused on the safe, sound and secure provision of the Bank's technology and enhancing operations to deliver the best digital services for customers.
Experience: Pascal has more than 30 years' international experience in financial services. Prior to joining the Bank, Pascal was Group Chief Information Officer at Deutsche Bank with accountability for technology strategy and delivery of IT. He also held technology-focused executive roles at Fannie Mae, Citibank and Credit Suisse.

Priscilla Brown
Group Executive, Marketing and Corporate Affairs

Appointed: August 2019
Priorities: Priscilla is accountable for customer insights, marketing, brand, government relations, communications and corporate social responsibility. She is focused on restoring trust and pride in the Bank.
Experience: Priscilla has over 30 years' financial services sector experience. She has held senior executive positions in strategy, marketing and corporate affairs with AXA, Sun Life Financial and Lincoln Financial Group. Before joining the Bank, she was Chief Executive Officer of Emerge, a digital health insurance broker, and advisor to several digital start-ups. Priscilla is a Member of the Board of TIAA, a US-based financial services company.

David Cohen
Deputy Chief Executive Officer

Appointed: November 2018
Priorities: David's key priority is supporting the Chief Executive Officer on Group-wide initiatives to build a simpler and better bank for the future. He also has responsibility for Customer and Community Advocacy, Mergers and Acquisitions, Group Investigations, Aussie Home Loans, Colonial First State and PT Bank Commonwealth in Indonesia.
Experience: David joined the Bank in 2008 and held a number of senior roles, including Group General Counsel, Group Executive Corporate Affairs and Chief Risk Officer. Previously, he was General Counsel for AMP and a partner with Allens Arthur Robinson for 12 years.

Alan Docherty
Group Executive, Financial Services and Chief Financial Officer

Appointed: October 2018 (Acting CFO from May 2018)
Priorities: Alan is responsible for the Group's finance, treasury, tax, investor relations, property and security functions. His priorities are ensuring his teams provide accurate, independent and objective analysis to drive sound decision making and performance; managing balance sheet settings in a sustainable and conservative manner; and delivering capital generation that supports better outcomes for all stakeholders.
Experience: Alan joined the Bank in 2003 and has held numerous senior roles in finance, including CFO of IB&M. He started his career with PwC's Financial Services practice in the UK before joining Arthur Andersen in Australia. Alan is a member of the Institute of Chartered Accountants of Scotland.

Andrew Hinchliff
Group Executive, Institutional Banking and Markets

Appointed: August 2018
Priorities: Andrew is responsible for serving the banking and finance needs of large corporates, governments and institutions in Australia and select international markets, by providing a full range of financial markets, capital raising, transactional banking and risk management solutions and services. His priority is to ensure that IB&M leverages its network, capabilities and insights to bring new perspectives to clients to help build a better Australia.
Experience: Andrew joined the Bank in 2015 as Executive General Manager, Global Markets. His career in institutional banking and markets spans more than 20 years, having held various leadership positions with Goldman Sachs and Credit Suisse First Boston.

Sian Lewis
Group Executive, Human Resources

Appointed: August 2018
Priorities: Sian is focused on helping the Bank maintain an energised and accountable team; integrating the Bank's values to guide behaviours; and strengthening and supporting a diverse and inclusive workforce. She is also committed to promoting employee wellbeing and skilling the Bank's workforce for the future.
Experience: Sian joined the Bank in 2014 and has been Executive General Manager, Direct Channels where she led 2,500 people across the Bank's customer contact centres. Previously, Sian spent nine years at Westpac, leading retail and commercial banking, marketing and call centre teams. Sian also spent 10 years in senior HR consulting roles in the UK and two years in Australia consulting to APRA.

Carmel Mulhern
Group General Counsel and Group Executive, Legal & Group Governance

Appointed: January 2020
Priorities: Carmel is responsible for the Group's legal and governance functions and advises the Chief Executive Officer and the Board. Her priorities are to ensure the fair and efficient resolution of the Group's legal matters and to support the effectiveness of the Board.
Experience: Carmel has over 25 years' legal experience. Prior to joining the Bank, she was the Group General Counsel and Group Executive Legal & Corporate Affairs at Telstra, where she was responsible for legal matters, government relations, communications, regulatory engagement, compliance and corporate sustainability. At Telstra, Carmel also held the positions of General Counsel Finance and Company Secretary. Carmel is a Fellow of the Governance Institute of Australia.

Vittoria Shortt
Chief Executive and Managing Director, ASB Bank Ltd

Appointed: February 2018
Priorities: Vittoria is responsible for leading the Group's New Zealand banking business, operating under the ASB brand. Her priorities are to provide leading customer experiences and outcomes; harnessing new technology to provide innovative solutions; and supporting programs that have a significant positive impact for New Zealanders.
Experience: Vittoria joined the Bank in 2002 and has held various executive and senior leadership positions, including Group Executive Marketing and Strategy, Chief Marketing Officer of Commonwealth Bank, and Chief Executive Retail at Bankwest. Vittoria started her career in corporate finance and mergers and acquisitions with Deloitte and Carter Holt Harvey.

Angus Sullivan
Group Executive, Retail Banking Services

Appointed: July 2018
Priorities: Angus is responsible for providing market-leading services to the retail customers of Commonwealth Bank and Bankwest. His priorities are to deliver exceptional customer service and outcomes, leading technology and innovation in products and services.
Experience: Angus joined the Bank in 2012 as Executive General Manager, Group Strategy and has held a number of senior positions in RBS across products, payments and the branch network. Previously, he was a Partner at McKinsey & Co. in New York, specialising in retail and commercial banking, wealth management, payments and general insurance.

Mike Vacy-Lyle
Group Executive, Business and Private Banking

Appointed: February 2020
Priorities: Mike is responsible for serving the banking needs of business, corporate and agribusiness customers, and for the Bank's online equities trading platform, CommSec. Mike's focus is on extending the Bank's business banking and payments capabilities, and on making banking simpler and better for customers by providing market-leading service, products and technology.
Experience: Prior to joining the Bank, Mike was Chief Executive Officer of FNB Commercial Banking in South Africa. He spent almost 20 years working at FNB Commercial Banking holding various roles across finance, pricing, product, capital management, sales and relationship management.

Scott Wharton
Group Executive, Program Delivery

Appointed: August 2019
Priorities: Scott is responsible for overseeing the implementation of major Group-wide programs. These include the Bank's Remedial Action Plan which responds to the APRA Prudential Inquiry into CBA, cost reduction and other programs helping CBA to become a simpler, better bank.
Experience: Scott joined the Bank in 2016 from Citigroup in New York where he was Managing Director and Global Head of Enterprise Supply Chain. He has 20 years' international financial services experience, with broad knowledge of technology, operations and project management.

Nigel Williams
Group Chief Risk Officer

Appointed: November 2018
Priorities: Nigel is focused on ensuring our people manage risk well to maintain the trust placed in the Group by our customers, shareholders and the community. He is accountable for ensuring the effective governance and management of all risk types – including credit risk, operational risk, compliance, liquidity, financial crime compliance and insurance.
Experience: Nigel has over 35 years of international banking experience, having held Directorships and executive business and risk management leadership roles. Prior to joining the Bank, Nigel was the Chief Risk Officer at Australia and New Zealand Banking Group (ANZ).

Adam Bennett ceased as Group Executive, Business and Private Banking on 31 January 2020.

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

Directors' report

The Directors of the Commonwealth Bank of Australia present their report, together with the Financial report of the Commonwealth Bank of Australia (the Bank) and of the Group, being the Bank and its controlled entities, for the year ended 30 June 2020.

Principal activities

We are one of Australia's leading providers of financial services and operate predominantly in Australia and New Zealand, with a small presence in Europe, North America and Asia. Our products and services are provided through the following divisions:

- **Retail Banking Services (RBS)** provides banking and general insurance products and services to personal customers. RBS includes retail banking activities conducted under the Bankwest brand, the Group's general insurance business in Australia, the Group's mortgage broking operations and Commonwealth Financial Planning.
- **Business and Private Banking (BPB)** serves the banking needs of business, corporate and agribusiness customers and provides banking and advisory services to high net worth individuals through Commonwealth Private. BPB also includes the online equity trading business, CommSec, and business banking activities conducted under the Bankwest brand.
- **Institutional Banking and Markets (IB&M)** serves the commercial and wholesale banking needs of large corporate, institutional and government clients.
- **ASB New Zealand (ASB)** includes banking and funds management businesses operating in New Zealand.
- **Wealth Management** provides superannuation, investment, and retirement products and services.
- **International Financial Services (IFS)** includes the Indonesian retail and business banking operations and minority investments in China and Vietnam.

A review of the above operations and their results for the financial year ended 30 June 2020 can be found on pages 24–27.

Becoming a simpler bank

On 21 September 2017, the Group entered into an agreement to sell 100% of its life insurance businesses in Australia (CommInsure Life) and New Zealand (Sovereign) to AIA Group Limited (AIA). The sale of Sovereign completed on 2 July 2018 and includes a long-term partnership with AIA for the provision of life insurance products to customers in New Zealand.

On 23 May 2018, the Group announced the sale of its 37.5% equity interest in BoCommLife Insurance Company Limited (BoCommLife) to MS&AD Insurance Group Holdings (MS&AD)[1], which is subject to Chinese regulatory approvals. The sale is expected to complete in the second half of calendar year 2020.

On 1 November 2018, the Group completed the sale of Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital SA) to the minority shareholder, African Rainbow Capital.

On 2 August 2019, the Group completed the sale of CFSGAM to Mitsubishi UFJ Trust and Banking Corporation (MUTB).

On 1 October 2019, the Group completed the sale of its 100% interest in Count Financial Limited (Count Financial) to CountPlus Limited (CountPlus).

On 1 November 2019, the Group announced the implementation of a joint cooperation agreement (JCA) which resulted in the full economic interests associated with CommInsure Life being transferred to AIA, and AIA obtaining direct management and control of the business (excluding the Group's 37.5% equity interest in BoCommLife). As a result, CommInsure Life (excluding BoCommLife) was deconsolidated and derecognised on 1 November 2019. The aggregate proceeds are being received in instalments.

The Group and AIA remain fully committed to completing the divestment of CommInsure Life through either a share sale or a statutory asset transfer. In the event of a share sale, the divestment is expected to complete shortly following the completion of the sale of the Group's 37.5% equity interest in BoCommLife. In the event of a statutory asset transfer, the divestment is expected to complete in the first half of the calendar year 2021.

On 28 April 2020, the Group announced the sale of its subsidiary, Australian Investment Exchange Limited (AUSIEX), to Nomura Research Institute (NRI). The sale is subject to regulatory and other conditions, and is expected to complete in the first half of calendar year 2021.

On 13 May 2020, the Group entered into an agreement to sell a 55% interest in Colonial First State (CFS) to KKR. The sale is subject to regulatory approvals, and is expected to complete in the first half of calendar year 2021.

On 4 June 2020, the Group completed the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL), to FWD Group (FWD). As part of the sale, CBA's Indonesian banking subsidiary, PT Bank Commonwealth (PTBC), has entered into a 15-year life insurance distribution partnership with FWD.

The Group ceased providing licensee services through Commonwealth Financial Planning Limited-Pathways (CFP-Pathways) in March 2020 and through Financial Wisdom Limited (Financial Wisdom) in June 2020.

CFS, CommInsure Life, BoCommLife, CFSGAM and PTCL have been classified as discontinued operations in the Group's financial statements for the year ended 30 June 2020. The assets and liabilities of CFS, AUSIEX and the Group's interest in BoCommLife are classified as held for sale as at 30 June 2020.

There have been no other significant changes in the nature of the principal activities of the Group during the financial year.

For further details, refer to Note 1.1 and Note 11.3 in the *Financial report* on pages 113 and 258–261, respectively.

1 MS&AD Insurance Group Holdings is the ultimate parent company of Mitsui Sumitomo Insurance Co. Ltd

Impact of COVID-19

During the financial year we have seen the onset of the COVID-19 pandemic, with the depth and duration of an economic downturn dependent on the effectiveness of containment measures and the Government, prudential and industry response and support measures. During the financial year, the Bank announced an additional credit provision of $1.5 billion for the potential longer term impacts of COVID-19. This further reinforces our already strong provisioning and balance sheet settings that position the bank well for a range of possible economic scenarios. Given the unprecedented set of circumstances which are still 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 Bank's lending portfolios continue to be monitored closely, with detailed portfolio stress testing as the situation continues to evolve. The focus for the Bank continues to be supporting our customers through continued operational excellence underpinned by the commitment and pride of our people.

For further details on how we are responding to COVID-19 risks, refer to pages 55–56.

Operating and financial review

Group profit

The Group's statutory net profit after tax including discontinued operations for the financial year ended 30 June 2020 was $9,634 million, an increase of $1,063 million or 12% on the prior year. Statutory net profit after tax from continuing operations for the financial year ended 30 June 2020 was $7,459 million, a decrease of $630 million or 8% on the prior year. This was driven by a 2% increase in operating income, flat operating expenses and a significant increase in loan impairment expense.

Statutory net profit after tax from discontinued operations for the financial year ended 30 June 2020 was $2,175 million, an increase of $1,693 million on the prior year. It includes the following items:

- The results of CFSGAM up to 2 August 2019 when the business was sold and deconsolidated and the related gain on sale
- The results of CommInsure Life up to 1 November 2019 when the Group entered into the JCA with AIA and subsequently deconsolidated CommInsure Life, and the related loss on deconsolidation
- The results of PTCL up to 4 June 2020 when the business was sold and deconsolidated, and the related gain on sale
- The results of CFS which was classified as a discontinued operation during the year.

Statutory net profit after tax complies with the requirements of the *Corporations Act 2001* (Cth), Australian Accounting Standards and International Financial Reporting Standards (IFRS). The cash net profit after tax is management's preferred measure of the Group's financial performance. It excludes items that are non-recurring in nature and are not considered representative of the Group's ongoing financial performance (non-cash items). We use the cash net profit after tax to present a clear and consistent view of our financial performance from period to period.

The Group's cash net profit after tax including discontinued operations for the year ended 30 June 2020 was $7,449 million, a decrease of $1,257 million or 14% on the prior year. Excluding discontinued operations, cash net profit after tax for the year ended 30 June 2020 was $7,296 million, a decrease of $925 million or 11% on the prior year. For further detail on the drivers of cash net profit after tax refer to pages 18–21.

Cash to statutory profit reconciliation

Statutory net profit after tax includes the following non-cash items:

	Continuing operations		Total including discontinued operations	
	FY20	FY19	FY20	FY19
Net profit after tax – cash basis	**7,296**	8,221	**7,449**	8,706
Gain/(loss) on acquisition, disposal, closure and demerger of businesses	**70**	(52)	**2,092**	(61)
Hedging and IFRS volatility	**93**	(79)	**93**	(79)
Bankwest non-cash items	**–**	(1)	**–**	(1)
Treasury shares valuation adjustment	**–**	–	**–**	6
Net profit after tax statutory basis	**7,459**	8,089	**9,634**	8,571

Non-cash items include:

- **Gain/(loss) on acquisition, disposal, closure and demerger of businesses:** Gains and losses on these transactions are inclusive of foreign exchange impacts, impairments, restructuring, separation and transaction costs and cover both controlled businesses and associates.
- **Hedging and IFRS volatility:** Hedging and IFRS volatility represents timing differences between fair value movements on qualifying economic hedges and the underlying exposure. To qualify as an economic hedge the terms and/or risk profile must match or be substantially the same as the underlying exposure.
- **Bankwest non-cash items:** The acquisition of Bankwest resulted in the recognition of assets at fair value, some of which have been amortising over their useful life. The transaction was considered one-off in nature.
- **Treasury shares valuation adjustment:** Valuation adjustments represent the elimination of gains and losses on CBA shares that were held through funds in the Wealth Management business.

Directors' report (continued)

Assets and liabilities

Home loans increased $20 billion or 4%, driven by strong operational execution of credit-decisioning processes. Australian home loan balance growth of 4% was above market growth.

Deposits increased $64 billion or 10%, primarily driven by strong growth in transaction and savings deposits, partly offset by lower investment deposits. The increase in transaction and savings deposits is driven by customer preference for at-call deposits due to the low interest rate environment, continued growth in mortgage offset accounts and clients managing their liquidity needs in response to COVID-19 in Institutional Banking and Markets.

Debt issues decreased $22 billion or 13%, reflecting lower wholesale funding requirements due to growth in deposit funding.

	As at		
Total Group assets and liabilities ($m)	**30 June 2020**	**30 June 2019**	**% change**
Home Loans	**542,880**	522,942	4%
Consumer finance	**18,217**	21,993	(17%)
Business and corporate loans	**216,695**	214,953	1%
Total Group lending	**777,792**	759,888	2%
Other assets (including held for sale)	**236,268**	216,614	9%
Total assets	**1,014,060**	976,502	4%
Deposits	**699,413**	635,312	10%
Debt issues	**142,503**	164,022	(13%)
Other liabilities (including held for sale)	**100,131**	107,519	(7%)
Total liabilities	**942,047**	906,853	4%

Further information and analysis on the financial performance of the Group for the financial year ended 30 June 2020 can be found in the *Focus on financial performance* section on pages 18–27 of this Annual Report. Details on our risk management framework, material risk types and approach to managing them, including a description of the material trends in our current external operating context and more information on our business strategies and prospects for future financial years can be found in the *Overview* (pages 2–7), *How we create value* section (pages 8–71), including the *Managing our changing risk landscape* section (pages 55–61) of this Annual Report.

Other than the information included in the operating and financial review and throughout this Annual Report by cross reference, information on other likely developments, business strategies and prospects for future financial years of the Group's operations has not been included in this report as it would be likely to result in unreasonable prejudice to the Bank.

Dividends

Details of dividends paid and dividends determined are outlined in Note 8.4 in the *Financial report* on pages 199–200.

Litigation and regulatory matters

Consistent with an industry-wide trend, there has been an increase in litigation and regulatory actions against the Group. The actions include:

- the defence of nine class actions, four of which were commenced in financial year 2020. These include two separate shareholder class action proceedings, four class action claims in relation to superannuation products, a class action that was commenced by Bankwest customers, a class action in relation to consumer credit insurance for credit cards and personal loans, as well as a class action commenced in the United States relating to the BBSW benchmark; and
- four separate ASIC civil penalty proceedings against the Group, one of which has been resolved. Each of these relate to matters considered by the Financial Services Royal Commission.

There are also a number of ongoing matters where regulators are investigating whether CBA or a Group entity has breached legal or regulatory obligations. Where a breach has occurred, regulators are likely to impose, or apply to a Court for, fines and/or other sanctions. These matters include investigations by APRA and ASIC of issues which were considered by the Financial Services Royal Commission, as well as a number of other matters notified to, or identified by, regulators. The Group also continues to receive various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews.

In addition to possible regulatory action, there may also be financial exposure to claims by customers and this could include further class actions, customer remediation or claims for compensation. The outcomes and total costs associated with such regulatory reviews and possible customer claims remain uncertain.

The Board continues to monitor each of these actions, investigations and reviews. CBA also continues to actively work with its regulators in response to these matters.

For information about some of the litigation and regulatory matters referred to above, refer to Note 7.1 in the *Financial report* on pages 183–189.

Change in state of affairs

Significant changes in the state of affairs of the Group during the financial year include:

- Changes in the nature of principal activities outlined above.
- Changes to the Board as outlined in the *Our approach to corporate governance* section on pages 62–71.
- COVID-19 related impairment provisions as outlined on pages 18–21.
- During the financial year, we have participated in the RBA's Term Funding Facility (TFF) scheme to access long-term funding to help support Australian households and businesses during this unprecedented time. The TFF is a three-year facility with a fixed interest rate of 0.25% per annum. As at 30 June 2020, the Group has drawn $1.5 billion of its total available TFF allocation of $26.6 billion, composed of $19.1 billion of Initial Allowance and $7.5 billion of Additional Allowance. As at 7 August 2020, the Group's total available allocation was $31.4 billion.

For more information on the TFF, refer to Note 5.2 in the *Financial report* on pages 159.

Other than the changes outlined above and discussed in this Annual Report, there have been no other significant changes in the state of affairs during the financial year.

Events subsequent to reporting date

The Bank expects the Dividend Reinvestment Plan (DRP) for the final dividend for the year ended 30 June 2020 to be satisfied by the issuance of shares of approximately $260 million.

Environmental reporting

We are subject to the Federal Government's National Greenhouse and Energy Reporting (NGER) scheme. The scheme makes it mandatory for controlling corporations to report annually on greenhouse gas emissions, energy production and energy consumption, if they exceed certain threshold levels. Our NGER submission is independently audited and submitted before the deadline to ensure that the Group meets the NGER requirements.

We do not believe that we are subject to any other significant environment reporting regulations under the law of the Commonwealth or of a State or Territory of Australia. Our environmental policies are updated to manage risks appropriately.

For more information on our voluntary environmental reporting, see the *Our approach to climate change* section on pages 38–45 and our environmental metrics on pages 46–52.

Human rights supply chain reporting

We will fulfil the reporting requirements of the *Modern Slavery Act 2018* (Cth) with the Modern Slavery Statement that will be released in the 2021 financial year. This statement shows the steps we are actively taking to enhance the work undertaken to identify, manage and mitigate modern slavery risks and human rights abuses in our business operations and supply chains from the 2020 financial year onwards.

Directors' report (continued)

Directors and Directors' meetings

The Board of the Commonwealth Bank of Australia met 18 times during the year ended 30 June 2020. In addition, Directors attended Board strategy sessions and special purpose committee meetings during the year.

The following table includes:

- names of the Directors holding office at any time during, or since the end of, the financial year
- the number of scheduled and unscheduled Board and Board Committee meetings held during the financial year that each Director was a member of the Board or relevant Board Committee and eligible to attend, and the number of meetings attended by each Director.

All Directors may attend Board Committee meetings even if they are not a member of the relevant Committee. The below table excludes the attendance of those Directors who attended Board Committee meetings of which they are not a member.

	Board				Committees									
	Scheduled meetings		Unscheduled meetings[1]		Risk & Compliance		Audit		People & Remuneration		Nominations		Concurrent	
	Held[2]	Attended	Held[3]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended	Held[4]	Attended
Director														
Catherine Livingstone AO	10	10	8	5	6	6	6	6	6	6	6	6	2	2
Matt Comyn	10	10	8	8										
Shirish Apte	10	10	8	8	6	6	6	6					2	2
Genevieve Bell AO	10	10	8	7							6	6	2	2
Sir David Higgins[5]	6	6	1	1	3	3			3	3				
Paul O'Malley[6]	10	10	8	8	4	4			6	6	2	2	2	2
Mary Padbury	10	10	8	8					6	6	6	6	2	2
Wendy Stops[7]	10	10	8	7			6	6	6	6			2	2
Anne Templeman-Jones	10	10	8	7	6	6	6	6					2	2
Rob Whitfield AM[8]	10	10	8	8	6	6	4	4			6	6	2	2

1 Out of cycle Board meetings typically called for a special purpose that do not form part of the Board approved yearly planner.
2 The number of scheduled meetings held during the time the Director was a member of the Board or of the relevant committee.
3 The number of unscheduled meetings held during the time the Director was a member of the Board.
4 The number of concurrent meetings held during the time the Director was a member of the relevant committee.
5 Sir David Higgins was appointed a Non-Executive Director between 1 September 2014 and 31 December 2019. Sir David Higgins retired from the Risk & Compliance Committee, People & Remuneration Committee and the Board effective 31 December 2019.
6 Paul O'Malley was appointed a member of the Risk & Compliance Committee on 1 November 2019 and was a member of the Nominations Committee between 1 July 2019 and 31 October 2019.
7 On 10 August 2020, it was announced that Wendy Stops will not be standing for re-election at the 2020 Annual General Meeting.
8 Rob Whitfield AM was appointed a member of the Audit Committee on 1 November 2019.

Details of current Directors, their experience, qualifications, Directorships of other listed entities and any special responsibilities, including Board Committee memberships, are set out in the *Our approach to corporate governance* section on pages 62–71.

Options and share rights outstanding

There are no options over Bank shares on issue as at the date of this report. As at the date of this report there are 965,095 share rights outstanding in relation to Bank ordinary shares and no employee options. Holders of outstanding share rights in relation to the Bank's ordinary shares do not have any rights under the share rights to participate in any share issue or interest of the Bank.

Directors' interests in contracts

A number of Directors have given written notices stating that they hold office in specified companies and accordingly are to be regarded as having an interest in any contract or proposed contract that may be made between the Bank and any of those companies.

Directors' and officers' indemnity and insurance

Constitution

The Directors, as named on pages 67–69 of this report, and the Company Secretaries of the Bank, referred to below, are indemnified under the Constitution of the Commonwealth Bank of Australia (the Constitution), as are all current or former Directors or Executive Officers of the Bank.

The indemnity extends to such other Officers or former Officers of the Bank, or of its related bodies corporate, as the Directors in each case determine (each, including the Directors and Company Secretaries, is defined as an 'Officer' for the purpose of this section).

The Officers are indemnified on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by the Officer as an Officer of the Bank or of a related body corporate.

Deeds of indemnity

Deeds of Indemnity, which include indemnification in substantially the same terms to that provided in the Constitution, have been executed by the Bank in favour of each Director and Company Secretary of the Bank.

An Indemnity Deed Poll, which includes indemnification in substantially the same terms to that provided in the Constitution, has been executed by the Bank in favour of each:

- company secretary and senior manager of the Bank
- Director, secretary or senior manager of a related body corporate of the Bank
- person who, at the prior formal request of the Bank or a related body corporate, acts as Director, secretary or senior manager of a body corporate which is not a related body corporate of the Bank (in which case the indemnity operates only in excess of protection provided by that body corporate)
- person who, at the request of a related body corporate of the Bank, acts as a member of the compliance committee of a registered scheme for which the related body corporate of the Bank is the responsible entity.

In the case of a partly-owned subsidiary of the Bank, where a Director, company secretary or a senior manager of that entity is a nominee of an entity which is not a related body corporate of the Bank, the Indemnity Deed Poll will not apply to that person unless the Bank's CEO has certified that the indemnity will apply to that person.

Insurance

The Bank has, during the financial year, paid an insurance premium in respect of a Directors' and Officers' liability and company reimbursement insurance policy for the benefit of the Bank and persons defined in the insurance policy who include Directors, Company Secretaries, Officers and certain employees of the Bank and related bodies corporate. The insurance is appropriate pursuant to section 199B of the *Corporations Act 2001* (Cth). In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium.

Proceedings on behalf of the Bank

No application has been made under section 237 of the *Corporations Act 2001* (Cth) in respect of the Bank, and there are no proceedings that a person has brought or intervened in on behalf of the Bank under that section.

Rounding and presentation of amounts

Commonwealth Bank is an entity to which ASIC Corporations Instrument 2016/191 dated 24 March 2016, relating to the rounding of amounts in directors' reports and financial reports, applies. Pursuant to this Instrument, amounts in this *Directors' report* and the accompanying financial report have been rounded to the nearest million dollars, unless indicated otherwise.

Company secretaries

Kara Nicholls was appointed Group Company Secretary of the Bank on 8 January 2019. Kara has extensive listed company expertise with over 20 years' of global equity markets, commercial and corporate governance experience. She was previously Company Secretary of Caltex Australia Limited and prior to that was Company Secretary of Woolworths Limited, Arrium Limited and Global Head of Company Secretariat for Macquarie Capital Funds. Prior to those roles Kara spent almost six years at the ASX. Kara is the Chair of Gidget Foundation Australia. She is a Fellow of the Governance Institute of Australia (GIA), and a member of the Australian Institute of Company Directors (AICD) and the GIA Legislative Review Committee.

FGIA, MAICD, B.Bus, MLS, JP.

Kristy Huxtable was appointed Company Secretary of the Bank on 20 March 2019. Kristy is an experienced company secretary and brings extensive corporate governance experience, having previously worked as Company Secretary with other ASX Top 50 companies, including Suncorp and the ASX. Kristy is a Fellow of the GIA, and a Member of the AICD and the GIA Legislative Review Committee.

FGIA, MAICD, MBA, Grad.Dip.Corp.Gov, Grad.Dip.HR

Remuneration report

Dear Shareholder

During these uncertain times, the Bank's leadership team have delivered strong underlying performance, and continue to support the financial wellbeing of our customers and communities.

On behalf of the Board, I am pleased to present the 2020 Remuneration Report.

The 2020 financial year has seen unprecedented health, economic and environmental events, from the devastating bushfires to the current coronavirus pandemic. Our shareholders, employees, customers and the communities we serve have been directly impacted.

In this section

The Group was well positioned coming into this volatile environment, with prudent management of the business leading to solid and resilient balance sheet settings, continued outperformance in our core banking business, and strong execution of our simpler, better banking strategy, including divestments. Our strong capital position and operational performance continues to support returns for shareholders.

Throughout this challenging period, the Bank's leadership team has maintained a clear focus on and dedication to our purpose. As a Board, we would like to acknowledge the way all of our employees have responded to these challenges, guided by our values.

Executive remuneration outcomes for the 2020 financial year

The remuneration outcomes for the 2020 financial year reflect the intended operation of the remuneration framework. This framework is designed to accommodate a range of performance and risk outcomes, adjust for risk matters and, where appropriate, apply Board discretion. The outcomes this year also reflect the exemplary leadership shown by the Chief Executive Officer (CEO) and his leadership team during the bushfires, drought and coronavirus pandemic, and ongoing commitment to supporting customers and other stakeholders through this unique combination of events.

While the external environment has been challenging, the Executives (CEO, Group Executives and CEO ASB) delivered strong results across both financial and non-financial performance measures. The Group's performance reflects two years of concentrated effort. However, we have taken a $1.5 billion forward-looking provision for loan impairments related to the expected impact of the coronavirus pandemic on our customers and the economy. These have had a material negative impact on the Group's 2020 financial results.

The Group achieved a cash Net Profit After Tax (NPAT) of $7,449 million, below threshold, therefore eliminating any Short-Term Variable Remuneration (STVR) outcomes for this element of the financial measure, and reducing the Group's overall STVR pool.

Performance against key non-financial measures exceeded expectations with a notable increase in employee engagement. At 81%, employee engagement improved markedly by 13% over last year, reflecting the pride and commitment of our people as they worked in difficult conditions to support the financial wellbeing of our customers. Such positive feedback from our people during the second half of the 2020 performance period suggests that we have operated in accordance with our values and purpose.

Substantial progress has also been made on divesting and ceasing our wealth management businesses, which has allowed the Bank's leadership team to focus on driving growth in our core banking businesses.

The formulaic outcomes of results were considered against an after-the-fact discretionary assessment of the extent to which the outcomes reflect our values, the current operating environment, and impacts on our customers and other stakeholders.

The CEO's STVR outcome for the 2020 financial year reflects the Group's financial and non-financial performance, and takes into account the significant leadership he has displayed both within the Bank, and at a national level, particularly over the past six months. His final outcome is 73% of maximum.

STVR outcomes for the Group Executives and CEO ASB ranged between 49% and 76% of maximum, with an average of 59%. These outcomes are inclusive of STVR risk adjustments applied to two of 11 Executives.

The 2017 financial year Long-Term Variable Remuneration (LTVR) award reached the end of its four-year performance period on 30 June 2020 with 84.04% vesting overall. 80% vesting against the TSR performance hurdle reflects our strong and positive shareholder returns relative to comparator organisations over the longer term. The portion of the award subject to customer satisfaction vested at 97%, reflecting performance relative to our major competitors. See page 93 for further details.

Governance, risk, culture and accountability

Over the past two years, the renewed Executive team has been charged with delivering a significant cultural and business transformation. CBA has made considerable progress to enhance its risk maturity, with leadership demonstrating a very positive values-led tone from the top. This is contributing to stronger business resilience.

Throughout the 2020 financial year we have continued our focus on implementing and embedding the Australian Prudential Regulation Authority Remedial Action Plan (APRA RAP) into our ways of working. With the delivery of 79% of milestones, as at 30 June 2020, including 22 in relation to risk and remuneration consequences, there is growing evidence of clearer lines of accountability and more effective application of remuneration consequences. As required by APRA, the RAP also continues to be a significant component of the Executive STVR scorecards to ensure adequate focus on the delivery of milestones. Employees are also recognised where they contribute to a positive risk culture. More information on risk and remuneration consequence outcomes can be found on page 82.

The Bank has continued to implement the recommendations of the Sedgwick Retail Banking Remuneration Review across customer-facing employees and their leaders.

As part of ongoing monitoring and in line with the RAP milestones, during the 2020 financial year the People & Remuneration Committee conducted a formal review of the effectiveness of the Group Remuneration Policy.

Looking ahead – changes for the 2021 financial year

Notwithstanding our assessment that the 2020 financial year Executive remuneration framework was sound, due to the likely new APRA regulatory standard on remuneration (CPS511), together with the strategic challenges ahead for the sector, the Board conducted a wide-ranging review to assess whether the framework will remain fit for purpose for the years ahead.

The Board concluded that change is required. Therefore, our Executive remuneration framework has evolved to ensure we continue to deliver a competitive remuneration framework to retain and attract high calibre leaders during a time of intense competition for capable and values-led banking talent. At the same time a revised framework will continue to enhance the alignment of management incentives with our key stakeholders and meet new regulatory requirements. Changes to be implemented in the 2021 financial year will include:

- Reducing overall remuneration quantum and re-balancing the remuneration mix to lower the leverage of the variable components.
- Extending vesting timelines to reflect risk and performance horizons, and to meet anticipated regulatory remuneration requirements regarding risk and deferral periods.
- Updating policy and procedures relating to malus and clawback.
- Introducing a new LTVR component that supports additional long-term share ownership, together with the current LTVR that has been reduced.
- Increasing alignment with the shareholder experience.

More information on these changes will be provided ahead of the 2020 Annual General Meeting and in the 2021 financial year Remuneration Report.

We invite you to read the Remuneration Report and welcome your feedback.

Paul O'Malley
People & Remuneration Committee Chairman

Remuneration overview

Executive remuneration framework for the 2020 financial year

Our values

We do what is right | We are accountable | We are dedicated to service | We pursue excellence | We get things done

Our remuneration principles

- Aligned with shareholder value creation
- Market competitive to attract and retain high calibre talent
- Reward sustainable outperformance and discourage poor performance
- Recognise the role of non-financial drivers in longer-term value creation
- Simple and transparent
- Reflect the Group's strategy and values

	Fixed Remuneration **FR**	Short-Term Variable Remuneration **STVR** (at risk)			Long-Term Variable Remuneration **LTVR** (at risk)
Rationale	Provides market competitive remuneration to attract and retain high quality talent while reflecting role size and accountabilities.	Rewards for achieving key strategic and stakeholder annual performance outcomes. The values and risk and reputation modifiers adjust overall STVR for how performance was achieved.			Rewards participants for creating sustainable and superior long-term shareholder value, improving engagement of our people, and re-building trust and reputation with our customers and the community.
Structure	Base remuneration and superannuation.	**50%** paid as cash	**25%** deferred into equity for one year	**25%** deferred into equity for two years	Rights to shares with no dividend equivalent payments, with vesting subject to performance over a four-year period.
Approach	• Reviewed annually against relevant comparator group remuneration benchmarks. • Primary comparator group is the other three major Australian banks, with further business and talent comparators included as relevant. For the CEO ASB, the primary comparator group is the other New Zealand banks.	**Quantum:** • Target opportunity of 100% of FR (75% for Group Chief Risk Officer (CRO)). • Maximum opportunity of 150% of FR (112.5% for Group CRO). **Business performance measures:** • Financial measures (30%; 10% for Group CRO). • Non-financial measures (70%; 90% for Group CRO), being customer, people and strategic measures, including delivery of the RAP (or Risk and Conduct agenda for CEO ASB). **Risk and values assessment (gate/modifiers):** Outcomes subject to Board[1] consideration of values, risk and reputation (via Executive risk scorecards). 1 Board is to be read as ASB Board for the CEO ASB.			**Quantum:** • Maximum face value allocation of 180% of FR (150% for Group CRO). **Business performance measures:** • For the CEO and Group Executives, relative total shareholder return (TSR) (75%); relative trust and reputation (12.5%); and employee engagement (12.5%). • For the CEO ASB, relative TSR (50%); ASB relative trust and reputation (25%); and ASB employee engagement (25%). • A positive TSR gateway applies to the trust and reputation and employee engagement measures. • Relative TSR is measured against a comparator group of the 20 largest companies on the ASX by market capitalisation, excluding resources companies and CBA. **Risk and values assessment (gate/modifiers):** Outcomes subject to Board consideration of conduct and risk and reputation matters.

All variable remuneration is subject to malus adjustment

Mandatory shareholding requirement (MSR)

The CEO must accumulate CBA shares equal to 300% of FR, and Group Executives and the CEO ASB must accumulate 200% of FR, over a five-year period from the date of their appointment to the respective roles.

More detail on Executive shareholding is provided in on page 84.

Remuneration outcomes snapshot

CEO remuneration	
FR increase	0%
STVR % of maximum	73%
Total remuneration received	$3.9m

Group Executive and CEO ASB remuneration	
FR average increase	1.4%
STVR % of maximum	49% to 76%

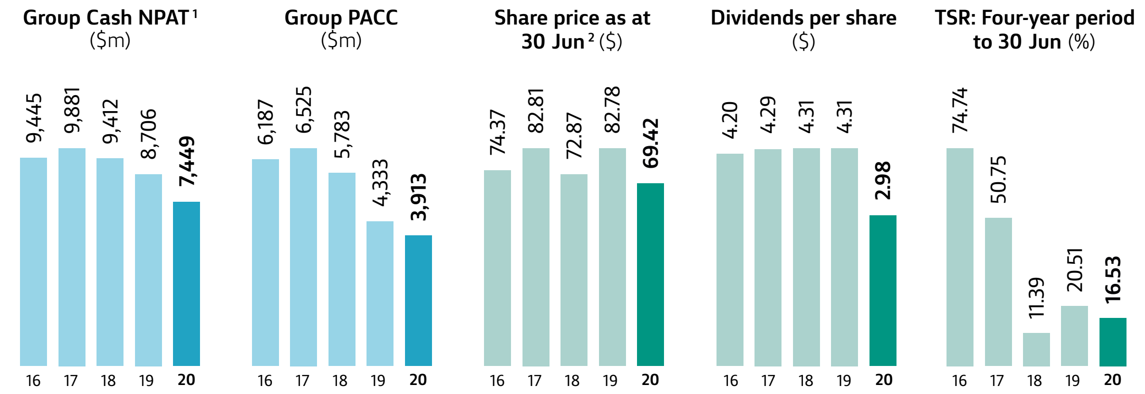
LTVR which reached the end of its performance period on 30 June 2020 **84.04%** of the award vested

Group financial performance

Remuneration outcomes reflect short and long-term performance

The graphs and table below illustrate the relationship between Executive remuneration outcomes and the Group's financial performance over the past five financial years (including the 2020 financial year).

STVR scorecard measure | **LTVR relative TSR measure**



1 Group Cash NPAT includes discontinued operations.
2 CBA opening share price on 1 July 2015 was $84.79.

Remuneration outcomes	30 Jun 16	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20
STVR outcome (average % of maximum)	75%	0%[1]	19%[2]	44%	**60%**
LTVR vesting outcome (% of maximum)	20%	67%	24%	24%	**84%**

1 The STVR outcomes for the CEO and Group Executives were adjusted downwards to zero, reflecting collective accountability for the overall reputation of the Group and risk and reputation matters.
2 As a consequence of the APRA Prudential Inquiry Report, the Board applied a negative adjustment of 20% to the 2018 financial year performance scorecard outcomes for each current Group Executive and assessed individual risk outcomes as partially met to reflect collective accountability for the APRA Prudential Inquiry Report findings. Further negative risk adjustments to STVR outcomes were also made in respect of certain individual Group Executives to reflect individual accountability for other risk and reputation matters separate from the APRA Prudential Inquiry Report findings.

Risk and remuneration consequences

The Board has continued to oversee enhancements to CBA's management of risk and remuneration consequence through its guidance, procedures and governance, including reinforcing the Board's expectations of risk outcomes and behaviours in support of a positive risk culture. There were two risk-related adjustments to CEO and Group Executive STVR outcomes in the 2020 financial year. Remuneration adjustments for remaining employees in relation to the 2020 financial year will be finalised in September 2020 in line with the CBA-wide annual remuneration review process and will be outlined in the 2021 Remuneration Report.

The remuneration adjustments made in the 2019 and 2018 financial years follow. Due to a change in reporting methodology, 2019 financial year data provided below includes employees eligible for a performance review.

2019 financial year	2018 financial year
Employees rated 'exceptionally managed' for risk	
500 employees	309 employees
Employees rated 'partially met' or 'not met' for risk	
4,515 employees (including 121 General Managers and above)	2,462 employees (including 73 General Managers and above)

In both the 2019 and 2018 financial years, STVR outcomes were reduced by a minimum of 10% for 'partially met' ratings, ranging up to 100% for 'not met'. Malus adjustments were also applied to unvested deferred variable remuneration in relation to poor risk outcomes and/or misconduct (2019: 10 employees with adjustments ranging from 20% to 100%; 2018: six employees with 100% adjustment and approximately 470 employees with 10% to 20% malus adjustment related to collective accountability).

CBA's consequence management framework was further embedded in the current financial year, with instances of unacceptable conduct resulting in termination. In the 2020 financial year there were 1,851 instances of substantiated unacceptable conduct, including 10 senior leaders (General Managers and Executive General Managers), with 136 resulting in termination.

Our remuneration framework has continued to evolve over the past year, enabling us to achieve better alignment between risk, performance and remuneration.

Risk culture

- Continued embedding a risk mindset through the deployment of a leadership assessment program to all General Managers and above, and the launch of a new Recognition Platform anchored in our values. The maturity of our risk culture continued to be assessed via the annual Board Risk Culture Assessment process.
- The Recognition Award, first introduced in 2019, continued to recognise and reward employees rated 'exceptionally managed' for risk, whose risk behaviours and outcomes were considered exemplary. Out of the 500 employees rated 'exceptionally managed' in the 2019 financial year, 62 employees received additional recognition to acknowledge their outstanding contribution to the positive risk culture of the Group.

Alignment of remuneration with prudent risk-taking

- Oversight by business unit CROs was strengthened to support the consistent application of risk assessment ratings and STVR adjustments through a constructive challenge process.
- Comprehensive reporting was provided to the Board to support oversight of remuneration and risk consequences and their effectiveness, and to assist in informing the Board's guidance for the 2020 performance and remuneration review.

Risk assessment in performance review process

- Executive risk assessments were supported by comprehensive reporting and governance, as part of the interim and annual performance assessment processes for the CEO and Group Executives.
- Enhanced remuneration guidance was introduced to help people leaders consistently determine the appropriate level of STVR adjustments for risk outcomes and behaviours not fully meeting expectations, and document the reasons for their assessment.

Malus/clawback

- Malus is the ability to reduce (including to zero) a variable remuneration award and/or lapse or postpone vesting of variable remuneration awards granted, but yet not vested.
- Guidance and enhanced processes to support the application of malus have been implemented across CBA during the 2020 financial year.
- Clawback will apply to all CEO and Group Executive variable remuneration from the 2021 financial year.

Remuneration governance

From 1 July 2019, the Remuneration Committee was renamed the People & Remuneration Committee to reflect its role in the oversight of talent and succession in addition to remuneration related matters. The People & Remuneration Committee is the governing body for developing, monitoring and assessing remuneration strategy, policies and practices across CBA on behalf of the Board. The role of the People & Remuneration Committee is to review, challenge, assess and, as appropriate, endorse the recommendations made by management for Board approval. It oversees CBA's remuneration framework and assists the Board to ensure CBA's remuneration strategy and policy are appropriate and effective.

The People & Remuneration Committee met formally six times during the 2020 financial year with the following members (as at 30 June 2020): Paul O'Malley (Chairman), Catherine Livingstone AO, Mary Padbury and Wendy Stops.

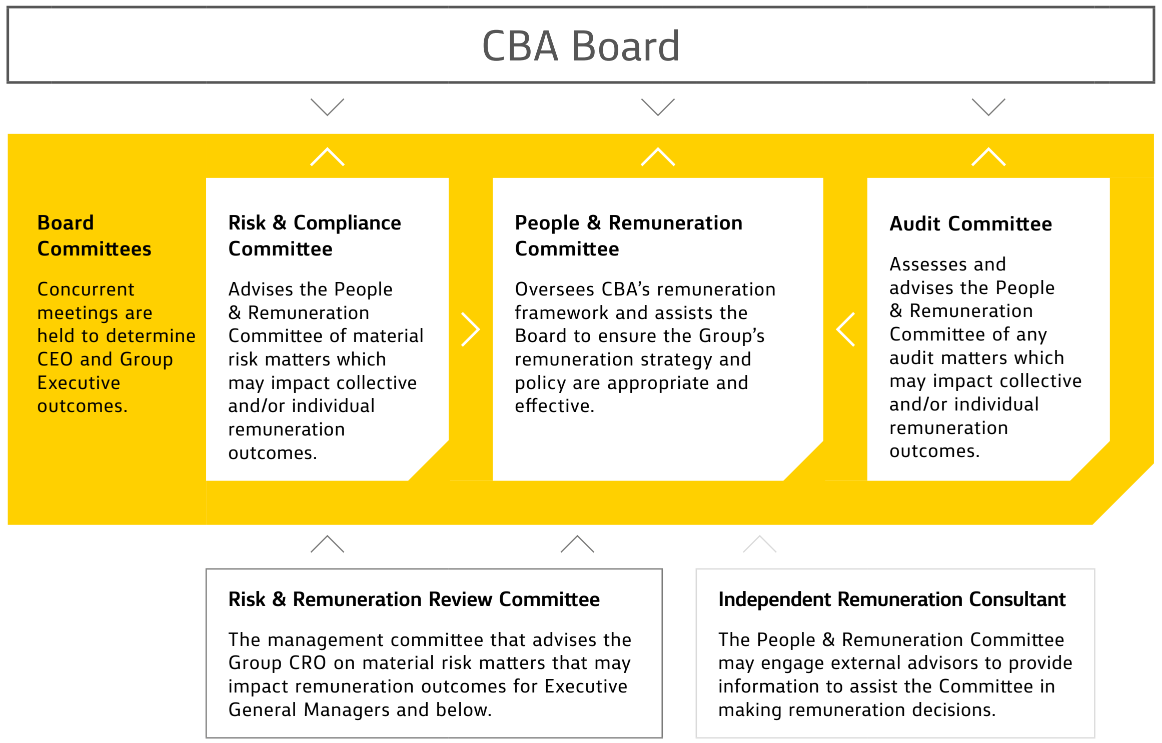
As part of the performance and risk review, and to support the determination of remuneration outcomes for the CEO and Group Executives, the People & Remuneration Committee met concurrently with the Risk & Compliance, Audit and Nominations Committees in February 2020 and June 2020. These concurrent meetings provided an opportunity for the Committees to review and discuss relevant risk and audit matters that may warrant consideration in the People & Remuneration Committee's determination of remuneration outcomes, including any in-year or malus adjustments for the CEO and Group Executives (including former Group Executives).

Information provided to the Board Committees to support their determinations of collective and/or individual remuneration impacts includes risk scorecards for the CEO and Group Executives, details of material risk matters, outcomes of internal audit reviews conducted during the year, and consideration of the quality of CBA's financial results. The Board reviews, challenges, applies judgment and, as appropriate, approves the People & Remuneration Committee's recommendations.

In addition to Board oversight, the Group Risk & Remuneration Review Committee, a management Committee that advises the Group CRO, oversees assessment of accountability for material risk matters, including those impacting CBA's reputation, and application of remuneration adjustments as applicable for Executive General Managers and below.

During the 2020 financial year, external advisors were engaged by management to provide information to the People & Remuneration Committee to assist the Committee with making remuneration decisions. The People & Remuneration Committee did not seek or receive any remuneration recommendations from the external advisors in the 2020 financial year.

CBA's remuneration governance framework



People & Remuneration Committee Charter

The responsibilities of the People & Remuneration Committee are outlined in its Charter and reviewed annually.

The Charter is available at commbank.com.au/peopleandremuneration

Key Management Personnel

Key Management Personnel (KMP) are defined as persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

The table below outlines the Group's KMP for the financial year ended 30 June 2020. It also shows each individual's shareholding and corresponding progress against their MSR as at 30 June 2020.

Name	Position	Term as KMP	Current shareholding[1]	Progress against MSR and deadline
Chairman[2]				
Catherine Livingstone AO	Chairman	Full year	104%	Meets
Current Non-Executive Directors[2]				
Shirish Apte	Director	Full year	256%	Meets
Genevieve Bell AO	Director	Full year	22%	On track, 1 Jul 2024
Paul O'Malley	Director	Full year	182%	Meets
Mary Padbury	Director	Full year	52%	On track, 1 Jul 2024
Wendy Stops	Director	Full year	546%	Meets
Anne Templeman-Jones	Director	Full year	53%	On track, 1 Jul 2024
Rob Whitfield AM	Director	Full year	50%	On track, 1 Jul 2024
Former Non-Executive Director[2]				
David Higgins	Director (ceased as KMP on 31 December 2019)	Part year	n/a	n/a
Managing Director and CEO[3]				
Matt Comyn	Managing Director and Chief Executive Officer	Full year	264%	On track, 9 Apr 2023
Current Group Executives and CEO ASB[4]				
Pascal Boillat	Group Executive, Enterprise Services and Chief Information Officer	Full year	349%	Meets
David Cohen	Deputy Chief Executive Officer	Full year	347%	Meets
Alan Docherty	Group Executive, Financial Services and Chief Financial Officer	Full year	115%	On track, 15 Oct 2023
Andrew Hinchliff	Group Executive, Institutional Banking and Markets	Full year	158%	On track, 1 Aug 2023
Sian Lewis	Group Executive, Human Resources	Full year	119%	On track, 1 Aug 2023
Vittoria Shortt	Chief Executive Officer, ASB	Full year	231%	Meets
Angus Sullivan	Group Executive, Retail Banking Services	Full year	150%	On track, 1 Jul 2023
Mike Vacy-Lyle	Group Executive, Business and Private Banking (from 31 January 2020)	Part year	160%	On track, 31 Jan 2025
Nigel Williams	Group Chief Risk Officer	Full year	266%	Meets
Former Group Executive				
Adam Bennett	Group Executive, Business and Private Banking (ceased as KMP on 31 January 2020)	Part year	n/a	n/a

1 For the Non-Executive Directors, the percentage shown represents the individual's percentage of CBA shares as a proportion of their individual base fees. For the CEO, Group Executives and CEO ASB the percentage shown represents the individual's percentage of CBA shares as a proportion of their FR as at 1 July 2019.

2 Non-Executive Directors are required to hold CBA shares equivalent to 100% of base Board member fees for Non-Executive Directors and 100% of Board Chairman fees for the Chairman. This is to be accumulated over five years based on base Board member fees or Board Chairman fees as at 1 July 2019 (when the new MSR for Non-Executive Directors was introduced) or date of appointment, whichever is later.

3 The CEO is required to hold CBA shares equivalent to 300% of FR. This is to be accumulated over five years from appointment to the role.

4 Group Executives and the CEO ASB are required to hold CBA shares equivalent to 200% of FR. This is to be accumulated over five years from the time appointed to the role or for the CEO ASB, the time the role was determined to be KMP (1 July 2018).

Executive appointment arrangements

In the 2020 financial year, Mike Vacy-Lyle (Group Executive, Business and Private Banking) was appointed to the Executive Leadership Team as KMP.

Mike is responsible for leading the Bank's strategy and operations for the Business and Private Banking business unit. This is a critical portfolio and a core strategic priority for the Group. He brings extensive banking experience, including experience from his previous role as CEO of First National Bank Commercial Banking in South Africa.

The Board determined it was appropriate to provide a competitive remuneration package, including a sign-on award to compensate for unvested awards granted by his former employer, forfeited or forgone upon termination of his previous employment. Relocation benefits were also provided to Mike to support his relocation to Australia.

The table below outlines the sign-on award offered to Mike:

Grant date	Grant details	Vesting schedules	Vesting conditions
31 January 2020	Cash award (final value of $153,435). 21,262 deferred shares (grant date fair value of $1.803m).	Cash award vested in April 2020. Deferred shares vesting in two tranches in September 2020 and September 2021.	Subject to: • continued employment • Board risk and reputation review • malus provisions. *Eligible for dividends paid on deferred shares during the deferral period.*

More information on the remuneration package and relocation benefits are provided on pages 94 and 95.

Executive exit arrangements

Adam Bennett (Former Group Executive, Business and Private Banking) ceased as KMP on 31 January 2020. His exit arrangements were as follows:

- Payment in lieu of balance of contractual notice period.
- Provision of benefits and payments in accordance with his employment agreement, law and Group Policy including in respect of past service (six months' FR).
- Eligible for pro-rated 2020 financial year STVR award[1]. Not eligible for 2020 financial year LTVR award. Unvested deferred STVR and LTVR awards remain on-foot[2].

1 In line with the Banking Executive Accountability Regime, for any payment determined and paid in ordinary course (subject to performance and Board risk and reputation review), 60% of any award will be paid in cash and remaining 40% deferred as cash vesting at least four years after the decision is made to make the relevant award.

2 No accelerated or automatic vesting upon ceasing employment. The on-foot STVR awards will be assessed in the ordinary course at the end of the vesting period related to each award (as applicable). Final deferred STVR outcomes will be subject to performance, and Board risk and reputation review. While Adam's LTVR awards remained on foot at cessation, the Board exercised its post-cessation discretion to lapse his unvested deferred 2018 and 2019 financial year LTVR awards upon his commencing employment with a competitor of the Group.

Remuneration received by current Executives

The remuneration outcomes table below provides a summary of the remuneration that was received by the current Executives in their KMP roles during the financial year ended 30 June 2020. We believe that presenting this information provides shareholders with greater clarity and transparency of Executive remuneration. This table differs from the statutory remuneration table on page 94, which presents remuneration in accordance with accounting standards (i.e. on an accruals basis), and instead is prepared in accordance with the basis of preparation noted below. All remuneration presented in this report is in Australian dollars.

		FR	Cash STVR	Other cash remuneration	Total cash payments	Deferred equity awards[1]	Total remuneration received	Previous years' awards forfeited or lapsed
		a	b	c	d=a+b+c	e	f=d+e	g
CEO								
Matt Comyn	**30 Jun 20**	**2,200,000**	**1,210,000**	**–**	**3,410,000**	**486,243**	**3,896,243**	**(1,307,409)**
	30 Jun 19	2,200,000	747,450	–	2,947,450	464,108	3,411,558	(1,270,151)
Current Group Executives and CEO ASB								
Pascal Boillat[2]	**30 Jun 20**	**1,500,000**	**618,954**	**–**	**2,118,954**	**1,149,354**	**3,268,308**	**–**
	30 Jun 19	1,121,918	353,825	–	1,475,743	1,052,765	2,528,508	–
David Cohen	**30 Jun 20**	**1,200,000**	**469,243**	**–**	**1,669,243**	**555,783**	**2,225,026**	**(1,114,563)**
	30 Jun 19	1,200,000	348,218	–	1,548,218	405,514	1,953,732	(1,109,864)
Alan Docherty	**30 Jun 20**	**1,025,000**	**475,072**	**–**	**1,500,072**	**200,884**	**1,700,956**	**–**
	30 Jun 19	945,277	291,296	–	1,236,573	233,096	1,469,669	–
Andrew Hinchliff[2]	**30 Jun 20**	**1,050,000**	**388,229**	**–**	**1,438,229**	**437,897**	**1,876,126**	**–**
	30 Jun 19	915,068	302,888	–	1,217,956	378,283	1,596,239	–
Sian Lewis[2]	**30 Jun 20**	**850,000**	**381,212**	**–**	**1,231,212**	**214,437**	**1,445,649**	**–**
	30 Jun 19	754,932	260,829	–	1,015,761	223,942	1,239,703	–
Vittoria Shortt[3]	**30 Jun 20**	**976,834**	**385,239**	**–**	**1,362,073**	**589,998**	**1,952,071**	**(1,046,457)**
	30 Jun 19	965,550	940,777	–	1,906,327	309,688	2,216,015	(345,461)
Angus Sullivan	**30 Jun 20**	**1,100,000**	**625,826**	**–**	**1,725,826**	**256,709**	**1,982,535**	**–**
	30 Jun 19	1,050,000	374,500	–	1,424,500	409,280	1,833,780	–
Mike Vacy-Lyle[4]	**30 Jun 20**	**456,831**	**209,882**	**153,435**	**820,148**	**–**	**820,148**	**–**
Nigel Williams[2]	**30 Jun 20**	**1,450,000**	**545,381**	**–**	**1,995,381**	**1,069,362**	**3,064,743**	**–**
	30 Jun 19	945,479	276,819	–	1,222,298	1,294,553	2,516,851	–

1 **Deferred equity awards**: This reflects the portions of the 2016 financial year LTVR award (performance period ended 30 June 2019), and the 2016 and 2017 financial year deferred STVR awarded under Executive General Manager arrangements that vested in the 2020 financial year. For Pascal Boillat and Nigel Williams, this also represents the portion of their sign-on awards that vested in the 2020 financial year.

2 **Pascal Boillat** was appointed as KMP effective 1 October 2018, **Andrew Hinchliff** was appointed as KMP effective 1 August 2018, **Sian Lewis** was appointed as KMP effective 1 August 2018 and **Nigel Williams** was appointed as KMP effective 5 November 2018. Prior year comparison reflects time in KMP role.

3 **Vittoria Shortt** has an additional payment of $11,557 of KiwiSaver payable on her cash STVR component.

4 **Mike Vacy-Lyle** was appointed as KMP effective 31 January 2020, therefore no prior year comparison is shown and amounts reflect time in KMP role.

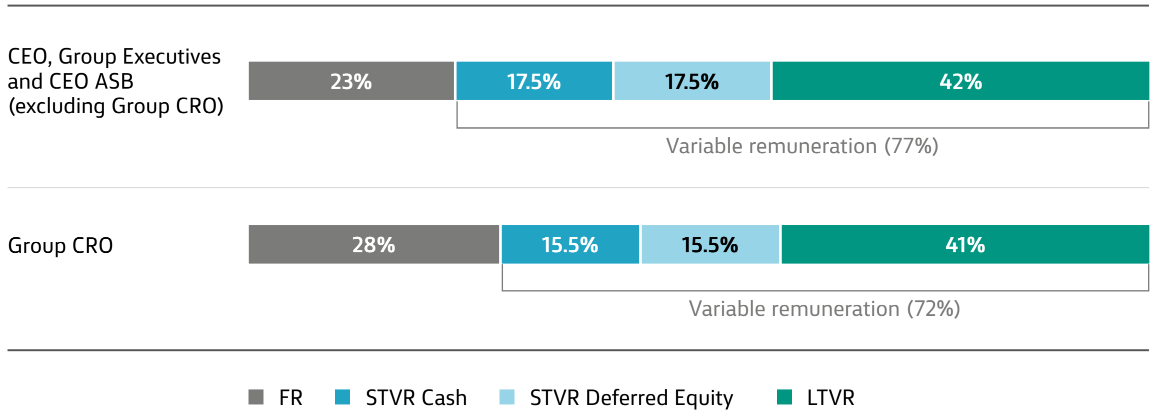
Basis of preparation

Cash payments	**a) FR:** Base remuneration plus superannuation (for the CEO ASB, contributions are made in line with the KiwiSaver employer contribution requirements) paid for the period as KMP. **b) Cash STVR:** 50% of the 2020 financial year STVR (relates to performance during the 12 months to 30 June 2020). For 2019: 50% of the 2019 financial year STVR (relates to performance during the 12 months to 30 June 2019). **c) Other cash remuneration:** Includes cash components of sign-on awards received during the relevant financial year.
Vesting of prior year awards	**e) Deferred equity awards:** The value of all equity awards (STVR, LTVR or sign-on awards) that vested during the period as KMP plus any dividends accrued during the deferral period. The value shown is based on the volume weighted average closing price (VWACP) of the Group's ordinary shares over the five trading days preceding the vesting date.
Awards forfeited or lapsed	**g) Previous years' awards forfeited or lapsed:** The value of all unvested deferred equity awards that were forfeited or lapsed during the 2020 financial year as the performance, risk and reputation conditions were not met. The value shown is based on VWACP of the Group's ordinary shares over the five trading days preceding the date of forfeiture or lapse.

Executive remuneration mix

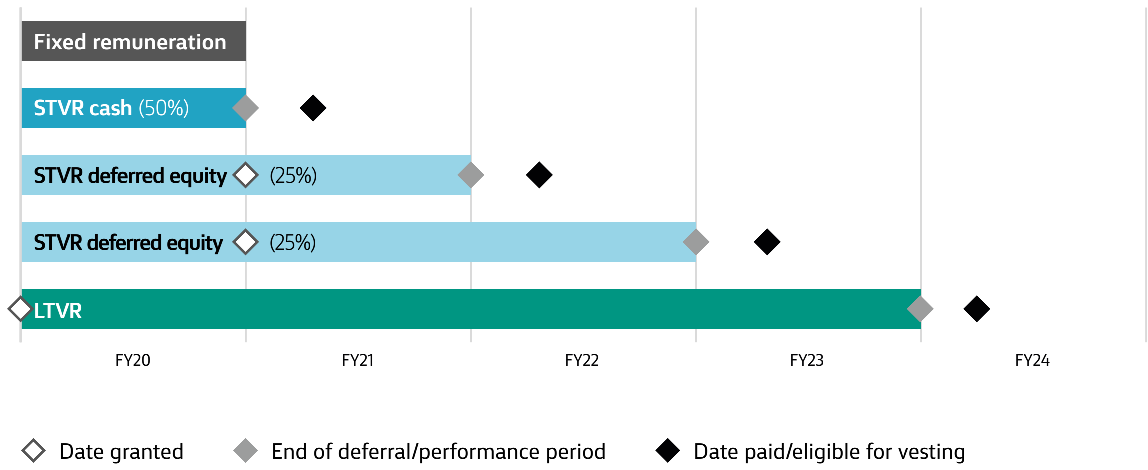
The following diagram illustrates the remuneration mix at maximum potential for the Executives. For the CEO, Group Executives (excluding the Group CRO) and the CEO ASB, approximately three-quarters of maximum remuneration is variable and at risk. The Group CRO's remuneration mix has a greater emphasis on FR than variable remuneration compared to other Group Executives to support the role's independence from the Group's business activities.

Maximum remuneration mix



Remuneration time horizon

The following diagram provides an illustrative indication of how 2020 financial year remuneration will be delivered to the Executives.



OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

1. Executive remuneration in detail

Fixed remuneration

Fixed remuneration comprises base remuneration (i.e. cash salary) and superannuation (KiwiSaver for the CEO ASB).

Fixed remuneration is delivered in accordance with contractual terms and conditions of employment. Executive fixed remuneration is reviewed annually against relevant comparator group remuneration benchmarks.

Short-term variable remuneration

The table below outlines key features of the 2020 financial year STVR award for the Executives. Refer to page 99 for treatment of STVR on cessation of employment.

Features	Approach
Purpose	Varies remuneration outcomes in line with the extent of annual performance achievement, with a balanced focus on customer, people, strategic and shareholder measures, incorporating both risk scorecard and values assessments. Recognises both the "how" and the "what" of performance.
Participants	All Executives.
Opportunity	See table below.
Business performance measures and weightings	Individual STVR outcomes are determined on the basis of Group (or ASB for the CEO ASB) performance and individual performance through a balanced scorecard. The performance measures comprise a mix of financial and non-financial metrics linked to Group and business unit targets. Together they provide a balanced assessment of performance and support the delivery of the Group's strategy. The weightings vary by role. More information on the CEO's STVR scorecard can be found on page 92. See table below.
Risk and values assessment (gate/modifiers)	Performance outcomes determined through assessment of the balanced scorecard are subject to the following assessments (gate/modifiers): • **Risk and reputation:** via the Executive risk scorecard[2] the Board[3] has the discretion to adjust Executive STVR outcomes upwards or downwards, including to zero, where appropriate. • **Values:** the Board[3] has the discretion to adjust Executive STVR outcomes upwards or downwards including to zero, where appropriate.
Calculation of awards	STVR awards for the Executives are calculated as follows: see below.
Deferral	50% of the STVR award is deferred and delivered in deferred shares that vest in equal tranches over one and two years. Deferred shares have rights to dividends declared during the deferral period. All deferred STVR awards are subject to applicable Board[3] risk and reputation review prior to vesting. See page 99 for an overview of the treatment of deferred STVR awards on termination.

Opportunity:

	Target STVR	Maximum STVR
CEO, Group Executives and CEO ASB (excluding Group CRO)	100% of FR	150% of FR
Group CRO	75% of FR	112.5% of FR

Business performance measures and weightings:

	Financial	Non-financial (including customer, people and strategy)[1]
CEO, Group Executives and CEO ASB (excluding Group CRO)	30%	70%
Group CRO	10%	90%

Calculation of awards:

Opportunity				Scorecard result		Risk and values assessment				Adjusted outcome
FR $	x	Target STVR opportunity %	x	Business performance result %[4]	x	Risk scorecard result[5]	x	Values result	=	Value of adjusted STVR award $

1 Strategic initiatives include 30% weighting required by APRA to be allocated to the delivery of the RAP.
2 Executive risk scorecard assessments include: risk culture and leadership; risk strategy/appetite; incidents and issues; and risk and control environment.
3 'Board' is to be read as ASB Board in respect of discretion for the CEO ASB's STVR outcomes.
4 The Board retains discretion to adjust scorecard outcomes.
5 Also subject to risk and reputation review.

Long-term variable remuneration

The table below outlines key features of the 2020 financial year LTVR for the Executives. Refer to page 99 for treatment of LTVR on cessation of employment.

Features	Approach
Purpose	Varies remuneration outcome in line with the extent of longer-term (four-year) performance achievement, with a balanced focus on relative shareholder returns, customer and community trust and reputation, and employee engagement to support creation of sustainable long-term shareholder value.
Participants	All Executives.
Opportunity	The maximum face value of LTVR that can be granted for the Executives, excluding the Group CRO is 180% of FR. The maximum face value of LTVR that can be granted for the Group CRO is 150% of FR. The minimum potential outcome value is zero.
Performance period	Four years from 1 July 2019 to 30 June 2023.
Business performance measures and weightings	See table below.
Instrument	Rights – each right entitles the participant to receive one CBA share (or cash equivalent at the Board's discretion), subject to meeting performance measures.
Maximum face value allocation approach	The number of rights granted are calculated as follows for the Executives: FR $ (at time of grant) x 180%[3] ÷ Share price $ (no discount applied) → Number of rights The share price used was the volume weighted average price of CBA's ordinary shares over the five trading days up to 1 July 2019.
Board discretion	The Board has discretion to determine that some or all of the award will lapse in certain circumstances (malus), including where, in the opinion of the Board: • The vesting of rights is not justified or supportable, having regard to the participant's performance and/or conduct, the performance of the business unit or function (as relevant having regard to the participant's accountability or role), or the overall Group performance. • The vesting of rights will impact on the financial soundness of the Group or a member of the Group. • The Group is required or entitled to reclaim remuneration or reduce an Executive's remuneration outcome under law, regulation or Group policy. • A significant unexpected or unintended consequence or outcome has occurred, including where original expected performance outcomes have not been realised. Prior to vesting, LTVR awards are also subject to Board risk and reputation review, and should any issues be identified the award can be reduced, including to zero.

Business performance measures and weightings:

	TSR (relative)	Trust and reputation (relative)[1]	Employee engagement (absolute)[1]
CEO and Group Executives (excluding the CEO ASB)	75%	12.5%	12.5%
CEO ASB[2]	50%	25%	25%

Performance measures	Approach
Relative TSR • TSR measures share price movement, dividends paid and any return of capital over a specific period. • Relative TSR compares the ranking of CBA's TSR over the performance period with the TSR of other companies in a peer group.	**Relative TSR peer group** • The peer group is made up of the 20 largest companies on the ASX by market capitalisation at the beginning of the performance period, excluding resources companies and CBA. This cross-industry peer group has been chosen as it represents the typical portfolio of companies in which CBA's shareholders invest, and so provides valid benchmarks for measuring against CBA's TSR. • The peer group at the beginning of the performance period for the relative TSR performance hurdle comprised: – Amcor Limited – Aristocrat Leisure Limited – ASX Limited – Australia & New Zealand Banking Group Limited – Brambles Limited – Coles Group Limited – CSL Limited – Goodman Group – Insurance Australia Group Limited – Macquarie Group Limited – National Australia Bank Limited – QBE Insurance Group Limited – Scentre Group – Suncorp Group Limited – Sydney Airport – Telstra Corporation Limited – Transurban Group – Wesfarmers Limited – Westpac Banking Corporation – Woolworths Limited

1 Trust and reputation and employee engagement measures are subject to a gateway of positive absolute CBA TSR.
2 For ASB this means ASB Trust and Reputation (relative) and ASB Employee Engagement (absolute).
3 150% for the Group CRO.

Remuneration report (continued)

Performance measures	Approach
Relative TSR (continued)	A reserve bench company will be substituted (in order of market capitalisation as at the beginning of the performance period) into the peer group when a peer group company ceases to be listed on the ASX as a result of an acquisition, merger or other relevant corporate action or delisting. The reserve bench comprised: Ramsay Health Care Limited, Cimic Group Limited, Dexus, AGL Energy Limited and Sonic Healthcare Limited.

Vesting framework

Peer group ranking	Vesting %
At the 75th percentile or higher	100%
Between the median and 75th percentile	Pro-rata vesting from 50% to 100%
At the median	50%
Below the median	0%

Calculation of results

Each company in the peer group will be given a percentile ranking based on the growth in its TSR over the four-year performance period. TSR outcomes are calculated by an independent provider, Orient Capital.

Reason for selection

Provides a direct link between Executive remuneration and shareholder returns, providing alignment with our shareholders.

Subject to positive absolute TSR gateway

Relative trust and reputation

- Measured against the independent RepTrak® pulse score survey conducted quarterly by the Reputation Institute.
- The survey comprises four equally-weighted questions to test the trust, respect and admiration a respondent has for a particular company.
- CBA's score over the performance period is compared with the performance over the same period of a peer group.

CEO and Group Executives: relative trust and reputation peer group

- For the CEO and Group Executives (excluding the CEO ASB), the peer group is made up of the 16 largest consumer-facing companies listed on the ASX by market capitalisation at the beginning of the performance period, excluding resources companies, companies that are not familiar to the general public, companies that do not operate nationally, and CBA.
- For the CEO and Group Executives (excluding the CEO ASB), the peer group at the beginning of the performance period for the trust and reputation performance hurdle comprised:

– AGL Limited
– Australia & New Zealand Banking Group Limited
– Coles Group Limited
– Crown Resorts Limited
– Insurance Australia Group Limited
– Macquarie Group Limited
– Medibank Private Limited
– National Australia Bank Limited
– Qantas Limited
– QBE Insurance Group Limited
– Stockland Corporation Limited
– Suncorp Group Limited
– Telstra Corporation Limited
– Wesfarmers Limited
– Westpac Banking Corporation
– Woolworths Limited

A reserve bench company will be substituted (in order of market capitalisation as at the beginning of the performance period) into the peer group when a peer group company ceases to be listed on the ASX as a result of an acquisition, merger or other relevant corporate action or delisting. The reserve bench comprised: Coca-Cola Amatil Limited, Lendlease Group, AMP Limited, and Bendigo and Adelaide Bank Limited.

CEO ASB: relative trust and reputation peer group

- For the CEO ASB, the peer group is made up of the four largest financial institutions in NZ, excluding ASB (sourced from Deloitte's Top 30 Financial Institutions Index), and the nine largest consumer-facing companies in NZ by revenue on the Deloitte Top 200 Index, and are included on the Reputation Institute Annual Reputation Index.
- For the CEO ASB, the peer group at the beginning of the performance period for the trust and reputation performance hurdle comprised:

– ANZ Bank New Zealand Limited
– Air New Zealand Limited
– Bank of New Zealand
– BP Oil New Zealand Limited
– Fletcher Building Limited
– Fonterra Co-operative Group Limited
– Foodstuffs (combined North Island and South Island)
– Fulton Hogan Limited
– Kiwibank Limited
– Spark New Zealand Limited
– Westpac New Zealand Limited
– Woolworths New Zealand Limited
– Z Energy Limited

A reserve bench company will be substituted (in order of revenue as at the beginning of the performance period) into the peer group when a peer group company ceases to operate as a result of an acquisition, merger or other relevant corporate action or delisting. The reserve bench comprised: The Warehouse Group Limited and Meridian Energy Limited.

- These cross-industry peer groups have also been chosen to ensure that the focus is on delivering trust and reputation outcomes that are among the best in class for all customer-focused industries, not just financial services.

Performance measures	Approach

Relative trust and reputation (continued)

Vesting framework

Peer group ranking	Vesting %
At the 75th percentile or higher	100%
Between the median and 75th percentile	Pro-rata vesting from 50% to 100%
At the median	50%
Below the median	0%

Calculation of results

Each company in the peer group will be given a percentile ranking based on the change in its pulse score over the four-year performance period. The opening pulse score for each company will be calculated based on the average of the March, June and September 2019 surveys (or September 2018, March and August 2019 surveys conducted in NZ for the CEO ASB), and the closing pulse scores will be calculated based on the average of the surveys anticipated to be around November 2022, March and June 2023.

Reason for selection

The Board recognises the critical importance for the Group and the industry of rebuilding and improving the trust of customers and the broader community. This is a key factor in enhancing long-term financial performance and shareholder value.

Employee engagement (absolute)

- Employees are invited to participate in an externally conducted online survey.
- For the CEO and Group Executives, Employee Engagement Index (EEI) is calculated using particular questions from the survey.
- EEI is based on the proportion of employees responding that they "strongly agree" or "agree" with the four equally weighted questions relating to satisfaction, commitment, advocacy and pride.
- For the CEO ASB, the Peak On methodology provides an employee engagement score which can be compared to the 'True Benchmark'. The True Benchmark reflects an adjustment for demographic factors that typically play a role in determining scores (e.g. tenure, gender, geography).

Target setting

- For the CEO and Group Executives, the target and stretch levels of performance have been set by the Board having regard to the IBM Kenexa gap closure method and global benchmark scores provided by IBM Kenexa, and CBA's EEI baseline relevant to the award.
- For the CEO ASB, the target and stretch levels of performance have been set by the ASB Board, having regard to ASB's baseline relevant to the award and benchmark levels.

Vesting framework

CBA EEI score	ASB EEI Score	Vesting %
78% or higher	8.30 or higher	100%
Between 72% and 78%	Between 8.10 and 8.30	Pro-rata vesting from 50% to 100%
72%	8.10	50%
Below 72%	Below 8.10	0%

Calculation of results

The surveys will be conducted by an independent provider who will facilitate and collate the EEI results. For the CEO and Group Executives (excluding the CEO ASB), the change in CBA's EEI scores between the March 2019 EEI score of 68% and the March 2023 score will be used to determine the level of vesting. For the CEO ASB, the change in ASB's EEI scores between the base year (the August 2019 EEI score of 8.10) and the end year (the last score prior to July 2023) will be used to determine the level of vesting.

Reason for selection

The Board considers that an engaged workforce results in greater productivity and a better customer experience, and that builds overall value for the Group. It is important the Group's employees are its advocates, committed to its purpose, values and strategy.

Subject to positive absolute TSR gateway

An positive absolute TSR gateway is applied to the non-financial performance measures (trust and reputation, employee engagement), such that no vesting on these measures occurs unless TSR is positive over the relevant period.

2. Variable remuneration outcomes for the financial year ended 30 June 2020

CEO STVR performance outcomes

Reflective of Group performance, the CEO's 2020 financial year STVR outcome is: **73**% of max

Measure, rationale and commentary	Weight	Scorecard result: Threshold 50%	Scorecard result: Target 100%	Scorecard result: Stretch 150%	% of STVR maximum
Financial Strong underlying financial performance, however NPAT outcome materially impacted by significant provisions for expected future loan impairments. PACC outcome impact less material given long-tail nature of potential impact: • Group cash NPAT – below threshold (Actual: $7,449 million).	15%	8,122	8,520	8,919	0%
• Group underlying PACC – above threshold (Actual: $3,913 million).	15%	3,730	4,214	4,699	7%
Customer NPS outcomes for consumer, business and IB&M customers, with reference to complaints remediation: • Consumer, business & IB&M NPS ranked #2 or higher for majority of the 2020 financial year. • Progress addressing systemic challenges and underlying causes.	10%				6%
People Group People measure results (focus on culture, wellbeing, talent and capability): • Significant increase in employee engagement indicating strong pride, satisfaction and connection with the Bank. • Ongoing renewal of executive and senior leadership teams, with targeted growth in critical capability, and delivery of cultural change.	10%				9%
Strategy Progress on and quality of implementation of the APRA RAP: • All APRA RAP milestones delivered on plan to the Independent Reviewer, with the Second Foundational Review approved.	30%				22%
Significant progress on the delivery of Group strategic priorities: • Continued focus on innovation with the launch of Vonto, Home-In and CommSec Pocket, and innovation capability (x15 ventures, Klarna). • Strengthened leadership position in digital (online, Banking app). • Significant progress on targeted divestments and simplification of portfolio.	20%				19%
Overall CEO STVR outcome					63%

Values assessment • Role modelled the Group's 'Should We' test through the bushfire, drought and coronavirus pandemic responses, displaying national and Bank leadership. • Demonstrated personal care and support for customers and communities, including through Compassionate Care and Financial Abuse support initiatives.	Exceptionally Demonstrated	No adjustment
Risk and reputation assessment • Clear tone from the top on risk compliance and the control environment, with notable progress in Financial Crime, data management and the RAP.	Fully Met	No adjustment
Board discretion • Industry leadership and contribution at a national policy level to the challenges faced by our customers, communities and the economy particularly over the second half of the 2020 financial year and the practical and ongoing steps taken to assist our customers, people and their communities.		10%
Overall adjusted CEO STVR outcome		**73%**

Executive STVR performance outcomes

The following table provides the 2020 financial year STVR outcomes for Executives for the period they were KMP. The minimum potential outcome is zero.

	STVR maximum $	STVR actual: Total $	STVR actual: Cash[1] $	STVR actual: Deferred $	STVR actual as a % of STVR maximum[2] %
CEO					
Matt Comyn	3,300,000	2,420,000	1,210,000	1,210,000	73%
Current Group Executives and CEO ASB					
Pascal Boillat	2,250,000	1,237,908	618,954	618,954	55%
David Cohen	1,800,000	938,486	469,243	469,243	52%
Alan Docherty	1,537,500	950,144	475,072	475,072	62%
Andrew Hinchliff	1,575,000	776,458	388,229	388,229	49%
Sian Lewis	1,275,000	762,424	381,212	381,212	60%
Vittoria Shortt	1,465,252	770,478	385,239	385,239	53%
Angus Sullivan	1,650,000	1,251,652	625,826	625,826	76%
Mike Vacy-Lyle[3]	685,246	419,764	209,882	209,882	61%
Nigel Williams	1,631,250	1,090,762	545,381	545,381	67%
Former Group Executive					
Adam Bennett[4]	924,835	492,558	295,535	197,023	53%

1 Cash amounts will be paid in or around September 2020.
2 The percentage of 2020 financial year STVR forfeited (as a percentage of STVR maximum): Matt Comyn 27%, Pascal Boillat 45%, David Cohen 48%, Alan Docherty 38%, Andrew Hinchliff 51%, Sian Lewis 40%, Vittoria Shortt 47%, Angus Sullivan 24%, Mike Vacy-Lyle 39%, Nigel Williams 33%, Adam Bennett 47%.
3 Mike Vacy-Lyle's remuneration reflects his time in the role (31 January 2020 to 30 June 2020).
4 Adam Bennett's remuneration reflects his time in the role (1 July 2019 to 31 January 2020).

LTVR performance outcomes

The 2017 financial year LTVR award reached the end of its four-year performance period on 30 June 2020 and vested at 84.04%, with 15.96% of the LTVR award lapsing.

Performance measure	Percentage of award	Performance outcome	Vesting outcome
Relative TSR	76.25%	65th percentile ranking relative to TSR peer group	80%
Relative customer satisfaction[1]	23.75%	Average result by business over performance period: – retail main financial institution (MFI) customer satisfaction = 1.02 – wealth management customer satisfaction = 1.13 – business MFI customer satisfaction = 1.00 Total weighted average ranking = 1.06	97%

1 Vesting outcome for relative customer satisfaction is calculated based on the weighted average ranking across the three independent surveys (weighted by the business area's contribution to NPAT at the beginning of the performance period). Relative customer satisfaction vests at 50% if the weighted average ranking is 2nd and 100% if the weighted average ranking is 1st.

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

3. Executive statutory remuneration

Executive statutory remuneration accounting expense

The following statutory table details the statutory accounting expense of all remuneration-related items for the Group's Executives. This includes remuneration costs in relation to both the 2019 and 2020 financial years. The tables are different from the remuneration outcomes table on page 86, which shows the remuneration received in the 2020 financial year rather than the accrual accounting amounts determined in accordance with the Australian Accounting Standards. The tables have been developed and audited against the relevant Australian Accounting Standards. Refer to the footnotes below each table for more detail on each remuneration component.

	Fixed remuneration[1]		Other short-term benefits			Long-term benefits		Share-based payments			
	Base remuneration[2] $	Superannuation $	Non-monetary[3] $	Cash STVR (at risk)[4] $	Other[5] $	Long-term[6] $	Deferred STVR (at risk)[7] $	Deferred equity (at risk)[8] $	LTVR equity (at risk)[9] $	Termination benefits $	Total statutory remuneration[10] $
CEO											
Matt Comyn											
30 Jun 20	**2,178,997**	**21,003**	**17,399**	**1,210,000**	**14,813**	**105,112**	**–**	**467,155**	**1,667,697**	**–**	**5,682,176**
30 Jun 19	2,179,469	20,531	16,928	747,450	150,925	98,034	–	–	1,204,552	–	4,417,889
Current Group Executives and CEO ASB											
Pascal Boillat											
30 Jun 20	**1,478,997**	**21,003**	**15,602**	**618,954**	**431,541**	**12,734**	**–**	**1,843,450**	**585,408**	**–**	**5,007,689**
30 Jun 19	1,106,561	15,356	11,368	353,825	325,325	6,612	–	2,357,718	183,916	–	4,360,681
David Cohen											
30 Jun 20	**1,178,997**	**21,003**	**17,399**	**469,243**	**(8,972)**	**29,463**	**–**	**304,767**	**1,387,959**	**–**	**3,399,859**
30 Jun 19	1,177,914	22,086	16,928	348,218	26,483	38,147	–	163,350	1,133,049	–	2,926,175
Alan Docherty											
30 Jun 20	**1,003,997**	**21,003**	**17,399**	**475,072**	**32,977**	**24,098**	**–**	**268,262**	**400,041**	**–**	**2,242,849**
30 Jun 19	924,746	20,531	16,928	291,296	11,732	237,972	–	167,426	125,676	–	1,796,307
Andrew Hinchliff											
30 Jun 20	**1,028,997**	**21,003**	**17,399**	**388,229**	**28,399**	**26,824**	**–**	**398,714**	**396,763**	**–**	**2,306,328**
30 Jun 19	896,281	18,788	15,520	302,888	66,426	33,247	–	331,132	122,606	–	1,786,888
Sian Lewis											
30 Jun 20	**828,997**	**21,003**	**17,399**	**381,212**	**11,318**	**24,296**	**–**	**256,331**	**325,226**	**–**	**1,865,782**
30 Jun 19	736,144	18,788	15,520	260,829	11,886	35,812	–	151,824	101,156	–	1,331,959
Vittoria Shortt[11]											
30 Jun 20	**948,383**	**46,872**	**10,293**	**385,239**	**19,784**	**29,377**	**-**	**300,212**	**90,862**	**-**	**1,831,022**
30 Jun 19	937,427	56,346	9,926	940,777	24,021	28,772	–	310,192	529	–	2,307,991
Angus Sullivan											
30 Jun 20	**1,078,997**	**21,003**	**15,602**	**625,826**	**(6,877)**	**48,782**	**–**	**319,238**	**416,286**	**–**	**2,518,857**
30 Jun 19	1,029,469	20,531	15,165	374,500	48,189	97,018	–	183,493	128,740	–	1,897,104
Mike Vacy-Lyle[12]											
30 Jun 20	**448,108**	**8,722**	**7,323**	**209,882**	**344,897**	**2,202**	**–**	**817,166**	**116,192**	**–**	**1,954,492**
Nigel Williams											
30 Jun 20	**1,428,997**	**21,003**	**17,399**	**545,381**	**29,467**	**12,035**	**–**	**832,735**	**471,561**	**–**	**3,358,578**
30 Jun 19	932,092	13,388	11,162	276,819	182,242	5,604	–	2,117,055	148,148	–	3,686,510
Former Group Executive											
Adam Bennett[12,13]											
30 Jun 20	**601,871**	**14,686**	**10,083**	**295,535**	**6,774**	**(6,179)**	**197,023**	**164,794**	**1,407,913**	**767,733**	**3,460,232**
30 Jun 19	1,024,580	25,000	16,928	244,684	7,992	34,629	–	141,240	1,018,078	–	2,513,131

1 FR comprises base remuneration and superannuation (post-employment benefit). Superannuation contributions for Vittoria Shortt are made in line with the KiwiSaver employer contribution requirements (this includes the additional payment of $18,421 payable on her cash STVR component and deferred awards).
2 Total cost of salary including cash salary, short-term compensated absences and any salary sacrificed benefits.
3 Cost of car parking (including associated fringe benefits tax). This includes an adjustment to 2019 car parking benefits for Pascal Boillat and Angus Sullivan.
4 KiwiSaver is payable on the CEO ASB's cash STVR.
5 Includes company-funded benefits (including associated fringe benefits tax where applicable) and the net change in accrued annual leave. 2019 financial year accrued annual leave figures have been restated due to change in reporting methodology. For Pascal Boillat, this also includes costs in relation to a housing allowance. For Mike Vacy-Lyle, this also includes costs in relation to his relocation to Sydney and the cash component of his sign-on award which vested during the 2020 financial year.
6 Long service leave entitlements accrued during the year as well as the impact of changes to long service leave valuation assumptions, which are determined in line with Australian Accounting Standards. This includes an adjustment to 2019 long service leave accrual for Vittoria Shortt.
7 The deferred portion of the 2020 financial year STVR outcome for Adam Bennett will be deferred into cash vesting four years after the decision is made to make the relevant award.
8 2020 financial year expense for deferred STVR awarded under Group Executive and Executive General Manager arrangements as well as sign-on awards received as deferred rights and/or shares in prior years. These equity awards are subject to forfeiture if the Executive is dismissed or ceases to be employed by the Group as a result of resignation prior to the vesting date. Deferred 2020 financial year STVR will be expensed over the vesting period commencing 1 July 2020.
9 2020 financial year expense for the 2017, 2018, 2019 and 2020 financial year LTVR awards.
10 The percentage of 2020 financial year remuneration related to performance was: Matt Comyn 59%, Pascal Boillat 61%, David Cohen 64%, Alan Docherty 51%, Andrew Hinchliff 51%, Sian Lewis 52%, Vittoria Shortt 42%, Angus Sullivan 54%, Mike Vacy-Lyle 58%, Nigel Williams 55%, Adam Bennett 60%.
11 For Vittoria Shortt, remuneration was paid in New Zealand dollars. The value shown was impacted by movements in exchange rates.
12 For Mike Vacy-Lyle and Adam Bennett, remuneration reflects the time in their KMP roles.
13 The LTVR rights value for Adam Bennett reflects the disclosable accruals for all previously granted LTVR awards that remain unvested following cessation of employment up to the end of each performance period. This means that up to three years of each unvested LTVR award expense has been brought forward and disclosed in total for the 2020 financial year, including those amounts which would otherwise have been included in future year disclosures and that may not vest. While Adam's awards remained on foot at cessation and the amortised value brought forward, the Board exercised its post-cessation discretion to lapse his unvested deferred 2018 and 2019 financial year LTVR awards upon his commencing employment with a competitor of the Group.

Fair value assumptions for awards granted in the 2020 financial year

In the 2020 financial year, a face value allocation approach was used to determine the number of rights granted under the LTVR (refer to page 96). The table below is provided in accordance with statutory requirements. The fair value has been calculated using a Monte Carlo simulation method. The exercise price is nil across all LTVR and STVR awards.

The fair value of rights under the trust and reputation and employee engagement performance measures is higher than for the relative TSR performance measure. This reflects that the likelihood of achieving a positive TSR over the performance period (i.e. the gate opener that applies to the trust and reputation and employee engagement tranches) is greater than the likelihood of achieving a relative TSR ranking higher than the median across the peer group.

Equity plan	Performance measure	Grant date	Fair value $	Weighting	Performance period end/final vesting date
FY19 STVR deferred shares	Service	1 Sep 19	77.87	100%	1 Sep 21
FY20 LTVR rights	Relative TSR	18 Nov 19	31.79	75%	30 Jun 23
	Relative trust and reputation (positive TSR gateway)	18 Nov 19	56.60	12.5%	30 Jun 23
	Employee engagement (positive TSR gateway)	18 Nov 19	56.60	12.5%	30 Jun 23
FY20 LTVR rights (for Mike Vacy-Lyle and Vittoria Shortt)[1]	Relative TSR	18 Feb 20	43.96	75%	30 Jun 23
	Relative trust and reputation (positive TSR gateway)	18 Feb 20	61.58	12.5%	30 Jun 23
	Employee engagement (positive TSR gateway)	18 Feb 20	61.58	12.5%	30 Jun 23
Sign-on award (deferred shares) – Mike Vacy-Lyle	Service	31 Jan 20	84.78	100%	30 Sep 21

1 For Vittoria Shortt, the performance measures for the 2020 financial year LTVR rights have the following weightings: 50% relative TSR, 25% ASB trust and reputation and 25% ASB employee engagement. ASB trust and reputation and ASB employee engagement measures are both subject to the positive TSR gateway.

Remuneration report (continued)

Equity awards received as remuneration

The table below details the value and number of all equity awards that were granted, vested, forfeited or lapsed to Executives during their time in a KMP role in the 2020 financial year. It also shows the number of previous years' awards that vested during the 2020 financial year – some of which relate to past non-KMP roles.

	Class[1]	Granted during 2020 financial year[2] Units	Granted during 2020 financial year[2] $	Awards vested during 2020 financial year[3] Units	Awards vested during 2020 financial year[3] $	Forfeited or lapsed during 2020 financial year[4] Units	Forfeited or lapsed during 2020 financial year[4] $
CEO							
Matt Comyn	LTVR rights	47,957	1,821,975	5,236	486,243	16,298	1,307,409
	Deferred STVR shares	9,599	747,474	–	–	–	–
Current Group Executives and CEO ASB							
Pascal Boillat	LTVR rights	32,698	1,242,266	–	–	–	–
	Deferred STVR shares	4,544	353,841	–	–	–	–
	Sign-on equity	–	–	14,052	1,149,354	–	–
David Cohen	LTVR rights	26,157	993,739	4,463	414,458	13,894	1,114,563
	Deferred STVR shares	4,472	348,235	1,815	141,325	–	–
Alan Docherty	LTVR rights	22,344	848,904	–	–	–	–
	Deferred STVR shares	3,741	291,312	915	71,247	–	–
	Deferred STVR rights	–	–	1,459	129,637	–	–
Andrew Hinchliff	LTVR rights	22,889	869,604	–	–	–	–
	Deferred STVR shares	4,368	340,136	2,006	156,197	–	–
	Deferred STVR rights	–	–	3,167	281,700	–	–
Sian Lewis	LTVR rights	18,529	703,957	–	–	–	–
	Deferred STVR shares	3,589	279,475	833	64,862	–	–
	Deferred STVR rights	–	–	1,681	149,575	–	–
Vittoria Shortt	LTVR rights	21,048	1,110,703	4,190	389,106	13,045	1,046,457
	Deferred STVR shares	8,055	627,243	–	–	–	–
	Deferred STVR rights	–	–	2,580	200,892	–	–
Angus Sullivan	LTVR rights	23,978	910,972	–	–	–	–
	Deferred STVR shares	4,810	374,555	800	62,292	–	–
	Deferred STVR rights	–	–	2,184	194,417	–	–
Mike Vacy-Lyle	LTVR rights	23,978	1,159,687	–	–	–	–
	Sign-on equity	21,262	1,802,592	–	–	–	–
Nigel Williams	LTVR rights	26,339	1,000,666	–	–	–	–
	Deferred STVR shares	3,555	276,828	–	–	–	–
	Sign-on equity	–	–	13,365	1,069,362	–	–
Former Group Executive							
Adam Bennett	LTVR rights	–	–	4,860	451,325	15,128	1,213,553
	Deferred STVR shares	2,514	195,765	1,569	122,170	–	–

1 Deferred STVR shares/rights represents STVR previously awarded under the Group Executive or Executive General Manager arrangements in prior years. Mike Vacy-Lyle was awarded sign-on equity in the 2020 financial year in the form of deferred shares. Approval was given for the granting of the CEO's 2020 financial year LTVR award at the 2019 Annual General Meeting.

2 Represents the maximum number of equity awards that may vest to each Executive in respect of their time as KMP. The values represent the fair value at grant date. The minimum potential outcome for the equity awards is zero.

3 Awards that vested include the 2016 financial year LTVR award (granted 17 November 2015), deferred STVR awards (vested in full) (tranches granted 1 September 2016, 1 September 2017 and 1 September 2018) and sign-on shares/rights (granted 1 October 2018 and 5 November 2018) that vested during time in KMP role. The value of the awards vested is calculated using VWACP for the five trading days preceding the vesting date, and includes the value of dividends accrued over the vesting period on rights. Executives receive one ordinary share in respect of each right that vests during the financial year.

4 This includes the portion of the 2016 financial year LTVR award (75.69%) that did not meet the performance hurdle and lapsed. The value of the lapsed award is calculated using the VWACP for the five trading days preceding the lapse date.

Overview of unvested equity awards

Equity plan	Grant date	Performance period/vesting schedule Start date	Performance period/vesting schedule End date	Performance measures/vesting conditions
FY18 Executive STVR	1 Sep 18	1 Jul 17	30 Jun 18	Equal tranches vesting after one and two years, subject to: • continued employment • Board risk and reputation review • malus provisions.
FY19 Executive STVR	1 Sep 19	1 Jul 18	30 Jun 19	
FY17 Executive General Manager STVR	1 Sep 17	1 Jul 16	30 Jun 17	Equal tranches vesting after one, two and three years, subject to: • continued employment • Board risk and reputation review • malus provisions.
FY18 Executive General Manager STVR	1 Sep 18	1 Jul 17	30 Jun 18	
FY18 LTVR	17 Nov 17	1 Jul 17	30 Jun 21	Three tranches vesting after four years (following a Board risk and reputation review) being: • 75% TSR ranking relative to peer group • 12.5% trust and reputation (relative to peer group) • 12.5% employee engagement. The non-financial measures are subject to a positive TSR vesting gateway.
FY19 LTVR	12 Nov 18	1 Jul 18	30 Jun 22	
FY20 LTVR	18 Nov 19 and 18 Feb 20	1 Jul 19	30 Jun 23	
FY20 LTVR (CEO ASB)	18 Feb 20	1 Jul 19	30 Jun 23	Three tranches vesting after four years (following a Board risk and reputation review) being: • 50% TSR ranking relative to peer group • 25% ASB trust and reputation (relative to peer group) • 25% ASB employee engagement. The non-financial measures are subject to a positive TSR vesting gateway.
Pascal Boillat sign-on equity	1 Oct 18	n/a	1 Mar 23	No performance measures. Subject to: • continued employment • Board risk and reputation review • malus provisions.
Mike Vacy-Lyle sign-on equity	31 Jan 20	30 Sep 20	30 Sep 21	
Nigel Williams sign-on equity	5 Nov 18	n/a	22 Nov 21	

Shares and other securities held by Executives

Details of the shareholdings and other securities held by Executives (or close family members or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of the aforementioned hold significant voting power) are set out below relating to time in KMP role.

	Class[1]	Balance 1 Jul 2019	Acquired/ granted as remuneration	Awards vested during the 2020 financial year[2]	Net change other[3]	Balance 30 Jun 2020
CEO						
Matt Comyn	Ordinary	55,397	–	5,236	–	60,633
	LTVR rights	120,948	47,957	(5,236)	(16,298)	147,371
	Deferred STVR shares	–	9,599	–	–	9,599
Current Group Executives and CEO ASB						
Pascal Boillat	Ordinary	–	–	14,052	(9,052)	5,000
	LTVR rights	37,066	32,698	–	–	69,764
	Deferred STVR shares	–	4,544	–	–	4,544
	Sign-on equity	67,781	–	(14,052)	–	53,729
David Cohen[4]	Ordinary	37,733	-	6,278	–	44,011
	LTVR rights	99,214	26,157	(4,463)	(13,894)	107,014
	Deferred STVR shares	3,630	4,472	(1,815)	–	6,287
Alan Docherty	Ordinary	5,142	–	2,374	312	7,828
	LTVR rights	25,329	22,344	–	–	47,673
	Deferred STVR shares	2,745	3,741	(915)	–	5,571
	Deferred STVR rights	2,259	–	(1,459)	–	800
Andrew Hinchliff	Ordinary	4,831	–	5,173	–	10,004
	LTVR rights	24,709	22,889	–	–	47,598
	Deferred STVR shares	6,019	4,368	(2,006)	–	8,381
	Deferred STVR rights	4,807	–	(3,167)	–	1,640
Sian Lewis[5]	Ordinary	3,596	–	2,514	–	6,110
	LTVR rights	20,386	18,529	–	–	38,915
	Deferred STVR shares	2,500	3,589	(833)	–	5,256
	Deferred STVR rights	2,534	–	(1,681)	–	853
Vittoria Shortt	Ordinary	15,026	–	4,190	–	19,216
	LTVR rights	54,013	21,048	(4,190)	(13,045)	57,826
	Deferred STVR shares	–	8,055	–	–	8,055
	Deferred STVR rights	7,064	–	(2,580)	–	4,484
Angus Sullivan	Ordinary	9,469	–	2,984	–	12,453
	LTVR rights	25,946	23,978	–	–	49,924
	Deferred STVR shares	2,402	4,810	(800)	–	6,412
	Deferred STVR rights	3,266	–	(2,184)	–	1,082
Mike Vacy-Lyle	Ordinary	n/a	–	–	–	–
	LTVR rights	n/a	23,978	–	–	23,978
	Sign-on equity	n/a	21,262	–	–	21,262
Nigel Williams	Ordinary	18,538	–	13,365	–	31,903
	LTVR rights	29,858	26,339	–	–	56,197
	Deferred STVR shares	–	3,555	–	–	3,555
	Sign-on equity	24,574	–	(13,365)	–	11,209

	Class[1]	Balance 1 Jul 2019	Acquired/ granted as remuneration	Awards vested during the 2020 financial year[2]	Net change other[3]	Balance 30 Jun 2020
Former Group Executive						
Adam Bennett	Ordinary	24,271	–	6,429	(7,000)	n/a
	LTVR rights	89,664	–	(4,860)	(15,128)	n/a
	Deferred STVR shares	3,139	2,514	(1,569)	–	n/a

1 Ordinary shares include all CBA shares held by the Executive's closely related parties. LTVR rights are subject to performance hurdles. Deferred rights/shares represent the deferred STVR awarded under Group Executive and Executive General Manager arrangements in prior years. Both LTVR rights and deferred rights/shares are unvested as at 30 June 2020. The maximum potential outcome for LTVR rights and deferred rights/shares is subject to CBA share price at time of vesting.

2 LTVR rights and deferred rights/shares become ordinary shares or cash equivalent upon vesting. Executives receive one ordinary share in respect of each right that vests during the financial year.

3 Net change other incorporates changes resulting from purchases, sales, forfeitures during the year and shares or rights held by an Executive prior to their appointment as KMP.

4 Opening balance has been restated from 55,881 to 37,733 to include a correction to CBA ordinary shares.

5 Opening balance has been restated from 2,936 to 3,596 to include a correction to CBA ordinary shares.

Executive employment arrangements

The table below provides the employment arrangements for Executives.

Contract term	CEO	Group Executives	CEO ASB
Contract type[1]	Permanent	Permanent	Permanent
Notice period	12 months	Six months	Six months
Severance	n/a	n/a[2]	12 months[2]

STVR treatment on termination

In general, unless otherwise determined by the Board (or ASB Board in respect of the CEO ASB):

- Executives who resign or are dismissed are not eligible to receive an STVR award and will forfeit any unvested deferred STVR awards.
- Where an Executive's exit is related to any other reason (e.g. retrenchment, retirement or death), the Executive remains eligible (unless the Board determines otherwise) to be considered for an STVR award with regard to actual performance against performance measures (as determined by the Board in the ordinary course following the end of the performance period).
- Where an Executive's exit is related to any other reason (e.g. retrenchment, retirement or death), unvested deferred STVR awards will remain on-foot subject to the original terms and conditions and will vest in the ordinary course, as though the Executive had not ceased employment.

LTVR treatment on termination

In general, unless otherwise determined by the Board:

- Executives who resign or are dismissed before the end of the performance period will forfeit all unvested LTVR awards.
- Where an Executive's exit is related to any other reason (e.g. retrenchment, retirement or death), any unvested LTVR awards continue on-foot with performance measured at the end of the performance period related to each award.

1 Permanent contracts continue until notice is given by either party.

2 Contractual severance pay is no longer offered in Group Executive employment arrangements. Group Executives remain entitled to statutory redundancy pay if retrenched. For Group Executives on grandfathered arrangements, they are eligible for severance payments of six months' base remuneration if their employment is terminated by the Group, other than for misconduct or unsatisfactory performance. For the CEO ASB, contractual severance allows for minimum 12 months' base salary (inclusive of notice) or a maximum of 64 weeks in accordance with ASB Policy.

4. Non-Executive Director arrangements

Non-Executive Director fees

Non-Executive Directors receive fees to recognise their contribution to the work of the Board and the associated Committees on which they serve. Non-Executive Directors do not receive any performance-related remuneration. The total amount of Non-Executive Directors' fees is capped at a maximum fee pool that is approved by shareholders. The current fee pool is $4.75 million, which was approved by shareholders at CBA's 2015 Annual General Meeting on 17 November 2015.

The following table outlines the Non-Executive Directors' fees for the Board and the Committees as at 30 June 2020. There has been no change to Board fees during the 2020 financial year. Fees are inclusive of base fees and statutory superannuation. The Chairman does not receive separate Committee fees.

Board/Committee	Chairman $	Member $
Board	870,000	242,000
Audit Committee	65,000	32,500
Risk & Compliance Committee	65,000	32,500
People & Remuneration Committee	60,000	30,000
Nominations Committee	11,600	11,600
United Kingdom Remuneration Assurance Committee (UK RAC) [1]	30,000	18,000

1 David Higgins served as Chair of the UK RAC during the 2020 financial year. Board members who also serve as members of the UK RAC receive fees in relation to that service, and these fees are set appropriately below fees for UK RAC independent members given a small portion of UK RAC matters overlap with People & Remuneration Committee matters.

Non-Executive Director statutory remuneration

The statutory table below details individual statutory remuneration for the Non-Executive Directors for both the 2019 and 2020 financial years.

	Short-term benefits	Post-employment benefits	Share-based payments	
	Cash[1] $	Superannuation[2] $	Non-Executive Directors' Share Plan[3] $	Total statutory remuneration $
Chairman				
Catherine Livingstone AO				
30 Jun 20	**870,108**	**21,003**	**–**	**891,111**
30 Jun 19	864,013	20,531	–	884,544
Current Non-Executive Directors				
Shirish Apte				
30 Jun 20	**314,694**	**21,003**	**–**	**335,697**
30 Jun 19	349,010	20,531	–	369,541
Genevieve Bell AO[4]				
30 Jun 20	**196,617**	**20,724**	**33,550**	**250,891**
30 Jun 19	95,031	9,905	14,320	119,256
Paul O'Malley[4]				
30 Jun 20	**292,542**	**21,003**	**–**	**313,545**
30 Jun 19	112,266	10,099	–	122,365
Mary Padbury				
30 Jun 20	**252,575**	**21,003**	**11,233**	**284,811**
30 Jun 19	236,674	20,531	25,618	282,823
Wendy Stops				
30 Jun 20	**284,797**	**21,003**	**–**	**305,800**
30 Jun 19	287,028	20,531	–	307,559
Anne Templeman-Jones				
30 Jun 20	**306,732**	**21,003**	**13,213**	**340,948**
30 Jun 19	271,568	20,531	30,136	322,235
Rob Whitfield AM				
30 Jun 20	**266,263**	**21,003**	**43,014**	**330,280**
30 Jun 19	231,314	20,531	33,471	285,316
Former Non-Executive Director				
David Higgins[5]				
30 Jun 20	**183,066**	**10,724**	**–**	**193,790**
30 Jun 19	313,052	20,531	–	333,584

1 Cash includes Board and Committee fees received as cash, as well as the provision of additional benefits (including associated fringe benefits tax).
2 Superannuation contributions are capped at the superannuation maximum contributions base as prescribed under the Superannuation Guarantee legislation.
3 The values shown in the tables represent the post-tax portion of fees received as shares under the NEDSP. Shares granted under the NEDSP are granted on current share price as at grant date and paid for out of pre-tax fee sacrifice (to a maximum of $5,000 p.a.) or after-tax fees, and were not provided as compensation.
4 Genevieve Bell AO and Paul O'Malley were appointed as Non-Executive Directors effective 1 January 2019 and their remuneration reflects time in the role.
5 David Higgins retired from his Non-Executive Director role effective 31 December 2019 and his remuneration reflects time in the role. He was appointed as the Chairman of the United Kingdom Remuneration Assurance Committee from 1 July 2019. His remuneration includes the fees paid for this role during the period he was KMP.

Non-Executive Director MSR

The MSR for Non-Executive Directors was reviewed during the 2019 financial year. From 1 July 2019, Non-Executive Directors are required to hold CBA shares equivalent to 100% of Board Chairman fees for the Chairman and 100% of Board member fees for Non-Executive Directors. This is to be accumulated over five years commencing the later of 1 July 2019 or date of appointment, valued with reference to the prevailing CBA share price at the date of appointment. For existing Non-Executive Directors, the number of shares required is calculated based on the prevailing CBA share price as at 1 July 2019 rather than the appointment date. This will also be the starting date for compliance with the revised MSR within five years. Progress against the MSR for each individual is shown on page 84.

Shares and other securities held by Non-Executive Directors

Details of the shareholdings and other securities as well as interests in registered schemes made available by CBA, or a related body corporate of CBA held by Non-Executive Directors (or close family members or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of the aforementioned hold significant voting power) are set out below relating to time in KMP role. All shares were acquired by Non-Executive Directors on normal terms and conditions or through the Non-Executive Directors' Share Plan (NEDSP). Other securities acquired by Non-Executive Directors were on normal terms and conditions.

	Class	Balance 1 Jul 2019	Acquired[1]	Net change other[2]	Balance 30 June 2020
Chairman					
Catherine Livingstone AO	Ordinary	7,337	3,598	–	10,935
Current Non-Executive Directors					
Shirish Apte	Ordinary	7,500	–	–	7,500
Genevieve Bell AO	Ordinary	141	500	–	641
	PERLS[5]	1,020	–	–	1,020
Paul O'Malley	Ordinary	5,330	–	–	5,330
Mary Padbury[3]	Ordinary	1,279	248	–	1,527
	PERLS[5]	1,600	–	–	1,600
Wendy Stops	Ordinary	16,000	–	–	16,000
Anne Templeman-Jones	Ordinary	1,038	512	–	1,550
Rob Whitfield AM	Ordinary	858	613	–	1,471
Former Non-Executive Director					
David Higgins[4]	Ordinary	10,878	–	–	n/a
	PERLS[5]	150	–	–	n/a

1 Incorporates shares and other securities acquired during the year. In the 2020 financial year, under the NEDSP, Genevieve Bell AO acquired 500 shares, Mary Padbury acquired 248 shares, Anne Templeman-Jones acquired 272 shares and Rob Whitfield AM acquired 613 shares.
2 Net change other incorporates changes resulting from sales of securities.
3 Mary Padbury also holds an interest in 158,162.747 units in the Commonwealth Specialist Fund 15, a registered scheme made available by a related body corporate of the Bank, as at 12 August 2020. Varying interests in this Fund have been held by Mary Padbury since 2015. CBA identified that it omitted to disclose these interests in its Annual Reports from 2016 in error.
4 David Higgins retired from the Group effective 31 December 2019 and therefore his shareholding balance as at 30 June 2020 is not included.
5 Includes cumulative holdings of PERLS securities issued by the Group.

5. Loans and other transactions

Loans to KMP

All loans to KMP (including close family members or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of those family members or entities held significant voting power) have been made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees, including the term of the loan, security required and the interest rate (which may be fixed or variable). No loans were written down during the period.

Total loans to KMP

	$
Opening balance (1 Jul 19)	12,402,631
Closing balance (30 Jun 20)[1]	7,942,387
Interest charged (during 2020 financial year)	308,403

1 The aggregate loan amount at the end of the reporting period includes loans issued to 11 KMP and their closely related parties.

Loans to KMP exceeding $100,000 in aggregate during the 2020 financial year

	Balance 1 Jul 2019[1] $	Interest charged $	Interest not charged $	Write-off $	Balance 30 Jun 2020 $	Highest balance in period[2] $
Adam Bennett	1,014,436	7,772	–	–	n/a	1,022,961
Alan Docherty	1,447,903	45,453	–	–	1,298,389	1,452,190
Sian Lewis	776,528	29,781	–	–	777,066	817,095
Vittoria Shortt	3,300,739	41,007	–	–	138,774	5,600,432
Angus Sullivan	5,654,483	178,606	–	–	5,601,320	5,814,816
Total	**12,194,090**	**302,618**	**–**	**–**	**7,815,549**	**14,707,493**

1 Opening balances at 1 July 2019 have been restated due to a change in reporting methodology.
2 Represents the sum of highest balances outstanding at any point during the 2020 financial year for each individual loan held by the KMP and their closely related parties.

Other transactions of KMP

Financial instrument transactions

Financial instrument transactions (other than loans and shares disclosed within this report) of KMP, their close family members and entities controlled or significantly influenced by them, occur in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees.

All such financial instrument transactions that have occurred between entities within the Group and KMP, their close family members and entities controlled or significantly influenced by them, were in the nature of normal personal banking and deposit transactions.

Transactions other than financial instrument transactions

All other transactions with KMP, their close family members, related entities and other related parties are conducted in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees and customers. These transactions principally involve the provision of financial and investment services by entities not controlled by the Group.

Non-audit services

Amounts paid or payable to PricewaterhouseCoopers (PwC) for audit, review, assurance and non-audit services provided during the year, are set out in Note 12.3 to the *Financial report* on page 264.

Auditor's Independence Declaration

We have obtained an independence declaration from our external auditor as presented on page 104.

Auditor independence

The operation of the Group External Auditor Services Policy assists in ensuring the independence of the Group's external auditor.

The Audit Committee has considered the provision, during the year, of non-audit services by PwC and has concluded that the provision of those services did not compromise the auditor independence requirements of the *Corporations Act 2001* (Cth).

The Audit Committee is satisfied that the provision of the non-audit services by PwC during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth).

The Directors are satisfied that the provision of the non-audit services by PwC during the year is compatible with the general standard of independence for auditors and did not compromise the auditor independence requirements of the *Corporations Act 2001* (Cth). The reasons for this are as follows:

- The effective operation of the Group External Auditor Services Policy during the year to restrict the nature of non-audit services engagements, to prohibit certain services and to require Audit Committee pre-approval for all such engagements; and
- The relative quantum of fees paid for non-audit services compared to the quantum for audit, and audit related services was appropriate.

The above Directors' statements are in accordance with the advice received from the Audit Committee.

Incorporation of additional material

The following sections of this report form part of the *Directors' report* and should be read in conjunction.

- Directors' shareholdings, share rights and options can be found on pages 98 and 101; and
- The *Remuneration report* can be found on pages 78–102.

This Directors' report is made in accordance with a resolution of the Directors.

C.B. Livingstone

Catherine Livingstone AO
Chairman

Matt Comyn
Managing Director and Chief Executive Officer

12 August 2020

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

Auditor's Independence Declaration

For the year ended 30 June 2020

pwc

As lead auditor for the audit of the Commonwealth Bank of Australia for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the Commonwealth Bank of Australia and the entities it controlled during the period.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
12 August 2020

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY, NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Financial report contents

Income Statements

For the year ended 30 June 2020

	Note	Group [1, 2, 3] 30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	Bank [2, 3] 30 Jun 20 $M	30 Jun 19 $M
Interest income:						
Effective interest income	2.1	**29,726**	34,089	33,643	**26,651**	30,953
Other interest income	2.1	**436**	620	629	**485**	660
Interest expense	2.1	**(11,552)**	(16,485)	(15,807)	**(10,660)**	(15,434)
Net interest income		**18,610**	18,224	18,465	**16,476**	16,179
Other banking income [4]	2.3	**5,002**	4,877	5,299	**9,154**	5,919
Net banking operating income		**23,612**	23,101	23,764	**25,630**	22,098
Net funds management operating income	2.3	**173**	254	314	**–**	–
Net insurance operating income	2.3	**141**	150	241	**–**	–
Total net operating income before operating expenses and impairment		**23,926**	23,505	24,319	**25,630**	22,098
Operating expenses	2.4	**(10,929)**	(10,928)	(10,687)	**(10,745)**	(10,633)
Loan impairment expense	3.2	**(2,518)**	(1,201)	(1,079)	**(2,155)**	(1,058)
Net profit before income tax		**10,479**	11,376	12,553	**12,730**	10,407
Income tax expense	2.5	**(3,020)**	(3,275)	(3,811)	**(2,562)**	(2,624)
Net profit after income tax from continuing operations		**7,459**	8,101	8,742	**10,168**	7,783
Non-controlling interests in net profit after income tax from continuing operations		**–**	(12)	(13)	**–**	–
Net profit attributable to equity holders of the Bank from continuing operations		**7,459**	8,089	8,729	**10,168**	7,783
Net profit after income tax from discontinued operations	11.3	**2,178**	489	606	**–**	–
Non-controlling interests in net profit after income tax from discontinued operations	11.3	**(3)**	(7)	(6)	**–**	–
Net profit attributable to equity holders of the Bank		**9,634**	8,571	9,329	**10,168**	7,783

The above Income Statements should be read in conjunction with the accompanying notes.

Earnings per share for profit attributable to equity holders of the Bank during the year:

	Group [1, 2] 30 Jun 20	30 Jun 19	30 Jun 18
	Cents per share		
Earnings per share from continuing operations:			
Basic	**421. 8**	458. 3	500. 0
Diluted	**408. 5**	443. 2	485. 5
Earnings per share:			
Basic	**544. 8**	485. 6	534. 3
Diluted	**523. 2**	468. 6	517. 7

1 Information has been restated and presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 11.3.
2 Comparative information has been restated to conform to presentation in the current year and to reflect the changes in accounting policies detailed in Note 1.1.
3 Current year amounts reflect the adoption of AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1.1.
4 Other banking income is presented net of directly associated depreciation and impairment charges.

Statements of Comprehensive Income

For the year ended 30 June 2020

	Group [1, 2, 3] 30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	Bank [2, 3] 30 Jun 20 $M	30 Jun 19 $M
Net profit after income tax for the period from continuing operations	**7,459**	8,101	8,742	**10,168**	7,783
Other comprehensive income/(expense):					
Items that may be reclassified subsequently to profit/(loss):					
Foreign currency translation reserve net of tax	**(186)**	488	(12)	**(51)**	214
Gains/(losses) on cash flow hedging instruments net of tax	**726**	947	(53)	**694**	1,003
(Losses)/gains on debt investment securities at fair value through Other Comprehensive Income net of tax	**(199)**	103	–	**(200)**	(5)
Losses on available-for-sale investments net of tax	**–**	–	(68)	**–**	–
Total of items that may be reclassified	**341**	1,538	(133)	**443**	1,212
Items that will not be reclassified to profit/(loss):					
Actuarial gains/(losses) from defined benefit superannuation plans net of tax	**116**	(49)	161	**115**	(50)
Losses on liabilities at fair value due to changes in own credit risk net of tax	**–**	–	(2)	**–**	–
Gains/(losses) on equity investment securities at fair value through Other Comprehensive Income net of tax	**34**	(6)	–	**40**	(1)
Revaluation of properties net of tax	**19**	34	31	**15**	33
Total of items that will not be reclassified	**169**	(21)	190	**170**	(18)
Other comprehensive income net of income tax from continuing operations	**510**	1,517	57	**613**	1,194
Total comprehensive income for the period from continuing operations	**7,969**	9,618	8,799	**10,781**	8,977
Net profit after income tax for the period from discontinued operations	**2,178**	489	606	**–**	–
Other comprehensive income/(expense) for the period from discontinued operations net of income tax [4]	**(56)**	(17)	(6)	**–**	–
Total comprehensive income for the period	**10,091**	10,090	9,399	**10,781**	8,977
Total comprehensive income for the period is attributable to:					
Equity holders of the Bank	**10,088**	10,071	9,380	**10,781**	8,977
Non-controlling interests	**3**	19	19	**–**	–
Total comprehensive income net of tax	**10,091**	10,090	9,399	**10,781**	8,977

1 Information has been restated and presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 11.3.
2 Comparative information has been restated to conform to presentation in the current year and to reflect the changes in accounting policies detailed in Note 1.1.
3 Current year amounts reflect the adoption of AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1.1.
4 Includes $48 million loss on foreign currency translation net of tax (30 June 2019: $24 million loss; 30 June 2018: $3 million gain) and $8 million loss on revaluation of debt investment securities measured at fair value through other comprehensive income net of tax (30 June 2019: $7 million gain). The year ended 30 June 2018 includes $9 million loss on revaluation of available-for-sale investments net of tax.

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

	Note	Group 30 Jun 20	30 Jun 19	30 Jun 18
		Cents per share		
Dividends per share attributable to shareholders of the Bank:				
Ordinary shares	8.4	**298**	431	431

Balance Sheets

As at 30 June 2020

		Group [1, 2, 3]		Bank [1, 3]	
	Note	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Assets					
Cash and liquid assets	5.1	**44,165**	29,387	**40,300**	26,912
Receivables from financial institutions	5.2	**8,547**	8,093	**8,309**	7,334
Assets at fair value through Income Statement	5.3	**46,545**	33,677	**46,284**	33,128
Derivative assets	5.4	**30,285**	25,215	**29,322**	24,311
Investment securities:					
At amortised cost	5.5	**5,173**	7,355	**5,167**	7,349
At fair value through Other Comprehensive Income	5.5	**79,549**	78,912	**72,335**	73,212
Loans, bills discounted and other receivables	3.1	**771,547**	755,173	**677,268**	660,508
Shares in and loans to controlled entities	11.2	**–**	–	**66,792**	63,943
Property, plant and equipment	6.1	**5,602**	2,383	**4,051**	1,389
Investments in associates and joint ventures	11.1	**3,034**	3,001	**1,082**	1,017
Intangible assets	6.2	**6,944**	7,965	**3,951**	4,317
Deferred tax assets	2.5	**2,060**	1,675	**1,968**	1,570
Other assets	6.3	**8,839**	7,115	**6,917**	5,860
Assets held for sale	11.3	**1,770**	16,551	**1**	1
Total assets		**1,014,060**	976,502	**963,747**	910,851
Liabilities					
Deposits and other public borrowings	4.1	**701,999**	636,040	**631,301**	573,851
Payables to financial institutions	5.2	**16,429**	23,370	**15,350**	22,618
Liabilities at fair value through Income Statement	4.2	**4,397**	8,520	**3,888**	7,961
Derivative liabilities	5.4	**31,347**	22,777	**36,248**	26,654
Due to controlled entities		**–**	–	**53,072**	49,610
Current tax liabilities		**795**	326	**716**	129
Deferred tax liabilities	2.5	**30**	–	**30**	–
Provisions	7.1	**3,408**	2,968	**2,914**	2,554
Debt issues	4.3	**142,503**	164,022	**113,323**	131,094
Bills payable and other liabilities	7.2	**13,188**	10,068	**11,866**	8,687
Liabilities held for sale	11.3	**594**	15,796	**–**	–
		914,690	883,887	**868,708**	823,158
Loan capital	8.2	**27,357**	22,966	**26,964**	22,569
Total liabilities		**942,047**	906,853	**895,672**	845,727
Net assets		**72,013**	69,649	**68,075**	65,124
Shareholders' Equity					
Ordinary share capital	8.3	**38,131**	38,020	**38,180**	38,212
Reserves	8.3	**2,666**	3,092	**2,444**	3,813
Retained profits	8.3	**31,211**	28,482	**27,451**	23,099
Shareholders' Equity attributable to equity holders of the Bank		**72,008**	69,594	**68,075**	65,124
Non-controlling interests		**5**	55	**–**	–
Total Shareholders' Equity		**72,013**	69,649	**68,075**	65,124

1 Comparative information has been restated to conform to presentation in the current year and to reflect the changes in accounting policies detailed in Note 1.1.
2 Current year balances have been impacted by the announced disposals of AUSIEX and Colonial First State, completed disposals of CFSGAM, Count Financial, PT Commonwealth Life, and deconsolidation of CommInsure Life. For details on the Group's discontinued operations, refer to Note 11.3.
3 Current year balances reflect the adoption of AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1.1.

The above Balance Sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

For the year ended 30 June 2020

	Group					
	Ordinary share capital $M	Reserves $M	Retained profits $M	Total $M	Non-controlling interests $M	Total Shareholders' Equity $M
As at 30 June 2018	37,270	1,676	28,360	**67,306**	554	**67,860**
Change on adoption of AASB 9 and AASB 15	–	–	(955)	**(955)**	–	**(955)**
Restated opening balance	37,270	1,676	27,405	**66,351**	554	**66,905**
Net profit after income tax from continuing operations [1]	–	–	8,089	**8,089**	12	**8,101**
Net profit after income tax from discontinued operations [1]	–	–	482	**482**	7	**489**
Net Other Comprehensive Income from continuing operations [1]	–	1,566	(49)	**1,517**	–	**1,517**
Net Other Comprehensive Income from discontinued operations [1]	–	(17)	–	**(17)**	–	**(17)**
Total comprehensive income for the period	–	1,549	8,522	**10,071**	19	**10,090**
Transactions with equity holders in their capacity as equity holders: [2]						
Dividends paid on ordinary shares	–	–	(7,606)	**(7,606)**	–	**(7,606)**
Dividend reinvestment plan (net of issue costs)	748	–	–	**748**	–	**748**
Share-based payments	–	16	–	**16**	–	**16**
Purchase of treasury shares	(93)	–	–	**(93)**	–	**(93)**
Sale and vesting of treasury shares	95	–	–	**95**	–	**95**
Other changes	–	(149)	161	**12**	(518)	**(506)**
As at 30 June 2019	38,020	3,092	28,482	**69,594**	55	**69,649**
Change on adoption of AASB 16 [3]	–	–	(146)	**(146)**	–	**(146)**
Restated opening balance	38,020	3,092	28,336	**69,448**	55	**69,503**
Net profit after income tax from continuing operations	–	–	7,459	**7,459**	–	**7,459**
Net profit after income tax from discontinued operations	–	–	2,175	**2,175**	3	**2,178**
Net Other Comprehensive Income from continuing operations	–	394	116	**510**	–	**510**
Net Other Comprehensive Income from discontinued operations	–	(56)	–	**(56)**	–	**(56)**
Total comprehensive income for the period	–	338	9,750	**10,088**	3	**10,091**
Transactions with equity holders in their capacity as equity holders: [2]						
Dividends paid on ordinary shares	–	–	(7,629)	**(7,629)**	–	**(7,629)**
Dividend reinvestment plan (net of issue costs)	(1)	–	–	**(1)**	–	**(1)**
Share-based payments	–	(23)	–	**(23)**	–	**(23)**
Purchase of treasury shares	(65)	–	–	**(65)**	–	**(65)**
Sale and vesting of treasury shares	98	–	–	**98**	–	**98**
Decrease in treasury shares on deconsolidation of CommInsure Life	79	–	–	**79**	–	**79**
Other changes [4]	–	(741)	754	**13**	(53)	**(40)**
As at 30 June 2020	38,131	2,666	31,211	**72,008**	5	**72,013**

1 Information has been restated to reflect reclassification of Colonial First State as a discontinued operation during the current year.
2 Current year and prior year include discontinued operations.
3 The Group adopted AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16, the Group recognised the cumulative effect of initially applying the new requirements as an adjustment to opening Retained profits at 1 July 2019. Comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1.1.
4 Includes $733 million transfer from General reserve to Retained profits.

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Statements of Changes in Equity (continued)

For the year ended 30 June 2020

	Bank			
	Ordinary share capital $M	Reserves $M	Retained profits $M	Total Shareholders' Equity $M
As at 30 June 2018	37,533	2,568	23,819	**63,920**
Change on adoption of AASB 9 and AASB 15	–	–	(868)	**(868)**
Restated opening balance	37,533	2,568	22,951	**63,052**
Net profit after income tax from continuing operations	–	–	7,783	**7,783**
Net Other Comprehensive Income from continuing operations	–	1,244	(50)	**1,194**
Total comprehensive income for the period	–	1,244	7,733	**8,977**
Transactions with equity holders in their capacity as equity holders:				
Dividends paid on ordinary shares	–	–	(7,606)	**(7,606)**
Dividend reinvestment plan (net of issue costs)	748	–	–	**748**
Share-based payments	–	22	–	**22**
Purchase of treasury shares	(69)	–	–	**(69)**
Other changes	–	(21)	21	**–**
As at 30 June 2019	38,212	3,813	23,099	**65,124**
Change on adoption of AASB 16 [1]	–	–	(146)	**(146)**
Restated opening balance	38,212	3,813	22,953	**64,978**
Net profit after income tax from continuing operations	–	–	10,168	**10,168**
Net Other Comprehensive Income from continuing operations	–	498	115	**613**
Total comprehensive income for the period	–	498	10,283	**10,781**
Transactions with equity holders in their capacity as equity holders:				
Dividends paid on ordinary shares	–	–	(7,629)	**(7,629)**
Dividend reinvestment plan (net of issue costs)	(1)	–	–	**(1)**
Share-based payments	–	(23)	–	**(23)**
Purchase of treasury shares	(65)	–	–	**(65)**
Sale and vesting of treasury shares	34	–	–	**34**
Other changes [2]	–	(1,844)	1,844	**–**
As at 30 June 2020	38,180	2,444	27,451	**68,075**

1 The Bank adopted AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16, the Bank recognised the cumulative effect of initially applying the new requirements as an adjustment to opening Retained profits at 1 July 2019. Comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1.1.

2 Includes $586 million transfer from General reserve and $1,254 million transfer from Capital reserve to Retained profits.

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

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Statements of Cash Flows

For the year ended 30 June 2020

		Group [1,2]			Bank [1]	
	Note	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Cash flows from operating activities						
Interest received		**30,920**	34,757	35,801	**27,817**	32,366
Interest paid [3]		**(11,932)**	(15,695)	(15,356)	**(10,947)**	(16,743)
Other operating income received		**5,237**	5,808	6,181	**3,618**	3,971
Expenses paid [3]		**(9,749)**	(10,784)	(10,340)	**(9,228)**	(9,693)
Income taxes paid		**(3,171)**	(4,878)	(4,791)	**(2,728)**	(4,453)
Net (outflows)/inflows from assets at fair value through Income Statement (excluding insurance)		**(4,009)**	2,482	5,270	**(2,668)**	6,915
Net inflows/(outflows) from liabilities at fair value through Income Statement:						
Insurance:						
Investment income		**198**	340	225	**–**	–
Premiums received [4]		**1,135**	2,414	3,241	**–**	–
Policy payments and commission expense [4]		**(2,087)**	(3,061)	(3,453)	**–**	–
Other liabilities at fair value through Income Statement		**(4,312)**	126	(208)	**(3,963)**	(410)
Cash flows from operating activities before changes in operating assets and liabilities		**2,230**	11,509	16,570	**1,901**	11,953
Changes in operating assets and liabilities arising from cash flow movements						
Movement in investment securities:						
Purchases		**(42,088)**	(41,925)	–	**(38,397)**	(39,020)
Proceeds		**44,358**	43,239	–	**43,099**	39,556
Movement in available-for-sale investments:						
Purchases		**–**	–	(51,783)	**–**	–
Proceeds		**–**	–	52,832	**–**	–
Net increase in loans, bills discounted and other receivables		**(20,386)**	(9,465)	(16,105)	**(17,745)**	(4,585)
Net (increase)/decrease in receivables from financial institutions		**(584)**	1,345	884	**(1,069)**	1,210
Net (increase)/decrease in securities purchased under agreements to resell		**(4,126)**	930	9,258	**(4,753)**	933
Insurance business:						
Purchase of insurance assets at fair value through Income Statement		**(903)**	(1,383)	(1,594)	**–**	–
Proceeds from sales and maturities of insurance assets at fair value through Income Statement		**1,415**	2,512	2,671	**–**	–
Net (increase)/decrease in other assets		**(1,560)**	525	(11)	**(449)**	524
Net increase/(decrease) in deposits and other public borrowings		**69,214**	4,891	(876)	**59,334**	1,949
Net (decrease)/increase in payables to financial institutions		**(6,970)**	2,154	(8,279)	**(7,257)**	2,319
Net (decrease)/increase in securities sold under agreements to repurchase		**(2,222)**	4,402	(1,574)	**(2,131)**	4,408
Net increase/(decrease) in other liabilities		**482**	(648)	(884)	**547**	(137)
Changes in operating assets and liabilities arising from cash flow movements		**36,630**	6,577	(15,461)	**31,179**	7,157
Net cash provided by operating activities	12.2 (a)	**38,860**	18,086	1,109	**33,080**	19,110

1 It should be noted that the Group does not use these accounting Statements of Cash Flows in the internal management of its liquidity positions.

2 Includes discontinued operations. For the cash flows from discontinued operations refer to Note 11.3.

3 Includes cash outflows due to lease payments, under AASB 16 *Leases*, which was implemented on 1 July 2019. As permitted by AASB 16 comparative information has not been restated.

4 Represents gross premiums and policy payments before splitting between policyholders and shareholders.

Statements of Cash Flows (continued)

For the year ended 30 June 2020

	Note	Group [1,2] 30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	Bank [1] 30 Jun 20 $M	30 Jun 19 $M
Cash flows from investing activities						
Cash inflows from acquisitions		**–**	–	26	**–**	–
Net proceeds from disposal of entities and businesses (net of cash disposed of)		**5,011**	1,259	–	**–**	–
Dividends received		**95**	141	68	**4,809**	1,473
Net amounts paid to controlled entities [3]		**–**	–	–	**(789)**	(1,906)
Proceeds from sales of property, plant and equipment		**200**	151	155	**26**	89
Purchases of property, plant and equipment		**(910)**	(326)	(477)	**(238)**	(271)
Net cash flows from (acquisitions)/sales of associates and joint ventures		**(18)**	72	(271)	**–**	29
Net purchase of intangible assets		**(682)**	(314)	(503)	**(529)**	(597)
Net cash provided by/(used in) investing activities		**3,696**	983	(1,002)	**3,279**	(1,183)
Cash flows from financing activities						
Dividends paid (excluding Dividend Reinvestment Plan)		**(7,629)**	(6,853)	(5,366)	**(7,629)**	(6,853)
Redemption of other equity instruments		**–**	(505)	–	**–**	–
Proceeds from issuance of debt securities		**37,630**	56,448	68,273	**32,889**	46,685
Redemption of debt securities		**(64,661)**	(73,747)	(67,809)	**(55,706)**	(63,343)
Purchases of treasury shares		**(65)**	(93)	(95)	**(65)**	(69)
Sales of treasury shares		**93**	22	55	**–**	–
Proceeds from issuance of loan capital		**5,849**	1,579	4,445	**5,845**	1,571
Redemption of loan capital		**(2,871)**	(2,637)	(464)	**(2,876)**	(2,263)
Payments for the principal portion of lease liabilities		**(463)**	–	–	**(428)**	–
Other		**(115)**	47	27	**33**	(70)
Net cash used in financing activities		**(32,232)**	(25,739)	(934)	**(27,937)**	(24,342)
Net increase/(decrease) in cash and cash equivalents		**10,324**	(6,670)	(827)	**8,422**	(6,415)
Effect of foreign exchange rates on cash and cash equivalents		**17**	675	715	**54**	598
Cash and cash equivalents at beginning of year		**17,010**	23,005	23,117	**15,534**	21,351
Cash and cash equivalents at end of year	12.2 (b)	**27,351**	17,010	23,005	**24,010**	15,534

1 It should be noted that the Group does not use these accounting Statements of Cash Flows in the internal management of its liquidity positions.
2 Includes discontinued operations. For the cash flows from discontinued operations refer to Note 11.3.
3 Amounts paid to controlled entities are presented in line with how they are managed and settled.

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2020

1. Overview

1.1 General information, basis of accounting, changes in accounting policies

General information

The Financial Report of the Commonwealth Bank of Australia (the Bank) and the Bank and its subsidiaries (the Group) for the year ended 30 June 2020, was approved and authorised for issue by the Board of Directors on 12 August 2020. The Directors have the power to amend and reissue the financial statements.

The Bank is a for-profit entity incorporated and domiciled in Australia. It is a company limited by shares that are publicly traded on the Australian Securities Exchange. The registered office is Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW 2000, Australia.

The Financial Report includes the consolidated and standalone financial statements of the Group and the Bank, respectively. Notes accompanying the financial statements and the Independent Auditor's Report form part of the Financial Report.

On 21 September 2017, the Group entered into an agreement to sell 100% of its life insurance businesses in Australia (CommInsure Life) and New Zealand (Sovereign) to AIA Group Limited (AIA). The sale of Sovereign completed on 2 July 2018 and includes a long-term partnership with AIA for the provision of life insurance products to customers in New Zealand.

On 23 May 2018, the Group announced the sale of its 37.5% equity interest in BoCommLife Insurance Company Limited (BoCommLife) to MS&AD Insurance Group Holdings (MS&AD)[1], which is subject to Chinese regulatory approvals. The sale is expected to complete in the second half of calendar year 2020.

On 1 November 2018, the Group completed the sale of Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital SA) to the minority shareholder, African Rainbow Capital.

On 2 August 2019, the Group completed the sale of CFSGAM to Mitsubishi UFJ Trust and Banking Corporation (MUTB).

On 1 October 2019, the Group completed the sale of its 100% interest in Count Financial Limited (Count Financial) to CountPlus Limited (CountPlus).

On 1 November 2019, the Group announced the implementation of a joint cooperation agreement (JCA) which resulted in the full economic interests associated with CommInsure Life being transferred to AIA, and AIA obtaining direct management and control of the business (excluding the Group's 37.5% equity interest in BoCommLife). As a result, CommInsure Life (excluding BoCommLife) was deconsolidated and derecognised on 1 November 2019. The aggregate proceeds are being received in instalments.

The Group and AIA remain fully committed to completing the divestment of CommInsure Life through either a share sale or a statutory asset transfer. In the event of a share sale, the divestment is expected to complete shortly following the completion of the sale of the Group's 37.5% equity interest in BoCommLife. In the event of a statutory asset transfer, the divestment is expected to complete in the first half of calendar year 2021.

On 28 April 2020, the Group announced the sale of its subsidiary, Australian Investment Exchange Limited (AUSIEX), to Nomura Research Institute (NRI). The sale is subject to regulatory and other conditions, and is expected to complete in the first half of calendar year 2021.

On 13 May 2020, the Group entered into an agreement to sell a 55% interest in Colonial First State (CFS) to KKR. The sale is subject to regulatory approvals, and is expected to complete in the first half of calendar year 2021.

On 4 June 2020, the Group completed the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL), to FWD Group (FWD). As part of the sale, CBA's Indonesian banking subsidiary, PT Bank Commonwealth (PTBC), has entered into a 15 year life insurance distribution partnership with FWD.

The Group ceased providing licensee services through Commonwealth Financial Planning Limited-Pathways (CFP-Pathways) in March 2020 and through Financial Wisdom Limited (Financial Wisdom) in June 2020.

CFS, CommInsure Life, BoCommLife, CFSGAM and PTCL have been classified as discontinued operations in the Group's financial statements for the year ended 30 June 2020. The assets and liabilities of CFS, AUSIEX and the Group's interest in BoCommLife are classified as held for sale as at 30 June 2020.

There have been no other significant changes in the nature of the principal activities of the Group during the year.

Basis of accounting

The Financial Report:

- is a general purpose financial report;
- has been prepared in accordance with the Australian Accounting interpretations adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- has been prepared in accordance with the requirements of the *Corporations Act 2001* (Cth);
- is presented in Australian dollars, which is the Bank's functional and presentation currency, with all values rounded to the nearest million dollars ($M) in accordance with ASIC Corporations Instrument 2016/191 unless otherwise indicated;
- includes foreign currency transactions that are translated into the functional currency, using the exchange rates prevailing at the date of each transaction;

1 MS&AD Insurance Group Holdings is the ultimate parent company of Mitsui Sumitomo Insurance Co. Ltd.

Notes to the financial statements
For the year ended 30 June 2020

1.1 General information, basis of accounting, changes in accounting policies (continued)

Basis of accounting (continued)

- has been prepared on a going concern basis using a historical cost basis, except for certain assets and liabilities (including derivative instruments) measured at fair value;
- presents assets and liabilities on the face of the Balance Sheets in decreasing order of liquidity;
- where required, presents restated comparative information for consistency with the current year's presentation in the Financial Report;
- contains accounting policies that have been consistently applied to all periods presented, unless otherwise stated.

Impact of coronavirus (COVID-19)

Background

The COVID-19 pandemic and the measures undertaken to contain it have dramatically changed the global economic outlook, causing large-scale economic disruption and pronounced volatility in financial markets. The market disruption is expected to lead to rising levels of unemployment, elevated levels of credit losses from business insolvencies and higher consumer defaults. In an attempt to mitigate the economic effect of the COVID-19 pandemic, governments, prudential regulators and central banks have offered significant fiscal, regulatory and monetary support to allow businesses to remain liquid and solvent, and to support retail customers. The extent to which these efforts will reduce the adverse financial effects of the COVID-19 pandemic remains uncertain.

Consideration of the financial statements and further disclosures

The Group has carefully considered the impact of COVID-19 in preparing its financial statements for the year ended 30 June 2020. The key impacts on the financial statements, including the application of critical estimates and judgements, are as follows:

Loans, bills discounted and other receivables

The Group has introduced a number of support measures for customers impacted by COVID-19, which include loan repayment deferrals to retail and small business customers, and the origination of loans under the Government's Small and Medium Enterprises (SME) guarantee scheme. The repayment deferral arrangements were deemed continuations of customers' existing loans and were therefore accounted for as non-substantial loan modifications. A total modification loss of $6 million was recognised in relation to repayment deferrals on home loans, where interest over the deferral period was charged on a simple interest, rather than compounding basis. No other modification gains or losses were recognised as a result of the repayment deferrals. Refer to Note 3.1 and 3.2.

Provisions for impairment

In March 2020, the IASB published *IFRS 9 and COVID-19,* a document which highlights the requirements within IFRS 9 *Financial Instruments* relevant to the impact of COVID-19 on the recognition of expected credit losses. The publication reinforces the fact that IFRS 9 does not provide a mechanistic approach in accounting for impairment provisions.

In assessing forecast conditions, the Group has incorporated the effects of COVID-19 and government support measures on a reasonable and supportable basis. The AASB 9 impairment methodology, and the definition of default have remained consistent with prior periods. Forward looking adjustments have been determined based on a range of plausible economic and industry stress factors, taking into account the mitigating impacts of government and industry assistance packages, including loan repayment deferral arrangements. Stress testing has formed the basis for ongoing re-assessments of provisioning levels as the situation evolves. The circumstances are unique in that many of the deferred loans were performing prior to COVID-19, and either continue to perform, or have genuine prospects of recovery once government restrictions are eased and lockdowns are discontinued. COVID-19 repayment deferrals were not borrower specific, but rather addressed to broad ranges of customers, and have therefore not been classified automatically as Stage 2 loans. Refer to Note 3.2 and 9.2.

Fair value measurement

The Group has considered the impact of economic and market disruptions on fair value measurement assumptions and the appropriateness of the valuation inputs. These included valuation adjustments, notably credit valuation adjustments (CVA), and funding valuation adjustments (FVA). The Group has also considered the impact of COVID-19 on the classification of exposures in the fair value hierarchy. There was a reduction in the availability of quoted prices for certain Investment securities at fair value through other comprehensive income and trading securities during the current reporting period. This resulted in a transfer of $16,777 million of Investment securities at fair value through other comprehensive income and $4,979 million of trading securities from Level 1 to Level 2 since their fair values ceased to be determined by using unadjusted quoted prices. There were no other material transfers of financial instruments between levels within the fair value hierarchy as a consequence of COVID-19. Refer to Note 9.5.

Assessment of impairment of non-financial assets

The Group tested goodwill and indefinite life intangible assets for impairment, updating the assumptions, and cash flow forecasts, where relevant, to reflect the potential impact of COVID-19. No impairment losses were recognised on these assets.

The Group assessed Property, plant and equipment, right-of-use assets, and assets held as lessor for indicators of impairment. Severe disruption to the aviation sector caused by international travel bans was deemed an indicator of impairment, and therefore required aircraft held by the Group as lessor to be tested for impairment. A total impairment loss of $81 million was recognised in Other banking income relating to aircraft leased to financially distressed airlines, where the assets were considered likely to be repossessed, or where the leases were close to expiry. Lower demand for used aircraft and a decline in asset prices resulted in a reduction in these assets' expected recoverable values below their carrying values. There remains significant uncertainty regarding the severity of the impact of COVID-19 on the aviation sector, and the duration of restrictions on domestic and international travel. Refer to Notes 6.1. and 6.2.

Notes to the financial statements
For the year ended 30 June 2020

1.1 General information, basis of accounting, changes in accounting policies (continued)

Leases

The Group assumes lease residual value risk on assets such as industrial, mining, rail, aircraft, marine, technology, healthcare and other equipment. A lease residual value guarantee exposes the Group to the movement in second-hand prices of these assets. Severe disruption to the global shipping market resulted in a $17 million reduction in the estimated residual values in relation to the lease of shipping vessels. This was recognised as an immediate loss in Net interest income.

In June 2020, AASB 16 *Leases* was amended to provide lessees with an exemption from the requirement to determine whether a COVID-19 related rent concession is a lease modification. While the Group did not receive rent concessions, it elected to early adopt the amendments in the 2020 financial year.

Hedge accounting

The Group has considered the impact of COVID-19 on its existing hedges, and whether they continue to meet the criteria for hedge accounting. In most cases, the hedged future cash flows remained highly probable. The Group reassessed the forecast sales of particular aircraft and expected future lease payments, which due to disruption in the aviation sector, were no longer considered to be highly probable within the designated time period. The hedging relationships were therefore discontinued and a loss of $11 million was reclassified from the Cash flow hedge reserve to Other banking income. The repayment deferrals granted to retail and SME customers did not impact the Group's cash flow hedges. Refer to Note 5.4.

Receivables from and payables to financial institutions

On 19 March 2020, the Reserve Bank of Australia (RBA) announced a Term Funding Facility (TFF) for ADIs, to support lending to Australian businesses. The TFF is a three year facility with a fixed interest rate of 0.25% per annum. The funding is collateralised by residential mortgage-backed securities issued by the Group. The TFF is initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. As at 30 June 2020, the carrying value of the TFF was $1,500 million. Refer to Note 5.2.

Events subsequent to reporting date

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. In accordance with AASB 110 *Events after the Reporting Date*, the Group considered whether events after the reporting period confirmed conditions existing before the reporting date. Consideration was given to the macro-economic impact of lockdowns implemented across Victoria, the closure of state borders, and the extension of further government support measures. The Group did not identify any subsequent events precipitated by COVID-19 related developments, which would require adjustment to the amounts or disclosures in the financial statements. Further, no other material non-adjusting subsequent events relating to COVID-19 were identified requiring disclosure in the financial statements. Given the fluid nature of the current situation, the Group will continue to regularly review forward looking assumptions and forecast economic scenarios.

Changes in comparatives

Discontinued operations

The financial results of businesses reclassified as discontinued operations are excluded from the results of the continuing operations and are presented as a single line item Net profit/(loss) after tax from discontinued operations in the Income Statement, and Other comprehensive income/(expense) from discontinued operations in the Statement of Comprehensive Income.

The Income Statements and the Statements of Comprehensive Income for comparative periods are also restated. Assets and liabilities of discontinued operations subject to disposal have been presented on the Balance Sheet separately as assets and liabilities held for sale. The Balance Sheet is not restated when a business is reclassified as a discontinued operation.

Re-segmentation

During the year ended 30 June 2020, the Group made the following structural changes to its operating segments:

- enhancing the classification of its business banking portfolios which resulted in a transfer of some customers from Retail Banking Services to Business and Private Banking and Institutional Banking and Markets;
- Aligned Advice related businesses (including Financial Wisdom Limited, Count Financial Limited and Commonwealth Financial Planning Limited-Pathways) were transferred out of the Wealth Management division and consolidated into the Retail Banking Services division; and
- other re-segmentations, allocations and reclassifications, including refinements to the allocation of support unit and other costs.

These changes have not impacted the Group's net profit, but have resulted in changes to the presentation of the Income Statement and the Balance Sheet of the affected segments. These changes have been applied retrospectively.

Changes in accounting policies

Adoption of AASB16 *Leases*

On 1 July 2019, the Group adopted AASB 16 *Leases*, replacing AASB 117 *Leases*. AASB 117 required leases to be classified as operating leases or finance leases according to their economic substance at inception of the lease. Finance leases were recognised on the Balance Sheet. Operating leases were not recognised on the Balance Sheet and rent payable was recognised as an expense over the lease term.

AASB 16 introduced a single accounting model for recognising and measuring lease arrangements. Lessor accounting remains largely unchanged from the previous standard. Under lessee accounting, AASB 16 requires all leases to be recognised on the Balance Sheet, as a lease liability and right-of-use asset, unless the underlying asset is of low value or the lease has a term of 12 months or less. The total lease expense recognised over the life of the lease remains unchanged as compared to AASB 117, however the timing of expense recognition changes. A higher expense is recognised in the earlier stages of a lease due to the interest expense being determined on the lease liability that amortises over the lease term.

Notes to the financial statements
For the year ended 30 June 2020

1.1 General information, basis of accounting, changes in accounting policies (continued)

Lease liability

Lease liabilities are initially measured at the net present value of the following lease payments (if applicable):

- fixed payments, less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease liabilities are remeasured when there is a change in future lease payments arising from a change in the above. Lease liabilities are measured at amortised cost using the effective interest method. Interest is recognised as part of Interest expense in the Income Statement.

Right-of-use asset

Right-of-use assets are initially measured at cost comprising the following:

- the initial amount of the lease liability measured at the present value of the future lease payments;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- an estimate of the costs to be incurred upon disassembling or restoring the underlying asset to the condition required by the terms of the lease.

The right-of-use asset is depreciated over the lease term on a straight-line basis.

Determining the lease term

Extension options are included in a number of leases. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Group.

Excluded leases

A scope exemption has been applied to short-term leases with a lease term of 12 months or less, and low value leases. These continue to be expensed on a straight-line basis.

Impact of AASB 16

The Group has adopted AASB 16 on a modified retrospective basis without restating prior periods. Under the modified retrospective approach, the Group elected to measure the right-of-use asset at the same amount as the lease liability, except for larger property leases where the Group elected to measure the right-of-use asset on a retrospective basis. This resulted in a decrease in the Group's Retained profits on transition of $146 million, net of tax. (Bank: $146 million, net of tax).

The Group applied the following practical expedients on transition to AASB 16, as permitted by the standard, where the Group is a lessee in a lease previously classified as an operating lease:

- reliance on assessments performed under AASB 117 of whether a lease contract is onerous;
- adjusting lease terms for extension or termination options which are reasonably certain of being exercised with the benefit of hindsight;
- excluding from the right-of-use asset any initial direct costs incurred prior to 1 July 2019; and
- accounting for leases whose remaining term will end within 12 months from the transition date of 1 July 2019 as short-term leases.

The impact of adopting AASB 16 on the Group's and the Bank's Balance Sheets at 1 July 2019 is as follows:

	Group $M	Bank $M
Opening retained profits at 1 July 2019	**28,482**	**23,099**
Right-of-use assets	2,659	2,385
Net deferred tax asset	60	60
Lease liabilities	(2,730)	(2,470)
Provision for lease restoration obligations	(135)	(121)
Net impact on retained profits	**(146)**	**(146)**
Adjusted retained profits at 1 July 2019	**28,336**	**22,953**

Upon transition, judgement has been applied by the Group in assessing which arrangements contain a lease, the period over which the lease exists and the variability of future cash flows.

Lease liabilities are presented within Bills payable and other liabilities and right-of-use assets are presented within Property, plant and equipment. Provisions for lease restoration obligations are included within Provisions. The depreciation charge for right-of-use assets is presented within Depreciation of Property, plant and equipment. The interest charge on lease liabilities is presented within Interest expense.

Notes to the financial statements
For the year ended 30 June 2020

1.1 General information, basis of accounting, changes in accounting policies (continued)

The following table reconciles the operating lease commitments disclosed under AASB 117 as at 30 June 2019 to the opening lease liabilities recognised under AASB 16 as at 1 July 2019.

	Group $M	Bank $M
Operating lease commitments as at 30 June 2019 under AASB 117	**4,078**	**3,760**
Increase in the lease term for extension options	566	536
Inclusion of technology contracts not recognised as a lease under AASB 117	71	71
Exclusion of leases with a remaining term of less than one year and low value leases	(96)	(92)
Exclusion of service components	(738)	(738)
Exclusion of operating lease commitments regarding contracts not yet commenced	(610)	(610)
Exclusion of GST	(274)	(226)
Total undiscounted lease payments	**2,997**	**2,701**
Effect of discounting at a weighted average incremental borrowing rate of 2.8%	(267)	(231)
Total lease liabilities as at 1 July 2019 under AASB 16	**2,730**	**2,470**
Provision for lease restoration obligations	135	121
Total liabilities recognised on adoption of AASB 16	**2,865**	**2,591**

Adoption of interpretations and amendments to existing standards

AASB Interpretation 23 *Uncertainty over Income Tax Treatments* (Interpretation 23)

Interpretation 23 clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* where there is uncertainty over income tax treatments. It requires an assessment of each uncertain tax position to determine whether it is probable that a taxation authority will accept the position. Where it is not considered probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented. The previous recognition and measurement requirements applied by the Group are aligned with Interpretation 23 and hence no transition adjustment to retained earnings was required.

Other amendments

The following amendments to existing standards were adopted during the current year but did not have an impact on the Group:

- AASB 128 *Investments in Associates and Joint Ventures* was amended to clarify that an entity should first apply the measurement and expected credit loss requirements of AASB 9 to its long-term debt investments that form part of the net investment in an equity accounted investee, before applying the loss allocation and impairment requirements of AASB 128; and
- AASB 119 *Employee Benefits* was amended to specify the treatment of a plan amendment, curtailment or settlement that occurs during a reporting period. An entity should use the assumptions applied in the remeasurement of the net defined benefit liability or asset when determining the current service cost and the net interest in the period following the plan event.

Other minor amendments to existing standards were adopted in the current reporting period.

Commodity financing transactions

During the financial year ended 30 June 2020, the Group amended its accounting policy in respect of certain short-term commodity financing transactions, which are not clearly captured within the scope of any accounting standard. The Group reclassified a portfolio of physical commodities, previously accounted for as inventories under AASB 102 *Inventories*, to loans designated at fair value through profit or loss under AASB 9. Significant judgement has been applied in assessing whether control of the commodities transfers to the Group on inception of the transaction. In line with evolving technical interpretation of the accounting requirements for commodity transactions, it has been determined that control of the commodities does not transfer to the Group. The transactions are therefore more fairly presented as loans. The change has been applied retrospectively and impacted the prior year financial statements of both the Group and the Bank, as follows:

- an increase in Interest income, and a corresponding decrease in Other banking income, for the year ended 30 June 2019 of $121 million (30 June 2018: $128 million); and
- an increase in Commodities financing and other lending, and a corresponding decrease in Commodities, presented within Assets at fair value through income statement, as at 30 June 2019 of $6,854 million (30 June 2018: $7,353 million).

Where relevant, comparative information has been restated. All changes have been footnoted throughout the financial statements.

1.1 General information, basis of accounting, changes in accounting policies (continued)

Intergroup transactions with consolidated special purpose entities

During the financial year ended 30 June 2020, the Group amended its accounting policy in respect of certain intergroup positions with consolidated securitisation vehicles where it holds all of the issued instruments of the securitisation vehicle. The transactions between the entities will no longer be accounted for as imputed loan liabilities, and debt securities held by the Bank. The revised treatment more fairly represents the economic substance of the arrangement and therefore provides more reliable and relevant information. There has been no change to the consolidated financial statements of the Group as a result of this accounting policy change. The change has been applied retrospectively and impacted the prior year financial statements of the Bank as follows:

- a decrease in Shares in and loans to controlled entities as at 30 June 2019 of $56,250 million (30 June 2018: $56,250 million);
- a decrease in Due to controlled entities as at 30 June 2019 of $56,164 million (30 June 2018: $56,173 million);
- a decrease in Other assets as at 30 June 2019 of $50 million (30 June 2018: $61 million);
- a decrease in Bills payable and other liabilities as at 30 June 2019 of $136 million (30 June 2018: $138 million);
- a decrease in Interest income for the year ended 30 June 2019 of $1,967 million;
- a decrease in Interest expense for the year ended 30 June 2019 of $1,971 million; and
- a decrease in Other banking income for the year ended 30 June 2019 of $4 million.

Where relevant, comparative information has been restated. All changes have been footnoted throughout the financial statements.

2. Our performance

OVERVIEW

The Group earns its returns from providing a broad range of banking and wealth management products and services to retail and wholesale customers in Australia, New Zealand and other jurisdictions.

Lending and deposit taking are the Group's primary business activities with Net interest income being the main contributor to the Group's results. Net interest income is derived from the difference between interest earned on lending and investment assets and interest incurred on customer deposits and wholesale debt raised to fund these assets.

The Group further generates income from lending fees and commissions, general insurance products and trading activities. It also incurs costs associated with running the business such as staff, occupancy and technology related expenses.

The Performance section provides details of the main contributors to the Group's returns and analysis of its financial performance by business segments and geographical regions.

2.1 Net interest income

	Group [1,2,3]			Bank [2,3]	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Interest income					
Effective interest income:					
Loans and bills discounted [4]	**28,144**	31,449	31,315	**24,830**	27,744
Other financial institutions	**110**	181	140	**105**	171
Cash and liquid assets	**356**	572	459	**335**	528
Investment securities:					
At amortised cost	**114**	199	–	**114**	199
At fair value through Other Comprehensive Income	**1,002**	1,688	–	**911**	1,559
Available-for-sale investments	**–**	–	1,729	**–**	–
Controlled entities	**–**	–	–	**356**	752
Total effective interest income	**29,726**	34,089	33,643	**26,651**	30,953
Other:					
Assets at fair value through Income Statement	**436**	620	629	**436**	620
Controlled entities	**–**	–	–	**49**	40
Total other interest income	**436**	620	629	**485**	660
Total interest income	**30,162**	34,709	34,272	**27,136**	31,613
Interest Expense					
Deposits	**7,304**	9,965	9,848	**5,851**	8,394
Other financial institutions	**391**	464	418	**382**	435
Liabilities at fair value through Income Statement	**74**	172	167	**66**	162
Debt issues	**2,529**	4,563	4,169	**1,877**	3,625
Loan capital	**825**	951	836	**811**	917
Lease liabilities	**71**	–	–	**63**	–
Bank levy	**358**	370	369	**358**	370
Controlled entities	**–**	–	–	**1,252**	1,531
Total interest expense	**11,552**	16,485	15,807	**10,660**	15,434
Net interest income	**18,610**	18,224	18,465	**16,476**	16,179

1 Information has been restated and presented on a continuing operations basis.
2 Current year amounts reflect the adoption of AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1.1.
3 Information has been restated to conform to presentation in the current year and to reflect the changes in accounting policies detailed in Note 1.1.
4 Includes $17 million loss from the reduction in estimated residual values in relation to leases of shipping vessels. The loss was driven by the severe disruption to the global shipping market as a result of COVID-19.

Notes to the financial statements
For the year ended 30 June 2020

2.1 Net interest income (continued)

ACCOUNTING POLICIES

Interest income and interest expense on financial assets and liabilities measured at amortised cost, and debt financial assets measured at fair value through OCI, are recognised using the effective interest rate method. Interest income is calculated on financial assets classified within Stage 1 and Stage 2 by applying the effective interest rate to the gross carrying amount of the assets. Interest income on financial assets in Stage 3 is recognised by applying the effective interest rate to the gross carrying amount net of provisions for impairment. Interest income on finance leases is recognised progressively over the life of the lease, consistent with the outstanding investment and unearned income balance.

Interest expense also includes payments made under a liquidity facility arrangement with the Reserve Bank of Australia, the Major Bank Levy (Bank Levy) expense and other financing charges.

Interest income and expense on financial assets and liabilities that are classified at fair value through the Income Statement are accounted for on a contractual rate basis and include amortisation of premium/discounts. Fees, transaction costs and issue costs integral to the financial assets and liabilities are capitalised and included in the interest recognised over the expected life of the instrument. This includes fees for providing a loan or a lease arrangement.

Notes to the financial statements
For the year ended 30 June 2020

2.2 Average balances and related interest

The following tables have been produced using statutory Balance Sheet and Income Statement categories. The tables list the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rate for each of the full years ended 30 June 2020, 30 June 2019 and 30 June 2018. Averages were predominately daily averages. Interest is accounted for based on product yield. Where assets or liabilities are hedged, the amounts are shown net of the hedge, but individual items not separately hedged may be affected by movements in exchange rates and interest rates. The overseas component comprises overseas branches of the Bank and overseas domiciled controlled entities. Non-accrual loans are included in interest earning assets under Loans, bills discounted and other receivables. The official cash rate in Australia has decreased 100 basis points on a spot basis, while in New Zealand the official cash rate has decreased 125 basis points on a spot basis during the financial year ended 30 June 2020 (2019: 25 basis points decrease for both Australia and New Zealand on a spot basis, 2018: no changes).

	Group [1, 2]								
	30 Jun 20			30 Jun 19			30 Jun 18		
Interest earning assets	**Average balance $M**	**Interest $M**	**Average rate %**	**Average balance $M**	**Interest $M**	**Average rate %**	**Average balance $M**	**Interest $M**	**Average rate %**
Cash and liquid assets									
Australia	**23,468**	**244**	**1.0**	18,415	367	2.0	19,087	313	1.6
Overseas	**22,539**	**112**	**0.5**	20,238	205	1.0	18,898	146	0.8
Receivables from financial institutions									
Australia	**2,461**	**38**	**1.5**	2,095	52	2.5	2,290	50	2.2
Overseas	**6,420**	**72**	**1.1**	5,799	129	2.2	5,997	90	1.5
Assets at fair value through Income Statement (excluding life insurance)									
Australia	**34,237**	**422**	**1.2**	31,895	609	1.9	28,381	572	2.0
Overseas	**2,070**	**14**	**0.7**	822	11	1.3	4,070	57	1.4
Investment Securities:									
At amortised cost									
Australia	**6,272**	**114**	**1.8**	6,887	199	2.9	–	–	–
Overseas	**6**	**–**	**0.6**	5	–	0.6	–	–	–
At fair value through OCI									
Australia	**56,929**	**716**	**1.3**	57,088	1,329	2.3	–	–	–
Overseas	**19,996**	**286**	**1.4**	18,640	359	1.9	–	–	–
Available-for-sale investments									
Australia	**–**	**–**	**–**	–	–	–	66,241	1,479	2.2
Overseas	**–**	**–**	**–**	–	–	–	17,011	250	1.5
Loans, bills discounted and other receivables [3]									
Australia [4]	**614,980**	**23,563**	**3.8**	603,394	26,524	4.4	597,343	26,711	4.5
Overseas	**108,031**	**4,581**	**4.2**	106,140	4,925	4.6	102,566	4,604	4.5
Total interest earning assets and interest income	**897,409**	**30,162**	**3.4**	871,418	34,709	4.0	861,884	34,272	4.0

1 Information has been restated and presented on a continuing operations basis.
2 Comparative information has been restated to conform to presentation in the current year.
3 Loans, bills discounted and other receivables include bank acceptances.
4 Net of average mortgage offset balances that are included in Non-interest earning assets. Mortgage offset balance is $48,807 million (30 June 2019: $45,175 million, 30 June 2018: $40,824 million). While the balances are required to be grossed up under accounting standards, they are netted down for the calculation of customer interest payments and the Group's net interest margin.

Notes to the financial statements

For the year ended 30 June 2020

2.2 Average balances and related interest (continued)

	Group [1]		
	30 Jun 20	30 Jun 19	30 Jun 18
Non-interest earning assets	**Average balance $M**	**Average balance $M**	**Average balance $M**
Assets at fair value through Income Statement - Insurance [2]			
Australia	**–**	–	–
Overseas	**–**	–	377
Property, plant and equipment [3]			
Australia	**4,577**	2,208	2,344
Overseas	**597**	244	252
Other assets			
Australia [4]	**86,398**	79,169	87,901
Overseas	**10,236**	10,175	11,924
Provisions for impairment			
Australia	**(4,561)**	(4,026)	(3,203)
Overseas	**(613)**	(599)	(466)
Total non-interest earning assets	**96,634**	87,171	99,129
Assets held for sale [2]			
Australia	**5,043**	15,128	13,046
Overseas	**691**	1,829	2,228
Total assets	**999,777**	975,546	976,287
Percentage of total assets applicable to overseas operations (%)	**17. 0**	16. 7	16. 7

1 Comparative information has been restated to conform to presentation in the current year.
2 During the years ended 30 June 2020 and 30 June 2019, Insurance assets of CommInsure Life and PT Commonwealth Life are presented as Assets held for sale. During the year ended 30 June 2018, Insurance assets of CommInsure Life and Sovereign are presented as Assets held for sale.
3 Current period amounts reflect the adoption of AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1.1.
4 For the purpose of reconciling to total average assets, other assets include average mortgage offset balances of $48,807 million (30 June 2019: $45,175 million, 30 June 2018: $40,824 million) as these balances were excluded from average loans and interest earning assets.

Notes to the financial statements

For the year ended 30 June 2020

2.2 Average balances and related interest (continued)

	Group [1, 2]								
	30 Jun 20			30 Jun 19			30 Jun 18		
Interest bearing liabilities	**Average balance $M**	**Interest $M**	**Average rate %**	**Average balance $M**	**Interest $M**	**Average rate %**	**Average balance $M**	**Interest $M**	**Average rate %**
Time deposits									
Australia [3]	**192,671**	**3,896**	**2. 0**	203,750	5,181	2. 5	203,694	5,043	2. 5
Overseas	**56,599**	**1,589**	**2. 8**	53,836	1,746	3. 2	51,291	1,532	3. 0
Savings deposits									
Australia [3]	**160,031**	**950**	**0. 6**	144,686	1,588	1. 1	146,346	1,812	1. 2
Overseas	**15,655**	**146**	**0. 9**	14,335	167	1. 2	14,414	205	1. 4
Other demand deposits									
Australia	**126,355**	**601**	**0. 5**	114,193	1,151	1. 0	112,195	1,120	1. 0
Overseas	**9,910**	**122**	**1. 2**	8,765	132	1. 5	8,136	136	1. 7
Payables to financial institutions									
Australia	**10,659**	**164**	**1. 5**	8,852	221	2. 5	10,292	196	1. 9
Overseas	**14,258**	**227**	**1. 6**	12,709	243	1. 9	16,648	222	1. 3
Liabilities at fair value through Income Statement									
Australia	**5,090**	**66**	**1. 3**	9,372	162	1. 7	7,557	141	1. 9
Overseas	**700**	**8**	**1. 1**	1,054	10	0. 9	1,332	26	2. 0
Debt issues [4]									
Australia	**129,461**	**2,106**	**1. 6**	140,447	3,846	2. 7	138,666	3,463	2. 5
Overseas	**23,499**	**423**	**1. 8**	26,676	717	2. 7	28,450	706	2. 5
Loan capital									
Australia	**18,066**	**608**	**3. 4**	15,655	668	4. 3	13,788	556	4. 0
Overseas	**6,439**	**217**	**3. 4**	6,785	283	4. 2	6,774	280	4. 1
Lease liabilities [5]									
Australia	**2,232**	**60**	**2. 7**	–	–	–	–	–	–
Overseas	**357**	**11**	**3. 1**	–	–	–	–	–	–
Bank levy									
Australia	**–**	**358**	**–**	–	370	–	–	369	–
Overseas	**–**	**–**	**–**	–	–	–	–	–	–
Total interest bearing liabilities and interest expense	**771,982**	**11,552**	**1. 5**	761,115	16,485	2. 2	759,583	15,807	2. 1

1 Information has been restated and presented on a continuing operations basis.
2 Comparative information has been restated to conform to presentation in the current year.
3 Net of average mortgage offset balances that are included in Non-interest bearing liabilities.
4 Debt issues include bank acceptances.
5 Current period amounts reflect the adoption of AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1.1.

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

Notes to the financial statements
For the year ended 30 June 2020

2.2 Average balances and related interest (continued)

	Group		
	30 Jun 20	30 Jun 19	30 Jun 18
	Average balance	Average balance	Average balance
Non-interest bearing liabilities	$M	$M	$M
Deposits not bearing interest			
Australia [1]	**105,261**	91,316	83,949
Overseas	**6,301**	4,897	4,193
Insurance policy liabilities			
Australia	**–**	–	–
Overseas	**–**	–	466
Other liabilities			
Australia	**29,134**	25,532	37,250
Overseas	**11,193**	9,430	10,255
Total non-interest bearing liabilities	**151,889**	131,175	136,113
Liabilities held for sale			
Australia	**4,515**	13,855	13,413
Overseas	**502**	1,025	1,308
Total liabilities	**928,888**	907,170	910,417
Shareholders' Equity	**70,889**	68,376	65,870
Total liabilities and Shareholders' Equity	**999,777**	975,546	976,287
Percentage of total liabilities applicable to overseas operations (%)	**15. 7**	15. 4	15. 7

1 Includes average mortgage offset balance.

Notes to the financial statements
For the year ended 30 June 2020

2.2 Average balances and related interest (continued)

Changes in Net interest income: volume and rate analysis

The following tables show the movement in interest income and expense due to changes in volume and interest rates. Volume variances reflect the change in interest from the prior year due to movement in the average balance. Rate variances reflect the change in interest from the prior year due to changes in interest rates. Volume and rate variance for total interest earning assets and interest bearing liabilities have been calculated separately (rather than being the sum of the individual categories).

	June 2020 vs June 2019			June 2019 vs June 2018 [1,2]		
Changes in net interest income:	Volume	Rate	Total	Volume	Rate	Total
Volume and rate analysis	$M	$M	$M	$M	$M	$M
Interest earning assets						
Cash and liquid assets						
Australia	**53**	**(176)**	**(123)**	(13)	67	54
Overseas	**11**	**(104)**	**(93)**	14	45	59
Receivables from financial institutions						
Australia	**6**	**(20)**	**(14)**	(5)	7	2
Overseas	**7**	**(64)**	**(57)**	(4)	43	39
Assets at fair value through Income Statement (excluding life insurance)						
Australia	**29**	**(216)**	**(187)**	67	(30)	37
Overseas	**8**	**(5)**	**3**	(43)	(3)	(46)
Investment securities: [3]						
Australia	**(10)**	**(687)**	**(697)**	(54)	103	49
Overseas	**19**	**(93)**	**(74)**	31	78	109
Loans, bills discounted and other receivables						
Australia	**444**	**(3,405)**	**(2,961)**	266	(453)	(187)
Overseas	**80**	**(424)**	**(344)**	166	155	321
Changes in interest income	**874**	**(5,421)**	**(4,547)**	380	57	437
Interest bearing liabilities and loan capital						
Time deposits						
Australia	**(224)**	**(1,061)**	**(1,285)**	1	137	138
Overseas	**78**	**(235)**	**(157)**	83	131	214
Savings deposits						
Australia	**91**	**(729)**	**(638)**	(18)	(206)	(224)
Overseas	**12**	**(33)**	**(21)**	(1)	(37)	(38)
Other demand deposits						
Australia	**58**	**(608)**	**(550)**	20	11	31
Overseas	**14**	**(24)**	**(10)**	9	(13)	(4)
Payables to financial institutions						
Australia	**28**	**(85)**	**(57)**	(36)	61	25
Overseas	**25**	**(41)**	**(16)**	(75)	96	21
Liabilities at fair value through Income Statement						
Australia	**(56)**	**(40)**	**(96)**	31	(10)	21
Overseas	**(4)**	**2**	**(2)**	(3)	(13)	(16)
Debt issues						
Australia	**(179)**	**(1,561)**	**(1,740)**	49	334	383
Overseas	**(57)**	**(237)**	**(294)**	(48)	59	11
Loan capital						
Australia	**81**	**(141)**	**(60)**	80	32	112
Overseas	**(12)**	**(54)**	**(66)**	–	3	3
Lease liabilities						
Australia	**60**	**–**	**60**	–	–	–
Overseas	**11**	**–**	**11**	–	–	–
Bank levy						
Australia	**–**	**(12)**	**(12)**	–	1	1
Overseas	**–**	**–**	**–**	–	–	–
Changes in interest expense	**163**	**(5,096)**	**(4,933)**	33	645	678
Changes in net interest income	**539**	**(153)**	**386**	199	(440)	(241)

1 Information has been restated and presented on a continuing operations basis.
2 Comparative information has been restated to conform to presentation in the current year.
3 Investment securities at fair value through other comprehensive income and Investment securities at amortised cost have been compared to available-for-sale assets in the prior period.

Notes to the financial statements
For the year ended 30 June 2020

2.3 Other operating income

	Group [1, 2]			Bank [2]	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Other banking income					
Commissions	**2,557**	2,677	2,716	**2,148**	2,277
Lending fees	**986**	992	1,109	**904**	922
Trading income	**940**	853	897	**822**	753
Net gain/(loss) on non-trading financial instruments [3]	**139**	(113)	58	**29**	(205)
Net gain/(loss) on sale of property, plant and equipment	**32**	(9)	(17)	**11**	(11)
Net (loss)/gain from hedging ineffectiveness	**(14)**	13	12	**(93)**	16
Dividends - Controlled entities [4]	**–**	–	–	**4,721**	1,229
Dividends - Other	**3**	5	10	**88**	122
Share of profit from associates and joint ventures net of impairment	**170**	296	317	**49**	27
Other [5, 6]	**189**	163	197	**475**	789
Total other banking income	**5,002**	4,877	5,299	**9,154**	5,919
Funds management income	**196**	292	330	**–**	–
Claims, policyholder liability and commission expense	**(23)**	(38)	(16)	**–**	–
Net funds management operating income	**173**	254	314	**–**	–
Net insurance operating income					
Premiums from insurance contracts	**698**	682	687	**–**	–
Investment revenue	**2**	5	4	**–**	–
Claims, policyholder liability and commission expense from insurance contracts	**(559)**	(537)	(450)	**–**	–
Net insurance operating income	**141**	150	241	**–**	–
Total other operating income	**5,316**	5,281	5,854	**9,154**	5,919

1 Information has been restated and presented on a continuing operations basis.
2 Information has been restated to conform to presentation in the current year and to reflect the changes in accounting policies detailed in Note 1.1.
3 Includes gains/(losses) on non-trading derivatives that are held for risk management purposes.
4 Current year includes $2,327 million dividend from the repatriation of ASB Bank Limited retained profits. During the current year, the Bank increased its investment in ASB Bank Limited by $2,327 million.
5 Includes depreciation of $83 million in relation to assets held for lease as lessor by the Group (30 June 2019: $72 million, 30 June 2018: $74 million). Includes depreciation of $6 million in relation to assets held for lease as lessor by the Bank (30 June 2019: $8 million).
6 Current year includes a $92 million impairment loss recognised by the Group in relation to certain aircraft owned by the Group and leased to various airlines. The impairment loss was driven by the impact of COVID-19 on the aviation sector. This includes a loss of $11 million that was reclassified from the Cash flow hedge reserve.

	Group [1]			Bank [1]	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Net hedging ineffectiveness comprises:					
Gain/(loss) on fair value hedges:					
Hedging instruments	**3,297**	3,251	2,537	**2,186**	1,164
Hedged items	**(3,302)**	(3,242)	(2,529)	**(2,268)**	(1,154)
Cash flow and net investment hedge ineffectiveness	**(9)**	4	4	**(11)**	6
Net hedging ineffectiveness	**(14)**	13	12	**(93)**	16

1 Comparative information has been restated to conform to presentation in the current year.

Notes to the financial statements
For the year ended 30 June 2020

2.3 Other operating income (continued)

ACCOUNTING POLICIES

Lending fees and commission income are accounted for as follows:

- facility fees earned for managing and administering credit and other facilities for customers are generally charged to the customer on a monthly or annual basis and are recognised as revenue over the service period. Annual fees are deferred on Balance Sheet in Bills payable and Other liabilities and recognised on a straight-line basis over the year. Transaction based fees are charged and recognised at the time of the transaction;
- commitment fees and fees in relation to guarantee arrangements are deferred and recognised over the life of the contractual arrangements;
- fee income is earned for providing advisory or arrangement services, placement and underwriting services. These fees are recognised and charged when the related service is completed which is typically at the time of the transaction; and
- trail commissions are recognised at the start of a contract when the performance obligation has been met, typically when a customer is introduced to a new project. The Group recognises the net present value of expected future trail commission income. For investment referral services, the Group is unable to forecast the trail commission revenue in line with the highly probable test in AASB 15. Therefore, trail commission revenue on investment referral balances is recognised when received or paid.

Establishment fees on financing facilities are deferred and amortised to interest income over the expected life of the loan and are not recognised when the commitment is issued.

Trading income represents both realised and unrealised gains and losses from changes in the fair value of trading assets, liabilities and derivatives, which are recognised in the period in which they arise.

Net gain/(loss) on non-trading financial instruments includes realised gains and losses from non-trading financial assets and liabilities, as well as realised and unrealised gains and losses on non-trading derivatives that are held for risk management purposes.

Net gain/(loss) on the disposal of property, plant and equipment is the difference between proceeds received and its carrying value.

Net hedging ineffectiveness is measured on fair value, cash flow and net investment hedges.

Dividends received on non-trading equity investments are recognised on the ex-dividend date or when the right to receive payment is established.

Funds management operating income includes fees earned where the Group acts as the Responsible Entity, Trustee or Manager for a number of wholesale, superannuation and investment funds or trusts. Fund management services are a single performance obligation and fees are recognised over the service period. Management fees are calculated and deducted from the funds on a monthly basis. Performance fees are deemed to be a variable component of the fund management service and only recognised when it is highly probable that a significant reversal of the fees will not occur.

General insurance premiums received and receivable are recognised as revenue when they are earned, based on actuarial assessment of the likely pattern in which risk will emerge. The portion not yet earned based on the pattern assessment is recognised as an unearned premium liability. Claims are recognised as an expense when the liability is established.

The Group equity accounts for its share of the profits or losses of associate or joint venture investments, net of impairment recognised. Dividends received are recognised as a reduction of the investment carrying amount.

Other income includes rental income on operating leases which is recognised on a straight-line basis over the lease term. This is offset by depreciation and impairment expense on the associated operating lease assets held by the Group.

Other income also includes the impact of foreign currency revaluations for foreign currency monetary assets and liabilities. These assets and liabilities are retranslated at the spot rate at balance date. Exchange differences arising upon settling or translating monetary items at different rates to those at which they were initially recognised or previously reported, are recognised in the Income Statement.

Critical accounting judgements and estimates

The amount of trail commission revenue is dependent on assumptions about the behavioural life of the underlying transaction generating the commission. Trail commission income is only recognised to the extent it is highly probable it will not reverse in future periods.

Notes to the financial statements
For the year ended 30 June 2020

2.4 Operating expenses

	Group [1,2]			Bank [2]	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Staff expenses					
Salaries and related on-costs	**5,239**	5,224	4,806	**4,772**	4,998
Share-based compensation	**103**	96	66	**107**	115
Superannuation	**409**	385	392	**403**	388
Total staff expenses	**5,751**	5,705	5,264	**5,282**	5,501
Occupancy and equipment expenses					
Lease expenses [3]	**163**	639	650	**153**	580
Depreciation of property, plant and equipment	**726**	270	271	**651**	247
Other occupancy expenses	**167**	173	197	**139**	164
Total occupancy and equipment expenses	**1,056**	1,082	1,118	**943**	991
Information technology services					
Application maintenance and development	**567**	586	429	**659**	734
Data processing	**182**	183	200	**177**	179
Desktop	**118**	142	153	**102**	129
Communications	**192**	217	179	**178**	205
Amortisation of software assets [4]	**925**	585	551	**869**	563
Software write-offs	**14**	13	71	**14**	13
IT equipment depreciation	**133**	93	80	**118**	79
Total information technology services	**2,131**	1,819	1,663	**2,117**	1,902
Other expenses					
Postage and stationery	**148**	156	171	**142**	151
Transaction processing and market data	**135**	146	130	**119**	131
Fees and commissions:					
Professional fees	**404**	492	679	**374**	470
Other	**262**	232	129	**79**	65
Advertising, marketing and loyalty	**424**	443	478	**326**	362
Amortisation of intangible assets (excluding software and merger related amortisation)	**5**	10	12	**–**	–
Non-lending losses [5]	**563**	615	838	**541**	617
Impairment on investments in subsidiaries	**–**	–	–	**405**	–
Other	**16**	124	171	**127**	148
Total other expenses	**1,957**	2,218	2,608	**2,113**	1,944
Operating expenses before restructuring, separation and transaction costs	**10,895**	10,824	10,653	**10,455**	10,338
Restructuring, separation and transaction costs	**34**	104	34	**290**	295
Total operating expenses [6]	**10,929**	10,928	10,687	**10,745**	10,633

1 Information has been restated and presented on a continuing operations basis.
2 Current year amounts reflect the adoption of AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16 comparative information has not been restated. For details on adoption of AASB 16 refer to Note 1.1.
3 Current year includes rentals of $86 million in relation to short-term leases and low value leases, and variable lease payments based on usage or performance of $44 million.
4 The year ended 30 June 2020 includes approximately a $220 million one-off impact of accelerated amortisation following a review of the amortisation method and useful lives of certain technology assets. The year ended 30 June 2020 also includes $170 million of amortisation of prepaid software licences (30 June 2019: $161 million; 30 June 2018: $136 million).
5 The year ended 30 June 2019 includes $145 million professional indemnity insurance recovery in relation to AUSTRAC civil penalty. The year ended 30 June 2018 includes $700 million AUSTRAC civil penalty.
6 The year ended 30 June 2020 includes additional provisions for historical Aligned Advice remediation issues and associated program costs of $300 million, Wealth and Banking customer refunds and associated program costs of $94 million and other remediation of $60 million (30 June 2019: Aligned Advice remediation of $534 million, Wealth and Banking customer refunds and associated program costs of $301 million).

Notes to the financial statements
For the year ended 30 June 2020

2.4 Operating expenses (continued)

ACCOUNTING POLICIES

Salaries and related on-costs include annual leave, long service leave, employee incentives and relevant taxes. Staff expenses are recognised over the period the employee renders the service. Long service leave is discounted to present value using assumptions relating to staff departures, leave utilisation and future salary.

Share-based compensation includes plans which may be both cash or equity settled. Cash settled share-based remuneration is recognised as a liability and re-measured to fair value until settled. The changes in fair value are recognised as staff expenses. Equity settled remuneration is fair valued at the grant date and amortised to staff expenses over the vesting period, with a corresponding increase in the Employee compensation reserve.

Superannuation expense includes expenses relating to defined contribution and defined benefit superannuation plans. Defined contribution expense is recognised in the period the service is provided, whilst the defined benefit expense, which measures current and past service costs is determined by an actuarial calculation.

Occupancy and equipment expenses include depreciation which is calculated using the straight-line method over the asset's estimated useful life. The right-of-use assets recognised under AASB 16 *Leases* are depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within depreciation of Property, plant and equipment.

IT services expenses are recognised as incurred, unless they qualify for capitalisation as computer software due to the expenditure generating probable future economic benefits. If capitalised, the computer software is subsequently amortised over its estimated useful life. The Group assesses, at each Balance Sheet date, useful lives and residual values and whether there is any objective evidence of impairment. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Other expenses are recognised as the relevant service is rendered. Operating expenses related to provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated.

Critical accounting judgements and estimates

Actuarial valuations of the Group's defined benefit superannuation plans' obligations are dependent on a series of assumptions set out in Note 10.2, including inflation rates, discount rates and salary growth rates. Changes in these assumptions impact the fair value of the plans' obligations, assets, superannuation expense and actuarial gains and losses recognised in other comprehensive income.

Measurements of the Group's share-based compensation is dependent on assumptions, including grant date fair values. Information on these is set out in Note 10.1.

Refer to Note 6.2 for more information on the judgements and estimates associated with goodwill.

Notes to the financial statements

For the year ended 30 June 2020

2.5 Income tax expense

The income tax expense for the year is determined from the profit before income tax as follows:

	Group [1]			Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Profit before income tax	**10,479**	11,376	12,553	**12,730**	10,407
Prima facie income tax at 30%	**3,144**	3,413	3,766	**3,819**	3,122
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:					
Taxation offsets and other dividend adjustments	**–**	–	(7)	**(1,416)**	(365)
Offshore tax rate differential	**(16)**	(40)	(36)	**7**	(8)
Offshore banking unit	**(19)**	(32)	(39)	**(20)**	(32)
Effect of changes in tax rates	**–**	1	15	**–**	1
Income tax over provided in previous years	**(53)**	(101)	(70)	**(39)**	(105)
Non-deductible expense provision [2]	**–**	–	210	**–**	–
Loss on disposals	**(74)**	–	–	**(5)**	–
Other	**38**	34	(28)	**216**	11
Total income tax expense	**3,020**	3,275	3,811	**2,562**	2,624
Effective tax rate (%)	**28. 8**	28. 8	30. 4	**20. 1**	25. 2

1 Information has been restated and presented on a continuing operations basis.

2 Relates to the AUSTRAC civil penalty, which is non-deductible for tax purposes.

	Group [1]			Bank	
Income tax expense attributable to profit from ordinary activities	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Australia					
Current tax expense	**3,017**	3,110	3,496	**2,963**	2,755
Deferred tax benefit	**(557)**	(380)	(137)	**(631)**	(256)
Total Australia	**2,460**	2,730	3,359	**2,332**	2,499
Overseas					
Current tax expense	**577**	464	453	**161**	87
Deferred tax expense/(benefit)	**(17)**	81	(1)	**69**	38
Total Overseas	**560**	545	452	**230**	125
Income tax expense attributable to profit from ordinary activities	**3,020**	3,275	3,811	**2,562**	2,624

1 Information has been restated and presented on a continuing operations basis.

Notes to the financial statements

For the year ended 30 June 2020

2.5 Income tax expense (continued)

	Group [1]			Bank [1]	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Deferred tax asset balances comprise temporary differences attributable to:					
Amounts recognised in the Income Statement and opening retained profits: [2, 3]					
Lease liability	**952**	–	–	**882**	–
Provision for employee benefits	**472**	425	452	**418**	398
Provisions for impairment on loans, bills discounted and other receivables	**1,758**	1,345	991	**1,580**	1,230
Other provisions not tax deductible until expense incurred	**674**	497	221	**592**	331
Defined benefit superannuation plan	**360**	357	339	**360**	357
Unearned income	**221**	250	267	**221**	250
Intangible assets	**184**	76	45	**184**	76
Other	**216**	236	251	**110**	232
Total amount recognised in the Income Statement and opening retained profits [2, 3]	**4,837**	3,186	2,566	**4,347**	2,874
Amounts recognised directly in Other Comprehensive Income:					
Cash flow hedge reserve	**117**	142	114	**16**	19
Other reserves	**176**	41	22	**180**	46
Total amount recognised directly in Other Comprehensive Income	**293**	183	136	**196**	65
Total deferred tax assets (before set off)	**5,130**	3,369	2,702	**4,543**	2,939
Set off to tax	**(3,070)**	(1,694)	(1,263)	**(2,575)**	(1,369)
Net deferred tax assets	**2,060**	1,675	1,439	**1,968**	1,570
Deferred tax liability balances comprise temporary differences attributable to:					
Amounts recognised in the Income Statement and opening retained profits: [2, 3]					
Right-of-use assets	**875**	–	–	**809**	–
Lease financing relating to lessor activities	**137**	162	200	**90**	91
Intangible assets	**66**	68	73	**56**	56
Financial instruments	**13**	3	30	**16**	13
Investments in associates	**170**	148	131	**–**	–
Other	**257**	106	66	**78**	38
Total amount recognised in the Income Statement and opening retained profits [2, 3]	**1,518**	487	500	**1,049**	198
Amounts recognised directly in Other Comprehensive Income:					
Revaluation of properties	**84**	82	81	**89**	84
Foreign currency translation reserve	**28**	36	18	**–**	–
Cash flow hedge reserve	**787**	481	48	**784**	479
Defined benefit superannuation plan	**502**	487	498	**502**	487
Investment securities revaluation reserve	**181**	121	–	**181**	121
Available-for-sale investments reserve	**–**	–	118	**–**	–
Total amount recognised directly in Other Comprehensive Income	**1,582**	1,207	763	**1,556**	1,171
Total deferred tax liabilities (before set off)	**3,100**	1,694	1,263	**2,605**	1,369
Set off to tax	**(3,070)**	(1,694)	(1,263)	**(2,575)**	(1,369)
Net deferred tax liabilities	**30**	–	–	**30**	–

1 Comparative information has been restated to conform to presentation in the current year.

2 The adoption of AASB 16 on 1 July 2019 resulted in an increase in the Group's Deferred tax asset of $859 million (Bank: $777 million) and an increase in the Group's Deferred tax liability of $799 million (Bank: $717 million) recognised through opening Retained profits.

3 The adoption of AASB 9 and AASB 15 on 1 July 2018 resulted in an increase in the Group's Deferred tax asset of $435 million (Bank: $353 million) and an increase in the Group's Deferred tax liability of $101 million (Bank: $27 million) recognised through opening Retained profits.

2.5 Income tax expense (continued)

Deferred tax assets have not been recognised in respect of the following items because it is not considered probable that future taxable profit will be available against which they can be realised:

	Group			Bank	
	30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 20	30 Jun 19
Deferred tax assets not taken to account	**$M**	**$M**	**$M**	**$M**	**$M**
Tax losses and other temporary differences on revenue account that:					
Expire under current legislation	**–**	–	–	**–**	–
Do not expire under current legislation	**25**	–	47	**25**	–
Total	**25**	–	47	**25**	–

Tax consolidation

The Bank has recognised a tax consolidation contribution to the wholly-owned tax consolidated entity of $98 million (30 June 2019: $98 million).

The amount receivable by the Bank under the tax funding agreement was $209 million as at 30 June 2020 (30 June 2019: $320 million receivable). This balance is included in 'Other assets' in the Bank's separate Balance Sheet.

ACCOUNTING POLICIES

Income tax on the profit or loss for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the Balance Sheet method where temporary differences are identified by comparing the carrying amounts of assets and liabilities for financial reporting purposes to their tax bases.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities (i.e. through use or through sale), using tax rates which are expected to apply when the Deferred tax asset is realised or the Deferred tax liability is settled.

The Group recognised and disclosed separate deferred tax assets and deferred tax liabilities arising from arrangements where the Group is lessee. Deferred tax assets and liabilities are offset where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

The Bank and its wholly owned Australian subsidiaries elected to be treated as a single entity ("the tax consolidated group") under the tax consolidation regime from 1 July 2002. CommInsure Life will remain a member of the tax consolidated group until final completion of the share sale. The members of the tax consolidated group have entered into tax funding and tax sharing agreements, which set out the funding obligations and members.

Any current tax liabilities/assets and deferred tax assets from unused tax losses from subsidiaries in the tax consolidated group are recognised by the Bank legal entity and funded in line with the tax funding arrangement.

The measurement and disclosure of deferred tax assets and liabilities have been performed on a modified stand-alone basis under UIG 1052 *Tax Consolidation Accounting*.

Critical accounting judgements and estimates

Provisions for taxation require significant judgement with respect to outcomes that are uncertain. For such uncertainties, the Group has estimated the tax provisions based on the expected outcomes. A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available for it to be used against.

2.6 Earnings per share

	Group [3]		
	30 Jun 20	30 Jun 19	30 Jun 18
Earnings per ordinary share [1]	Cents per share		
Earnings per share from continuing operations: [2]			
Basic	**421. 8**	458. 3	500. 0
Diluted	**408. 5**	443. 2	485. 5
Earnings per share:			
Basic	**544. 8**	485. 6	534. 3
Diluted	**523. 2**	468. 6	517. 7

1 EPS calculations are based on actual amounts prior to rounding to the nearest million.
2 The information has been restated and presented on a continuing operations basis.
3 The difference between earnings per share from continuing operations and earnings per share represents earnings per share from discontinued operations.

	Group		
Reconciliation of earnings from continuing operations used in calculation of earnings per share [1]	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M
Profit after income tax from continuing operations	**7,459**	8,101	8,742
Less: Non-controlling interests	**–**	(12)	(13)
Continuing operations earnings used in calculation of basic earnings per share	**7,459**	8,089	8,729
Add: Profit impact of assumed conversions of loan capital	**290**	323	267
Continuing operations earnings used in calculation of fully diluted earnings per share	**7,749**	8,412	8,996
Reconciliation of earnings used in calculation of earnings per share			
Continuing operations earnings used in calculation of basic earnings per share	**7,459**	8,089	8,729
Discontinued operations earnings used in calculation of basic earnings per share	**2,175**	482	600
Earnings used in calculation of basic earnings per share	**9,634**	8,571	9,329
Add: Profit impact of assumed conversions of loan capital	**290**	323	267
Earnings used in calculation of fully diluted earnings per share	**9,924**	8,894	9,596

1 The information has been restated and presented on a continuing operations basis.

	Number of shares (in millions)		
	30 Jun 20	30 Jun 19	30 Jun 18
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,768**	1,765	1,746
Effect of dilutive securities – executive share plans and convertible loan capital instruments	**127**	132	106
Weighted average number of ordinary shares used in the calculation of fully diluted earnings per share	**1,895**	1,897	1,852

ACCOUNTING POLICIES

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares on issue during the year, adjusted for any bonus element included in ordinary shares issued and excluding treasury shares held.

Diluted EPS is basic EPS adjusted for the impact of all securities on issue that can convert to CBA ordinary shares and would dilute basic EPS on conversion. It is calculated by dividing net profit attributable to ordinary equity holders of the Bank (after adding back interest on the convertible redeemable loan capital instruments) by the weighted average number of ordinary shares issued during the year (as calculated under basic earnings per share adjusted for the effects of dilutive convertible non-cumulative redeemable loan capital instruments and shares issuable under executive share plans).

2.7 Financial reporting by segments

The principal activities of the Group are carried out in the business segments described below. These segments are based on the distribution channels through which customer relationships are managed.

During the year, the Group announced the sale of its funds management business, CFS. The Group's business segment performance has been updated and presented on a continuing operations basis to exclude CFS businesses, which is disclosed as a discontinued operation.

During the year ended 30 June 2020, the Group made the following structural changes to its operating segments:

- enhancing the classification of its business banking portfolios which resulted in a transfer of some customers from Retail Banking Services to Business and Private Banking and Institutional Banking and Markets;
- Aligned Advice related businesses (including Financial Wisdom Limited, Count Financial Limited and Commonwealth Financial Planning Limited-Pathways) were transferred out of the Wealth Management division and consolidated into the Retail Banking Services division; and
- other re-segmentations, allocations and reclassifications, including refinements to the allocation of support unit and other costs.

These changes have not impacted the Group's net profit, but have resulted in changes to the presentation of the Income Statement and the Balance Sheet of the affected segments. These changes have been applied retrospectively.

The Group's primary sources of revenue are interest and fee income (Retail Banking Services, Business and Private Banking, Institutional Banking and Markets, New Zealand and International Financial Services (IFS)) and insurance premiums (Retail Banking Services) and funds management income (Retail Banking Services, New Zealand).

Revenues and expenses occurring between segments are subject to transfer pricing arrangements. All intra-group transactions are eliminated on consolidation.

Business segments are managed on the basis of net profit after income tax ("cash basis"). Management uses "cash basis" to assess performance and it provides the basis for the determination of the Bank's dividends. The "cash basis" presents the Group's underlying operating results, excluding a number of items that introduce volatility and/or one-off distortions of the Group's current period performance. These items, such as hedging and IFRS volatility, are calculated consistently year on year and do not discriminate between positive and negative adjustments.

(i) Retail Banking Services

Retail Banking Services provides banking and general insurance products and services to personal customers. Retail Banking Services also includes the financial results of retail banking activities provided under the Bankwest brand.

(ii) Business and Private Banking

Business and Private Banking serves the banking needs of business, corporate and agribusiness customers across the full range of financial services solutions as well as providing banking and advisory services for high net worth individuals. It also provides equities trading and margin lending services through the CommSec business. Business and Private Banking also includes the financial results of business banking activities conducted under the Bankwest brand.

(iii) Institutional Banking and Markets

Institutional Banking and Markets serves the commercial and wholesale banking needs of large corporate, institutional and government clients across a full range of financial services solutions including access to debt capital markets, transaction banking, working capital and risk management through dedicated product and industry specialists.

(iv) Wealth Management

Wealth Management provides superannuation, investment and retirement products.

(v) New Zealand

New Zealand includes the banking and funds management businesses operating in New Zealand primarily under the ASB brand. ASB provides a range of banking, wealth and insurance products and services to its personal, business, rural and corporate customers in New Zealand.

(vi) International Financial Services and Corporate Centre

International Financial Services (IFS) include the Indonesian retail and business banking operations (PT Bank Commonwealth), and minority investments in China (Bank of Hangzhou and Qilu Bank) and Vietnam (Vietnam International Bank).

Corporate Centre includes the results of unallocated Bank support functions such as Treasury, Investor Relations, Group Strategy, Legal and Corporate Affairs. It also includes Bank wide elimination entries arising on consolidation, centrally raised provisions and other unallocated revenue and expenses. Treasury is primarily focused on the management of the Bank's interest rate risk, funding and liquidity requirements, and management of the Bank's capital.

The Treasury function includes:

- Portfolio management: manages the interest rate risk of the Bank's non-traded Balance Sheet using transfer pricing to consolidate risk into Treasury, and hedging the residual mismatch between assets and liabilities using swaps, futures and options; and
- Group funding and liquidity: manages the Bank's long-term and short-term wholesale funding requirements, and the Bank's prudent liquidity requirements; and
- Capital and regulatory strategy: manages the Bank's capital requirements.

2.7 Financial reporting by segments (continued)

	30 Jun 20 [1]						
	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	New Zealand $M	IFS and Corporate Centre $M	Wealth Management $M	Total $M
Net interest income	9,388	5,654	1,403	1,927	238	–	**18,610**
Other banking income:							
Commissions	1,219	878	158	287	15	–	**2,557**
Lending fees	157	440	332	63	(6)	–	**986**
Trading and other income	249	247	407	25	366	–	**1,294**
Total other banking income	1,625	1,565	897	375	375	–	**4,837**
Total banking income	11,013	7,219	2,300	2,302	613	–	**23,447**
Funds management income	67	–	–	136	(31)	–	**172**
Insurance income	140	–	–	–	(1)	–	**139**
Total operating income	11,220	7,219	2,300	2,438	581	–	**23,758**
Investment experience [2]	16	–	–	–	(13)	–	**3**
Total income	11,236	7,219	2,300	2,438	568	–	**23,761**
Operating expenses	(4,529)	(2,606)	(1,022)	(1,021)	(1,717)	–	**(10,895)**
Loan impairment expense	(1,010)	(814)	(347)	(292)	(55)	–	**(2,518)**
Net profit before income tax	5,697	3,799	931	1,125	(1,204)	–	**10,348**
Corporate tax (expense)/benefit	(1,700)	(1,145)	(276)	(314)	383	–	**(3,052)**
Non-controlling interests	–	–	–	–	–	–	**–**
Net profit after tax from continuing operations - "cash basis"	3,997	2,654	655	811	(821)	–	**7,296**
Net profit after tax from discontinued operations	–	–	–	–	16	137	**153**
Net profit after tax - "cash basis" [3]	3,997	2,654	655	811	(805)	137	**7,449**
Gain/(loss) on disposal and acquisition of entities net of transaction costs	41	(16)	–	8	161	1,898	**2,092**
Hedging and IFRS volatility	–	–	–	126	(33)	–	**93**
Other non-cash items	–	–	–	–	–	–	**–**
Net profit after tax - "statutory basis"	4,038	2,638	655	945	(677)	2,035	**9,634**
Additional information							
Amortisation and depreciation	(194)	(181)	(71)	(124)	(1,219)	–	**(1,789)**
Balance Sheet							
Total assets [4]	406,962	196,710	171,110	98,539	138,253	2,486	**1,014,060**
Total liabilities [4]	266,685	178,192	186,387	91,796	210,034	8,953	**942,047**

1 Information is presented on a continuing operations basis unless otherwise stated.
2 Investment experience is presented on a pre-tax basis.
3 This balance excludes non-cash items, such as unrealised gains and losses relating to hedging and IFRS volatility, gains and losses net of transaction and separation costs associated with disposal of Aegis, AUSIEX, CFS, CFSGAM, Count Financial, PT Commonwealth Life and other businesses, the dilution of the Group's interest in Bank of Hangzhou, the deconsolidation of CommInsure Life, and other non-cash items.
4 Total assets and total liabilities reflect the adoption of AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16, comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1.1.

Notes to the financial statements
For the year ended 30 June 2020

2.7 Financial reporting by segments (continued)

30 Jun 19 [1, 2]	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	New Zealand $M	IFS and Corporate Centre $M	Wealth Management $M	Total $M
Net interest income	8,748	5,655	1,533	1,909	379	–	**18,224**
Other banking income:							
Commissions	1,357	813	176	302	29	–	**2,677**
Lending fees	168	418	345	60	1	–	**992**
Trading and other income	147	293	426	80	336	–	**1,282**
Total other banking income	1,672	1,524	947	442	366	–	**4,951**
Total banking income	10,420	7,179	2,480	2,351	745	–	**23,175**
Funds management income	139	–	–	130	(14)	–	**255**
Insurance income	149	–	–	–	(2)	–	**147**
Total operating income	10,708	7,179	2,480	2,481	729	–	**23,577**
Investment experience [3]	26	–	–	–	(24)	–	**2**
Total income	10,734	7,179	2,480	2,481	705	–	**23,579**
Operating expenses	(4,462)	(2,604)	(1,014)	(912)	(1,832)	–	**(10,824)**
Loan impairment expense	(672)	(384)	(17)	(102)	(26)	–	**(1,201)**
Net profit before income tax	5,600	4,191	1,449	1,467	(1,153)	–	**11,554**
Corporate tax (expense)/benefit	(1,693)	(1,260)	(332)	(408)	372	–	**(3,321)**
Non-controlling interests	–	–	–	–	(12)	–	**(12)**
Net profit after tax from continuing operations - "cash basis"	3,907	2,931	1,117	1,059	(793)	–	**8,221**
Net profit after tax from discontinued operations	–	–	–	–	(43)	528	**485**
Net profit after tax - "cash basis" [4]	3,907	2,931	1,117	1,059	(836)	528	**8,706**
(Loss)/gain on disposal and acquisition of entities net of transaction costs	(32)	–	13	179	(13)	(208)	**(61)**
Hedging and IFRS volatility	–	–	–	(48)	(31)	–	**(79)**
Other non-cash items	(1)	–	–	–	–	6	**5**
Net profit after tax - "statutory basis"	3,874	2,931	1,130	1,190	(880)	326	**8,571**
Additional information							
Amortisation and depreciation	(198)	(162)	(38)	(80)	(480)	–	**(958)**
Balance Sheet							
Total assets	390,976	197,047	148,027	94,320	125,563	20,569	**976,502**
Total liabilities	247,919	159,057	158,579	88,466	229,264	23,568	**906,853**

1 Information has been restated and presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 11.3.
2 Information has been restated to conform to presentation in the current year and to reflect changes in accounting policy detailed in Note 1.1.
3 Investment experience is presented on a pre-tax basis.
4 This balance excludes non-cash items, such as unrealised gains and losses relating to hedging and IFRS volatility, gains and losses net of transaction and separation costs associated with disposal of CFSGAM, Count Financial, PT Commonwealth Life, Sovereign, TymeDigital SA and other businesses, the deconsolidation and planned divestment of CommInsure Life, the demerger costs for NewCo, and other non-cash items.

Notes to the financial statements
For the year ended 30 June 2020

2.7 Financial reporting by segments (continued)

30 Jun 18 [1, 2]	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	New Zealand $M	IFS and Corporate Centre $M	Wealth Management $M	Total $M
Net interest income	9,070	5,646	1,605	1,760	384	–	**18,465**
Other banking income	1,756	1,498	1,104	415	318	–	**5,091**
Total banking income	10,826	7,144	2,709	2,175	702	–	**23,556**
Funds management income	199	–	–	112	2	–	**313**
Insurance income	242	–	–	–	(4)	–	**238**
Total operating income	11,267	7,144	2,709	2,287	700	–	**24,107**
Investment experience [3]	8	–	–	–	(4)	–	**4**
Total income	11,275	7,144	2,709	2,287	696	–	**24,111**
Operating expenses	(4,267)	(2,406)	(1,035)	(860)	(2,085)	–	**(10,653)**
Loan impairment expense	(632)	(262)	(80)	(74)	(31)	–	**(1,079)**
Net profit before income tax	6,376	4,476	1,594	1,353	(1,420)	–	**12,379**
Corporate tax (expense)/benefit	(1,911)	(1,342)	(368)	(378)	220	–	**(3,779)**
Non-controlling interests	–	–	–	–	(13)	–	**(13)**
Net profit after tax from continuing operations - "cash basis"	4,465	3,134	1,226	975	(1,213)	–	**8,587**
Net profit after tax from discontinued operations	–	–	–	96	(53)	782	**825**
Net profit after tax - "cash basis" [4]	4,465	3,134	1,226	1,071	(1,266)	782	**9,412**
Gain/(loss) on disposal and acquisition of entities net of transaction costs	58	–	–	(18)	(84)	(139)	**(183)**
Hedging and IFRS volatility	–	–	–	87	14	–	**101**
Other non-cash items	(3)	–	–	–	–	2	**(1)**
Net profit after tax - "statutory basis"	4,520	3,134	1,226	1,140	(1,336)	645	**9,329**

1 Information has been restated and presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 11.3.
2 Information has been restated to conform to presentation in the current year and to reflect changes in accounting policy detailed in Note 1.1.
3 Investment experience is presented on a pre-tax basis.
4 This balance excludes non-cash items, such as unrealised gains and losses relating to hedging and IFRS volatility, gains and losses net of transaction and separation costs associated with disposal of CommInsure Life, Sovereign, and other businesses, net gains on acquisition of AHL and other businesses, an impairment due to the reclassification of TymeDigital SA as a discontinued operation, the demerger costs for NewCo, and other non-cash items.

Notes to the financial statements
For the year ended 30 June 2020

2.7 Financial reporting by segments (continued)

	Group [1]					
	30 Jun 20		30 Jun 19		30 Jun 18	
Financial performance and position	**$M**	**%**	**$M**	**%**	**$M**	**%**
Income						
Australia	**20,391**	**85. 2**	20,162	85. 8	21,026	86. 5
New Zealand	**2,504**	**10. 5**	2,444	10. 4	2,297	9. 4
Other locations [2]	**1,031**	**4. 3**	899	3. 8	996	4. 1
Total Income	**23,926**	**100. 0**	23,505	100. 0	24,319	100. 0
Non-current assets [3]						
Australia	**14,488**	**93. 0**	12,453	93. 2	13,473	93. 3
New Zealand	**857**	**5. 5**	635	4. 8	581	4. 0
Other locations [2]	**235**	**1. 5**	261	2. 0	387	2. 7
Total non-current assets	**15,580**	**100. 0**	13,349	100. 0	14,441	100. 0

1 Information has been restated and presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 11.3.
2 Other locations include: United Kingdom, Netherlands, United States, Japan, Singapore, Malta, Hong Kong, Indonesia, China and Vietnam.
3 Non-current assets include Property, plant and equipment, Investments in associates and joint ventures, and Intangibles.

The geographical segment represents the location in which the transaction was recognised.

ACCOUNTING POLICIES

Operating segments are reported based on the Group's organisational and management structures. Senior management review the Group's internal reporting based around these segments, in order to assess performance and allocate resources.

All transactions between segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated in 'Corporate Centre'.

Notes to the financial statements
For the year ended 30 June 2020

3. Our lending activities

OVERVIEW

Lending is the Group's primary business activity, generating most of its Net interest income and lending fees. The Group satisfies customers' needs for borrowed funds by providing a broad range of lending products in Australia, New Zealand and other jurisdictions. As a result of its lending activities the Group assumes credit risk arising from the potential that borrowers will fail to meet their obligations in accordance with agreed lending terms.

This section provides details of the Group's lending portfolio by type of product and geographical region, analysis of the credit quality of the Group's lending portfolio and the related impairment provisions.

3.1 Loans, bills discounted and other receivables

		Group [1]		Bank [1]	
		30 Jun 20	30 Jun 19	30 Jun 20	30 Jun 19
	Note	$M	$M	$M	$M
Australia					
Overdrafts		**27,593**	26,297	**27,593**	26,297
Home loans [2, 3]		**485,795**	467,361	**478,419**	459,690
Credit card outstandings		**9,005**	11,271	**9,005**	11,271
Lease financing		**4,073**	4,410	**3,487**	3,532
Bills discounted		**354**	1,955	**354**	1,955
Term loans and other lending		**146,225**	141,727	**146,238**	141,711
Total Australia		**673,045**	653,021	**665,096**	644,456
Overseas					
Overdrafts		**1,481**	1,842	**257**	306
Home loans [2, 3]		**57,085**	55,581	**259**	341
Credit card outstandings		**911**	1,069	**–**	–
Lease financing		**6**	8	**1**	1
Term loans and other lending		**46,147**	49,492	**18,061**	20,662
Total overseas		**105,630**	107,992	**18,578**	21,310
Gross loans, bills discounted and other receivables		**778,675**	761,013	**683,674**	665,766
Less					
Provisions for loan impairment:	3.2				
Collective provision		**(5,277)**	(3,820)	**(4,766)**	(3,455)
Individually assessed provisions		**(967)**	(895)	**(813)**	(801)
Unearned income:					
Term loans		**(627)**	(739)	**(621)**	(730)
Lease financing		**(257)**	(386)	**(206)**	(272)
		(7,128)	(5,840)	**(6,406)**	(5,258)
Net loans, bills discounted and other receivables		**771,547**	755,173	**677,268**	660,508

1 Comparative information has been restated to conform to presentation in the current year.
2 Home loans balance includes residential mortgages that have been assigned to securitisation vehicles and covered bond trusts. Further details on these residential mortgages are disclosed in Note 4.4.
3 These balances are presented gross of mortgage offset balances as required under accounting standards.

Based on behavioural terms and current market conditions, the amounts expected to be repaid within 12 months of the Balance Sheet date are $178,113 million (2019: $185,208 million) for the Group, and $159,783 million (2019: $167,316 million) for the Bank.

Notes to the financial statements
For the year ended 30 June 2020

3.1 Loans, bills discounted and other receivables (continued)

Finance lease receivables

The Group and the Bank provide finance leases to a broad range of clients to support financing needs in acquiring transportation assets such as trains, aircraft, ships and major production and manufacturing equipment.

Finance lease receivables are included within Loans, bills discounted and other receivables.

	Group [1]					
	30 Jun 20			30 Jun 19		
	Gross investment in finance lease receivable $M	Unearned income $M	Present value of minimum lease payment receivable $M	Gross investment in finance lease receivable $M	Unearned income $M	Present value of minimum lease payment receivable $M
Not later than one year	**1,584**	**(130)**	**1,454**	1,665	(176)	1,489
One to two years	**1,047**	**(66)**	**981**	939	(66)	873
Two to three years	**668**	**(34)**	**634**	792	(51)	741
Three to four years	**480**	**(16)**	**464**	487	(41)	446
Four to five years	**160**	**(6)**	**154**	413	(40)	373
Over five years	**140**	**(5)**	**135**	122	(12)	110
	4,079	**(257)**	**3,822**	4,418	(386)	4,032

	Bank [1]					
	30 Jun 20			30 Jun 19		
	Gross investment in finance lease receivable $M	Unearned income $M	Present value of minimum lease payment receivable $M	Gross investment in finance lease receivable $M	Unearned income $M	Present value of minimum lease payment receivable $M
Not later than one year	**1,431**	**(102)**	**1,329**	1,363	(127)	1,236
One to two years	**844**	**(54)**	**790**	791	(39)	752
Two to three years	**607**	**(28)**	**579**	589	(39)	550
Three to four years	**318**	**(12)**	**306**	421	(32)	389
Four to five years	**152**	**(5)**	**147**	257	(24)	233
Over five years	**136**	**(5)**	**131**	112	(11)	101
	3,488	**(206)**	**3,282**	3,533	(272)	3,261

1 Comparative information has been restated to conform to presentation in the current year.

ACCOUNTING POLICIES

Loans, bills discounted and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, and discounted bills. These financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The contractual cash flows on these financial assets comprise the payment of principal and interest only. These instruments are accordingly measured at amortised cost.

Loans, bills discounted and other receivables are recognised on settlement date, when funding is advanced to the borrowers. They are initially recognised at their fair value plus directly attributable transaction costs such as broker fees. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method and are presented net of provisions for impairment. For the accounting policy for provisions for impairment, refer to Note 3.2. For information on the Group's management of credit risk, refer to Note 9.2.

Finance leases, where the Group acts as lessor, are also included in Loans, bills discounted and other receivables. Finance leases are those where substantially all the risks and rewards of the lease asset have been transferred to the lessee. Lease receivables are recognised at an amount equal to the net investment in the lease. Finance lease income reflects a constant periodic return on this net investment and is recognised within interest income in the Income Statement.

Critical accounting judgements and estimates

When applying this effective interest method the Group has estimated the behavioural term of each loan portfolio by reference to historical prepayment rates and the contractual maturity.

Notes to the financial statements
For the year ended 30 June 2020

3.1 Loans, bills discounted and other receivables (continued)

Contractual maturity tables

	Group Maturity Period at 30 June 2020			
Industry [1]	Maturing 1 year or less $M	Maturing between 1 and 5 years $M	Maturing after 5 years $M	Total $M
Australia				
Sovereign	22,376	711	434	23,521
Agriculture	3,417	5,969	294	9,680
Bank and other financial	9,474	3,404	258	13,136
Home loans	16,452	68,258	401,085	485,795
Construction	1,454	1,729	417	3,600
Other personal	5,996	10,363	1,336	17,695
Asset financing	1,175	8,556	703	10,434
Other commercial and industrial	34,877	66,267	8,040	109,184
Total Australia	95,221	165,257	412,567	673,045
Overseas				
Sovereign	69	–	–	69
Agriculture	3,882	4,648	1,071	9,601
Bank and other financial	2,686	3,635	61	6,382
Home loans	4,729	8,233	44,123	57,085
Construction	188	218	187	593
Other personal	1,061	408	407	1,876
Asset financing	48	495	236	779
Other commercial and industrial	14,980	8,406	5,859	29,245
Total overseas	27,643	26,043	51,944	105,630
Gross loans, bills discounted and other receivables	122,864	191,300	464,511	778,675

1 The industry split has been prepared in line with industry exposures in Note 9.2.

Interest rate	Maturing 1 year or less $M	Maturing between 1 and 5 years $M	Maturing after 5 years $M	Total $M
Australia	85,170	142,694	319,877	547,741
Overseas	23,202	16,156	9,163	48,521
Total variable interest rates	108,372	158,850	329,040	596,262
Australia	10,051	22,563	92,690	125,304
Overseas	4,441	9,887	42,781	57,109
Total fixed interest rates	14,492	32,450	135,471	182,413
Gross loans, bills discounted and other receivables	122,864	191,300	464,511	778,675

3.1 Loans, bills discounted and other receivables (continued)

	Group [1] Maturity Period at 30 June 2019			
Industry [2]	Maturing 1 year or less $M	Maturing between 1 and 5 years $M	Maturing after 5 years $M	Total $M
Australia				
Sovereign	21,303	592	509	22,404
Agriculture	3,631	5,066	443	9,140
Bank and other financial	7,857	3,854	241	11,952
Home loans	11,859	51,092	404,410	467,361
Construction	1,492	1,248	454	3,194
Other personal	6,848	12,978	1,682	21,508
Asset financing	969	8,960	542	10,471
Other commercial and industrial	36,289	61,096	9,606	106,991
Total Australia	90,248	144,886	417,887	653,021
Overseas				
Sovereign	81	1	–	82
Agriculture	4,076	5,116	1,420	10,612
Bank and other financial	1,940	3,811	23	5,774
Home loans	4,954	7,082	43,545	55,581
Construction	255	105	213	573
Other personal	1,264	378	282	1,924
Asset financing	44	436	242	722
Other commercial and industrial	16,307	9,288	7,129	32,724
Total Overseas	28,921	26,217	52,854	107,992
Gross loans, bills discounted and other receivables	119,169	171,103	470,741	761,013

1 Comparative information has been restated to conform to presentation in the current year.
2 The industry split has been prepared in line with industry exposures in Note 9.2.

Interest rate	Maturing 1 year or less [1] $M	Maturing between 1 and 5 years [1] $M	Maturing after 5 years [1] $M	Total $M
Australia	76,743	126,963	332,718	536,424
Overseas	25,363	16,890	10,368	52,621
Total variable interest rates	102,106	143,853	343,086	589,045
Australia	13,505	17,923	85,169	116,597
Overseas	3,558	9,327	42,486	55,371
Total fixed interest rates	17,063	27,250	127,655	171,968
Gross loans, bills discounted and other receivables	119,169	171,103	470,741	761,013

1 Comparative information has been restated to conform to presentation in the current year.

3.2 Provisions for impairment

	Group			Bank	
Provisions for impairment losses	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Collective provision					
Opening balance	**3,904**	2,763	2,747	**3,537**	2,510
Change on adoption of AASB 9	**–**	1,055	–	**–**	979
Net collective provision funding	**2,043**	724	716	**1,804**	629
Impairment losses written off	**(763)**	(901)	(871)	**(690)**	(818)
Impairment losses recovered	**185**	206	201	**172**	191
Other	**27**	57	(30)	**56**	46
Closing balance	**5,396**	3,904	2,763	**4,879**	3,537
Individually assessed provisions					
Opening balance	**895**	870	980	**801**	779
Net new and increased individual provisioning	**658**	619	625	**519**	556
Write-back of provisions no longer required	**(183)**	(142)	(262)	**(168)**	(127)
Discount unwind to interest income	**(16)**	(23)	(25)	**(16)**	(23)
Impairment losses written off	**(444)**	(500)	(548)	**(371)**	(446)
Other	**57**	71	100	**48**	62
Closing balance	**967**	895	870	**813**	801
Total provisions for impairment losses	**6,363**	4,799	3,633	**5,692**	4,338
Less: off Balance Sheet provisions	**(119)**	(84)	(28)	**(113)**	(82)
Total provisions for loan impairment	**6,244**	4,715	3,605	**5,579**	4,256

Of the total $1,207 million loans written-off by the Group during the year ended 30 June 2020 (30 June 2019: $1,401 million), $475 million remain subject to enforcement activity (30 June 2019: $424 million). Of the total $1,061 million loans written-off by the Bank during the year ended 30 June 2020 (30 June 2019: $1,264 million), $397 million remain subject to enforcement activity (30 June 2019: $394 million).

	Group			Bank	
Provision ratios	30 Jun 20 %	30 Jun 19 %	30 Jun 18 %	30 Jun 20 %	30 Jun 19 %
Total provisions for impaired assets as a % of gross impaired assets [1]	**35. 37**	32. 77	33. 60	**37. 74**	35. 36
Total provisions for impairment losses as a % of gross loans and acceptances	**0. 82**	0. 63	0. 49	**0. 83**	0. 65

1 Gross impaired assets include non-performing facilities, restructured facilities and unsecured retail managed facilities 90 days or more past due. For impaired assets classification refer to Note 9.2.

	Group			Bank	
Loan impairment expense	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Net collective provision funding	**2,043**	724	716	**1,804**	629
Net new and increased individual provisioning	**658**	619	625	**519**	556
Write-back of individually assessed provisions	**(183)**	(142)	(262)	**(168)**	(127)
Total loan impairment expense	**2,518**	1,201	1,079	**2,155**	1,058

3.2 Provisions for impairment (continued)

Movement in provisions for impairment and credit exposures by ECL stage

The tables below provide movements in the Group's and the Bank's impairment provisions and credit exposures by expected credit loss (ECL) stage for the year ended 30 June 2020.

Movements in credit exposures and provisions for impairment in the tables below represent the sum of monthly movements over the year and are attributable to the following items:

- **Transfers to/(from):** movements due to transfers of credit exposures between Stage 1, Stage 2 and Stage 3. Excludes the impact of re-measurements of provisions for impairment between 12 months and lifetime ECL.
- **Net re-measurement on transfers between stages:** movements in provisions for impairment due to re-measurement between 12 months and lifetime ECL as a result of transfers of credit exposures between stages.
- **Net financial assets originated:** net movements in credit exposures and provisions for impairment due to new financial assets originated as well as changes in existing credit exposures due to maturities, repayments or credit limit changes.
- **Movements in existing IAP (including IAP write-backs):** net movements in existing Individually Assessed Provisions (IAP) excluding write-offs.
- **Movement due to risk parameter and other changes:** movements in provisions for impairment due to changes in credit risk parameters, forward looking economic scenarios or other assumptions as well as other changes in underlying credit quality that do not lead to transfers between Stage 1, Stage 2 and Stage 3.
- **Write-offs:** derecognition of credit exposures and provisions for impairment upon write-offs.
- **Recoveries:** increases in provisions for impairment due to recoveries of loans previously written off.
- **Foreign exchange and other movements:** other movements in credit exposures and provisions for impairment including the impact of changes in foreign exchange rates.

3.2 Provisions for impairment (continued)

	Group [1, 2]							
	Stage 1 [3] Collectively assessed		Stage 2 [4] Collectively assessed		Stage 3 [5] Collectively and individually assessed		Total	
	Gross exposure $M	Provisions $M	Gross exposure $M	Provisions $M	Gross exposure $M	Provisions $M	Gross exposure $M	Provisions $M
Opening balance as at 1 July 2018	**709,924**	**873**	**191,009**	**2,525**	**5,976**	**1,290**	**906,909**	**4,688**
Transfers to/(from)								
Stage 1	111,753	1,312	(111,687)	(1,309)	(66)	(3)	–	–
Stage 2	(135,041)	(607)	138,440	935	(3,399)	(328)	–	–
Stage 3	(350)	(10)	(7,088)	(460)	7,438	470	–	–
Net re-measurement on transfers between stages	–	(1,072)	–	1,596	–	568	–	1,092
Net financial assets originated	56,075	341	(47,598)	(999)	(1,953)	(143)	6,524	(801)
Movement in existing IAP (including IAP write-backs)	–	–	–	–	–	358	–	358
Movements due to risk parameters and other changes	–	57	–	191	–	304	–	552
Loan impairment expense for the year		21		(46)		1,226		1,201
Write-offs	–	–	–	–	(1,401)	(1,401)	(1,401)	(1,401)
Recoveries	–	–	–	–	–	206	–	206
Foreign exchange and other movements	5,408	11	1,216	40	102	54	6,726	105
Closing balance as at 30 June 2019	**747,769**	**905**	**164,292**	**2,519**	**6,697**	**1,375**	**918,758**	**4,799**
Transfers to/(from)								
Stage 1	92,253	1,384	(92,543)	(1,372)	290	(12)	–	–
Stage 2	(179,232)	(636)	182,069	1,011	(2,837)	(375)	–	–
Stage 3	(393)	(8)	(6,027)	(413)	6,420	421	–	–
Net re-measurement on transfers between stages	–	(1,079)	–	1,614	–	535	–	1,070
Net financial assets originated	75,315	376	(49,188)	(765)	(2,351)	(188)	23,776	(577)
Movement in existing IAP (including IAP write-backs)	–	–	–	–	–	399	–	399
Movements due to risk parameters and other changes	–	618	–	736	–	272	–	1,626
Loan impairment expense for the year		655		811		1,052		2,518
Write-offs	–	–	–	–	(1,207)	(1,207)	(1,207)	(1,207)
Recoveries	–	–	–	–	–	185	–	185
Foreign exchange and other movements	(435)	9	(60)	16	(77)	43	(572)	68
Closing balance as at 30 June 2020	**735,277**	**1,569**	**198,543**	**3,346**	**6,935**	**1,448**	**940,755**	**6,363**

1 Comparative information has been restated to conform to presentation in the current year.

2 Refer to Note 9.2 for further analysis of provisions for impairment and credit exposures.

3 Movements in credit exposures exclude Cash and liquid assets and Receivables from financial institutions. Movements in provisions for impairment losses include provisions in relation to Cash and liquid assets and Receivables from financial institutions. As at 30 June 2020, collective provisions in Stage 1 include $12 million in relation to these financial assets (30 June 2019: $9 million).

4 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risks at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Group as at 30 June 2020 (30 June 2019: 65%).

5 As at 30 June 2020, Stage 3 includes $4,598 million of collectively assessed (30 June 2019: $4,604 million) and $2,337 million of individually assessed credit exposures (30 June 2019: $2,093 million). Stage 3 provisions for impairment include $481 million of collective provisions (30 June 2019: $480 million) and $967 million of individually assessed provisions (30 June 2019: $895 million).

Notes to the financial statements
For the year ended 30 June 2020

3.2 Provisions for impairment (continued)

	Bank [1, 2]							
	Stage 1 [3]		Stage 2 [4]		Stage 3 [5]			
	Collectively assessed		Collectively assessed		Collectively and individually assessed		Total	
	Gross exposure	Provisions	Gross exposure	Provisions	Gross exposure	Provisions	Gross exposure	Provisions
	$M	$M	$M	$M	$M	$M	$M	$M
Opening balance as at 1 July 2018	**631,818**	**783**	**171,198**	**2,313**	**5,177**	**1,172**	**808,193**	**4,268**
Transfers to/(from)								
Stage 1	107,627	1,268	(107,567)	(1,266)	(60)	(2)	–	–
Stage 2	(129,835)	(572)	132,931	878	(3,096)	(306)	–	–
Stage 3	(203)	(9)	(6,636)	(445)	6,839	454	–	–
Net re-measurement on transfers between stages	–	(1,037)	–	1,562	–	528	–	1,053
Net financial assets originated	49,839	323	(46,367)	(981)	(1,843)	(122)	1,629	(780)
Movement in existing IAP (including IAP write-backs)	–	–	–	–	–	311	–	311
Movements due to risk parameters and other changes	–	34	–	202	–	238	–	474
Loan impairment expense for the year		7		(50)		1,101		1,058
Write-offs	–	–	–	–	(1,264)	(1,264)	(1,264)	(1,264)
Recoveries	–	–	–	–	–	191	–	191
Foreign exchange and other movements	2,410	11	456	30	74	44	2,940	85
Closing balance as at 30 June 2019	**661,656**	**801**	**144,015**	**2,293**	**5,827**	**1,244**	**811,498**	**4,338**
Transfers to/(from)								
Stage 1	91,183	1,333	(91,097)	(1,327)	(86)	(6)	–	–
Stage 2	(172,270)	(599)	175,655	946	(3,385)	(347)	–	–
Stage 3	(311)	(6)	(6,302)	(372)	6,613	378	–	–
Net re-measurement on transfers between stages	–	(1,038)	–	1,559	–	474	–	995
Net financial assets originated	70,949	342	(47,613)	(746)	(2,140)	(162)	21,196	(566)
Movement in existing IAP (including IAP write-backs)	–	–	–	–	–	296	–	296
Movements due to risk parameters and other changes	–	569	–	581	–	280	–	1,430
Loan impairment expense for the year		601		641		913		2,155
Write-offs	–	–	–	–	(1,061)	(1,061)	(1,061)	(1,061)
Recoveries	–	–	–	–	–	172	–	172
Foreign exchange and other movements	1,305	16	384	35	–	37	1,689	88
Closing balance as at 30 June 2020	**652,512**	**1,418**	**175,042**	**2,969**	**5,768**	**1,305**	**833,322**	**5,692**

1 Comparative information has been restated to conform to presentation in the current year.

2 Refer to Note 9.2 for further analysis of provisions for impairment and credit exposures.

3 Movements in credit exposures exclude Cash and liquid assets and Receivables from financial institutions. Movements in provisions for impairment losses include provisions in relation to Cash and liquid assets and Receivables from financial institutions. As at 30 June 2020, collective provisions in Stage 1 include $10 million in relation these financial assets (30 June 2019: $9 million).

4 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risks at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 64% of Stage 2 credit exposures for the Bank as at 30 June 2020 (30 June 2019: 65%).

5 As at 30 June 2020, Stage 3 includes $3,950 million of collectively assessed (30 June 2019: $4,168 million) and $1,818 million of individually assessed credit exposures (30 June 2019: $1,659 million). Stage 3 provisions for impairment include $492 million of collective provisions (30 June 2019: $443 million) and $813 million of individually assessed provisions (30 June 2019: $801 million).

Notes to the financial statements
For the year ended 30 June 2020

3.2 Provisions for impairment (continued)

ACCOUNTING POLICIES

By providing loans to customers, the Group bears the risk that the future circumstances of customers might change, including their ability to repay their loans in part or in full. While the Group's credit and responsible lending policies aim to minimise this risk, there will always be instances where the Group will not receive the full amount owed and hence a provision for impaired loans will be necessary.

A description of the key components of the Group's AASB 9 impairment methodology is provided below.

Expected credit loss (ECL) model

The ECL model applies to all financial assets measured at amortised cost, debt securities measured at fair value through other comprehensive income, finance lease receivables, loan commitments and financial guarantee contracts not measured at fair value through profit or loss (FVTPL). The model uses a three-stage approach to recognition of expected credit losses. Financial assets migrate through these stages based on changes in credit risk since origination:

- **Stage 1 - 12 months ECL - Performing loans**

  On origination, financial assets recognise an impairment provision equivalent to 12 months ECL. 12 months ECL is the credit losses expected to arise from defaults occurring over the next 12 months.

- **Stage 2 - Lifetime ECL - Performing loans that have experienced a significant increase in credit risk (SICR)**

  Financial assets that have experienced a SICR since origination are transferred to Stage 2 and recognise an impairment provision equivalent to lifetime ECL. Lifetime ECL is the credit losses expected to arise from defaults occurring over the remaining life of financial assets. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer considered significant the exposure is reclassified to Stage 1 and the impairment provision reverts to 12 months ECL.

- **Stage 3 - Lifetime ECL - Non-performing loans**

  Financial assets in default recognise a provision equivalent to lifetime ECL. This includes assets that are considered impaired as well as assets that are considered to be in default but are not impaired because, for example, no loss is expected based on the security position.

Credit losses for financial assets in Stage 1 and Stage 2 are assessed for impairment collectively, whilst those in Stage 3 are subjected to either collective or individual assessment of expected credit losses.

Significant increase in credit risk (SICR)

SICR is assessed by comparing the risk of default occurring over the expected life of the financial asset at reporting date to the corresponding risk of default at origination. The Group considers all available qualitative and quantitative information that is relevant to assessing SICR.

For non-retail portfolios, such as the corporate risk rated portfolio and the asset finance portfolio, the risk of default is defined using the existing Risk Rated Probability of Default (PD) Masterscale. The PD Masterscale is used in internal credit risk management and includes 23 risk grades that are assigned at a customer level using rating tools reflecting customer specific financial and non-financial information and management's experienced credit judgement. Internal credit risk ratings are updated regularly on the basis of the most recent financial and non-financial information.

The Group has developed a Retail Masterscale for use in the ECL measurement on personal loans, credit cards, home loans and SME retail portfolios. The Retail Masterscale has 15 risk grades that are assigned to retail accounts based on their credit quality scores determined through a credit quality scorecard. Risk grades for retail exposures are updated monthly as credit quality scorecards are recalculated based on new behavioural information.

For significant portfolios, the primary indicator of SICR is a significant deterioration in an exposure's internal credit rating grade between origination and reporting date. Application of the primary SICR indicator uses a sliding threshold such that an exposure with a higher credit quality at origination would need to experience a more significant downgrade compared to a lower credit quality exposure before SICR is triggered. The level of downgrade required to trigger SICR for each origination grade have been defined for each significant portfolio.

The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risks at an industry, geographic location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 exposures for the Group and 64% for the Bank as at 30 June 2020 (30 June 2019: 65% for the Group and the Bank).

The Group also uses secondary SICR indicators as backstops in combination with the primary SICR indicator, including:

- arrears status, including the AASB 9 rebuttable presumption of 30 days past due;
- a retail exposure entering a financial hardship status;
- a non-retail exposure's referral to Group Credit Structuring.

The offer or uptake of a COVID-19 related repayment deferral does not itself constitute a SICR event unless the exposure is considered to have experienced a SICR based on other available information. For most retail exposures on repayment deferrals, SICR has been assessed with reference to credit quality score that is strongly associated with a heightened loan-to-value ratio and low levels of prepayment. The Group reassessed the internal credit risk ratings for the majority of non-retail exposures in segments most impacted by COVID-19 in the last quarter of the financial year 2020, including those on repayment deferrals, to determine if changes in customers' circumstances were sufficient to constitute SICR.

For a number of small portfolios, which are not considered significant individually or in combination, the Group applies simplified provisioning approaches that differ from the description above. 30 days past due is used as a primary indicator of SICR on exposures in these portfolios.

3.2 Provisions for impairment (continued)

Definition of default, impaired and write-offs

The definition of default used in measuring ECL is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to meet contractual credit obligations to the Group in full, or the exposure is 90 days past due.

Facilities are classified as impaired where there is doubt as to whether the full amounts due, including interest and other payments, will be received in a timely manner. Loans are written off when there is no reasonable expectation of recovery.

The offer or uptake of a COVID-19 related repayment deferral does not constitute a default or credit impairment unless the exposure is considered to be in default or impaired based on the criteria outlined above.

ECL measurement

ECL is a probability weighted expected credit loss estimated by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The Group uses the following AASB 9 collective provisioning models in calculating ECL for significant portfolios:

- **Retail lending**: Personal Loans model, Credit Cards model, Home Loans model, Retail SME model;
- **Non-retail lending**: Corporate Risk rated model, Asset Finance model.

For each significant portfolio ECL is calculated as a product of the following credit risk factors at a facility level:

- **Probability of default (PD)**: The likelihood that a debtor will be unable to pay its obligations in full without having to take actions such as realising on security or that the debtor will become 90 days overdue on obligation or contractual commitment;
- **Exposure at default (EAD)**: Expected Balance Sheet exposure at default. The Group generally calculates EAD as the higher of the drawn balance and total credit limit, except for the credit cards portfolio, for which EAD calculation also takes into account the probability of unused limits being drawn down; and
- **Loss given default (LGD)**: The amount that is not expected to be recovered following default.

Secured retail exposures and defaulted non retail exposures are assessed for impairment through an Individually Assessed Provisions (IAP) process if expected losses are in excess of $20,000. Impairment provisions on these exposures are calculated directly as the difference between the defaulted asset's carrying value and the present value of expected future cash flows including cash flows from realisation of collateral, where applicable.

Lifetime of an exposure

For exposures in Stage 2 and Stage 3 impairment provisions are determined as a lifetime expected loss. The Group uses a range of approaches to estimate expected lives of financial instruments subject to ECL requirements:

- **Non-revolving products in corporate portfolios**: Expected life is determined as a maximum contractual period over which the Group is exposed to credit risk;
- **Non-revolving retail products**: For fixed term products such as personal loans and home loans, expected life is determined using behavioural term analysis and does not exceed the maximum contractual period; and
- **Revolving products in corporate and retail portfolios**: For revolving products that include both a loan and an undrawn commitment, such as credit cards and corporate lines of credit, the Group's contractual ability to cancel the undrawn limits and demand repayments does not limit the exposure to credit losses to the contractual notice period. For such products, ECL is measured over the behavioural life.

Forward-looking information

Credit risk factors of PD and LGD used in ECL calculation are point-in-time estimates based on current conditions and adjusted to include the impact of multiple probability-weighted future forecast economic scenarios.

Forward looking PD and LGD factors are modelled for each significant portfolio based on macro-economic factors that are most closely correlated with credit losses in the relevant portfolios. Each of the four scenarios (refer below) includes a forecast of relevant macro-economic variables which differ by portfolio:

- **Retail portfolios:** Cash rate, unemployment rate, GDP per capita and House price index.
- **Non-retail lending:** Unemployment rate, business investment index, disposable income, ASX 200 and the AUD/USD exchange rate.

New Zealand equivalents of a subset of the above macro-economic variables are used for retail credit exposures originated in New Zealand.

The Group uses the following four alternative macro-economic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL for significant portfolios:

- **Central scenario:** This scenario considers Central Bank forecasts as well as the Group's base case assumptions used in business planning and forecasting.
- **Downside scenario:** This scenario is set relative to the Central scenario based on macro-economic conditions that represent plausible but less likely alternatives to the Central scenario.
- **Upside scenario:** This scenario is included to account for the potential impact of less likely, more favourable macro-economic conditions. Relative to the Central scenario, the Upside scenario features a more rapid recovery in economic output and return to normal labour market conditions over the short-term with further improvement over the medium-term. In addition to this, the scenario features a stronger exchange rate, consistent growth in house prices, business investment, disposable income and the share market as well as modest increases in interest rates over the medium-term.

3.2 Provisions for impairment (continued)

- **Severe downside scenario:** This scenario is included to account for a potentially severe impact of less likely, extremely adverse macro-economic conditions. Relative to the Central and Downside scenarios, this scenario features a sharper contraction with a slow recovery in economic output, heightened and prolonged weakness in the labour market, and more severe declines in house prices and the share market. In addition to this, the scenario features a more severe and prolonged contraction in business investment and a weaker exchange rate, while interest rates remain accommodative.

The table below provides a summary of macro-economic variables used in the Central and Downside scenarios as at 30 June 2020.

	Central Calendar year			Downside Calendar year		
	2020	2021	2022	2020	2021	2022
GDP (annual % change)	(6.0)	6.0	3.0	(7.1)	1.4	2.3
Unemployment rate (%) [1]	9.0	7.5	6.3	10.0	8.5	6.9
Cash rate (%) [1]	0.25	0.25	0.25	0.25	0.25	0.25
House prices (annual % change)	(7.0)	(1.4)	3.8	(12.8)	(12.5)	(2.5)
Business investment (annual % change)	(13.0)	4.0	4.4	(14.0)	(7.5)	0.6
AUD/USD exchange rate [1]	0.64	0.64	0.64	0.60	0.60	0.60
Disposable income (annual % change)	(1.8)	1.7	1.8	(3.6)	(3.1)	0.1
ASX 200 (annual % change)	(5.7)	8.7	5.5	(27.0)	(7.5)	3.4
NZ unemployment rate (%) [1]	7.8	6.4	5.5	9.0	8.0	6.8
NZ cash rate (%) [1]	0.25	0.25	0.25	0.25	0.25	0.25
NZ house prices (annual % change)	(3.9)	0.6	2.3	(9.5)	(7.5)	(0.1)

1 Spot rate at December of each year, unless otherwise stated.

The requirement to probability-weight possible future outcomes captures the uncertainty inherent in the credit outlook, and changes in that uncertainty over time. Weights are assigned to each scenario based on management's best estimate of the proportion of potential future loss outcomes that each scenario represents. The same economic scenarios and probability weights apply across all portfolios. The Group's assessment of SICR also incorporates the impact of multiple probability-weighted future forecast economic scenarios on exposures' internal risk grades using the same four forecast macro-economic scenarios as described above.

In estimating impairment provisions on individually significant defaulted exposures, the Group generally applies conservative assumptions in estimating recovery cash flows. Incorporating multiple forecast economic scenarios in estimates is not expected to significantly affect the level of impairment provisions on these credit exposures.

Incorporation of experienced credit judgement

Management exercises credit judgement in assessing if an exposure has experienced SICR and in determining the amount of impairment provisions at each reporting date. Where applicable, credit risk factors (PD and LGD) are adjusted upwards to incorporate reasonable and supportable forward looking information about known or expected risks for specific segments of portfolios that would otherwise not have been considered in the modelling process. Credit judgement is used to determine the degree of adjustment to be applied and considers information such as emerging risks at an industry, geographical and portfolio segment level.

Sensitivity of provisions for impairment to changes in forward looking assumptions

As described above, the Group applies four alternative macro-economic scenarios (Central, Upside, Downside and Severe downside scenarios) to reflect unbiased probability-weighted range of possible future outcomes in estimating ECL.

The table below provides approximate levels of provisions for impairment under the Central and Downside scenarios for the Group and the Bank assuming 100% weighting was applied to each scenario and holding all other assumptions constant. As noted above, these scenarios and their associated weights have been selected based on the expected range of potential future loss outcomes.

	Group $M	Bank $M
100% Central scenario	5,262	4,659
100% Downside scenario	9,014	8,220

Sensitivity of provisions for impairment to SICR assessment criteria

If 1% of Stage 1 credit exposures as at 30 June 2020 was included in Stage 2 provisions for impairment would increase by approximately $108 million for the Group and $96 million for the Bank.

If 1% of Stage 2 credit exposures as at 30 June 2020 was included in Stage 1 provisions for impairment would decrease by approximately $29 million for the Group and $26 million for the Bank.

Notes to the financial statements
For the year ended 30 June 2020

3.2 Provisions for impairment (continued)

Modifications relating to COVID-19

The Group has introduced a number of support measures for customers impacted by COVID-19, which include loan repayment deferrals for retail and small business customers. The Bank recognised approximately $310 million of interest related to retail loans in deferral and approximately $150 million of interest related to non-retail loans in deferral.

The repayment deferral arrangements were considered to be continuations of the existing loans and were therefore accounted for as non-substantial loan modifications. A total modification loss of $6 million was recognised in relation to payment deferrals on home loans in Net interest income. No other modification gains or losses were recognised as a result of the payment deferral arrangements.

Loans with a gross carrying value of approximately $26,886 million were subject to COVID-19 related repayment deferrals when they were included in either Stage 2 or Stage 3. Of these exposures, loans with a gross carrying value of approximately $25,179 million remained in either Stage 2 or Stage 3 as at 30 June 2020.

The table below provides a summary of gross carrying values of credit exposures subject to COVID-19 related modifications as at 30 June 2020.

	Group $M	Bank $M
Retail secured		
Stage 1	35,889	31,313
Stage 2	19,992	18,734
Stage 3	1,228	1,120
Total retail secured	57,109	51,167
Retail unsecured		
Stage 1	591	39
Stage 2	127	81
Stage 3	17	4
Total retail unsecured	735	124
Non–retail		
Stage 1	6,400	6,157
Stage 2	10,508	9,281
Stage 3	251	236
Total non-retail	17,159	15,674
Total credit exposures		
Stage 1	42,880	37,509
Stage 2	30,627	28,096
Stage 3	1,496	1,360
Total	75,003	66,965

Notes to the financial statements
For the year ended 30 June 2020

3.2 Provisions for impairment (continued)

	Group				
Individually assessed provisions by industry classification	**30 Jun 20 $M**	**30 Jun 19 $M**	**30 Jun 18 $M**	**30 Jun 17 $M**	**30 Jun 16 $M**
Australia					
Sovereign	**–**	–	–	–	–
Agriculture	**54**	51	56	47	42
Bank and other financial	**4**	14	16	27	29
Home loans	**207**	246	236	249	193
Construction	**40**	76	21	25	25
Other personal	**3**	3	6	9	7
Asset financing	**35**	10	16	18	28
Other commercial and industrial	**311**	369	343	442	483
Total Australia	**654**	769	694	817	807
Overseas					
Sovereign	**–**	–	–	–	–
Agriculture	**19**	46	25	25	23
Bank and other financial	**–**	–	–	–	4
Home loans	**4**	4	5	4	6
Construction	**1**	–	1	1	8
Other personal	**4**	3	–	–	1
Asset financing	**1**	–	–	10	10
Other commercial and industrial	**284**	73	145	123	85
Total overseas	**313**	126	176	163	137
Total individually assessed provisions	**967**	895	870	980	944

Notes to the financial statements
For the year ended 30 June 2020

3.2 Provisions for impairment (continued)

	Group				
Loans written off by industry classification	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	30 Jun 16 $M
Australia					
Sovereign	**–**	–	–	–	–
Agriculture	**1**	59	28	17	84
Bank and other financial	**1**	1	3	1	10
Home loans	**117**	134	126	115	82
Construction	**35**	44	13	16	11
Other personal	**655**	787	764	792	747
Asset financing	**19**	17	23	41	54
Other commercial and industrial	**221**	126	179	210	249
Total Australia	**1,049**	1,168	1,136	1,192	1,237
Overseas					
Sovereign	**–**	–	–	–	–
Agriculture	**36**	2	3	15	7
Bank and other financial	**4**	5	5	5	–
Home loans	**4**	2	2	4	7
Construction	**2**	2	1	8	–
Other personal	**61**	70	65	60	54
Asset financing	**–**	–	–	–	–
Other commercial and industrial	**51**	152	207	64	112
Total overseas	**158**	233	283	156	180
Gross loans written off	**1,207**	1,401	1,419	1,348	1,417
Less recovery of amounts previously written off:					
Australia	**172**	190	187	194	211
Overseas	**13**	16	14	16	14
Total amounts recovered	**185**	206	201	210	225
Net loans written off	**1,022**	1,195	1,218	1,138	1,192

Notes to the financial statements
For the year ended 30 June 2020

3.2 Provisions for impairment (continued)

	Group				
Loans recovered by industry classification	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	30 Jun 16 $M
Australia					
Sovereign	**–**	–	–	–	–
Agriculture	**4**	–	–	–	1
Bank and other financial	**–**	–	1	1	27
Home loans	**4**	4	2	3	3
Construction	**1**	1	–	1	1
Other personal	**152**	169	165	170	154
Asset financing	**2**	2	5	7	4
Other commercial and industrial	**9**	14	14	12	21
Total Australia	**172**	190	187	194	211
Overseas					
Sovereign	**–**	–	–	–	–
Agriculture	**–**	–	–	–	–
Bank and other financial	**–**	–	–	–	1
Home loans	**1**	1	1	1	1
Construction	**–**	–	1	1	–
Other personal	**12**	11	10	11	10
Asset financing	**–**	–	–	–	–
Other commercial and industrial	**–**	4	2	3	2
Total overseas	**13**	16	14	16	14
Total loans recovered	**185**	206	201	210	225

4. Our deposits and funding activities

OVERVIEW

Stable and well diversified funding sources are critical to the Group's ability to fund its lending and investing activities, and support growing its business.

Our main sources of funding include customer deposits and term funds raised in domestic and offshore wholesale markets via issuing debt securities and loan capital. The Group also relies on repurchase agreements as a source of short-term wholesale funding. Refer to Note 9.4 for the Group's management of liquidity and funding risk.

4.1 Deposits and other public borrowings

	Group		Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Australia				
Certificates of deposit	**30,126**	30,924	**30,261**	33,331
Term deposits	**129,338**	148,313	**129,388**	148,491
On-demand and short-term deposits	**371,165**	308,299	**371,200**	308,338
Deposits not bearing interest	**69,143**	49,274	**69,122**	49,245
Securities sold under agreements to repurchase	**14,717**	19,099	**15,018**	19,215
Total Australia	**614,489**	555,909	**614,989**	558,620
Overseas				
Certificates of deposit	**13,669**	12,144	**9,818**	8,818
Term deposits	**35,408**	39,147	**3,931**	5,869
On-demand and short-term deposits	**28,496**	23,491	**307**	481
Deposits not bearing interest	**7,777**	5,349	**190**	63
Securities sold under agreements to repurchase	**2,160**	–	**2,066**	–
Total overseas	**87,510**	80,131	**16,312**	15,231
Total external deposits and other public borrowings	**701,999**	636,040	**631,301**	573,851

The majority of the amounts are due to be settled within 12 months of the Balance Sheet date.

The contractual maturity profile of Certificates of deposit and Term deposits are shown in the table below:

	Group At 30 June 2020				
	Maturing 3 months or less $M	Maturing between 3 and 6 months $M	Maturing between 6 and 12 months $M	Maturing after 12 months $M	Total $M
Australia					
Certificates of deposit [1]	20,056	8,862	1,138	70	**30,126**
Term deposits	78,434	24,808	23,702	2,394	**129,338**
Total Australia	**98,490**	**33,670**	**24,840**	**2,464**	**159,464**
Overseas					
Certificates of deposit [1]	8,513	4,194	914	48	**13,669**
Term deposits	17,380	10,947	5,060	2,021	**35,408**
Total overseas	**25,893**	**15,141**	**5,974**	**2,069**	**49,077**
Total certificates of deposits and term deposits	**124,383**	**48,811**	**30,814**	**4,533**	**208,541**

1 All certificates of deposit issued by the Group are for amounts greater than $100,000.

4.1 Deposits and other public borrowings (continued)

	Group At 30 June 2019				
	Maturing 3 months or less $M	Maturing between 3 and 6 months $M	Maturing between 6 and 12 months $M	Maturing after 12 months $M	Total $M
Australia					
Certificates of deposit [1]	14,674	13,182	1,232	1,836	30,924
Term deposits	92,825	39,389	13,835	2,264	148,313
Total Australia	107,499	52,571	15,067	4,100	179,237
Overseas					
Certificates of deposit [1]	5,938	3,156	3,005	45	12,144
Term deposits	17,820	13,129	6,127	2,071	39,147
Total overseas	23,758	16,285	9,132	2,116	51,291
Total certificates of deposits and term deposits	131,257	68,856	24,199	6,216	230,528

1 All certificates of deposit issued by the Group are for amounts greater than $100,000.

ACCOUNTING POLICIES

Deposits from customers include certificates of deposit, term deposits, savings deposits, other demand deposits and debentures. Deposits are initially recognised at their fair value less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost. Interest incurred is recognised within Net interest income using the effective interest method.

Securities sold under repurchase agreements are retained on the Balance Sheet where substantially all the risks and rewards of ownership remain with the Group. A liability for the agreed repurchase amount is recognised within Deposits and other public borrowings.

4.2 Liabilities at fair value through Income Statement

	Group		Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Deposits and other borrowings	**97**	6,217	**97**	6,217
Debt instruments	**661**	714	**152**	155
Trading liabilities	**3,639**	1,589	**3,639**	1,589
Total liabilities at fair value through Income Statement	**4,397**	8,520	**3,888**	7,961

As at 30 June 2020, $4,363 million of the Group's total Liabilities at fair value through Income Statement (Bank: $3,854 million) are expected to be settled within 12 months of the Balance Sheet date. As at 30 June 2019, $5,201 million of the Group's total Liabilities at fair value through Income Statement (Bank: $4,642 million) were expected to be settled within 12 months.

The amount that would be contractually required to be paid at maturity to the holders of the financial liabilities designated at fair value through Income Statement for the Group is $4,397 million (2019: $8,524 million) and for the Bank is $3,888 million (2019: $7,960 million).

ACCOUNTING POLICIES

The Group designates certain Liabilities at fair value through the Income Statement on origination when doing so eliminates or reduces an accounting mismatch, or where the liabilities contain embedded derivatives which must otherwise be separated and carried at fair value. Trading liabilities are incurred principally for the purpose of repurchasing or settling in the near term.

Subsequent to initial recognition, these liabilities are measured at fair value. Changes in fair value (except those due to changes in credit risk) are recognised in Other banking income. Changes in fair value relating to the Group's own credit risk are recognised in other comprehensive income. Interest incurred is recognised within Net interest income using the effective interest method.

Notes to the financial statements
For the year ended 30 June 2020

4.3 Debt issues

		Group [1]		Bank [1]	
		30 Jun 20	30 Jun 19	30 Jun 20	30 Jun 19
	Note	$M	$M	$M	$M
Medium-term notes		**80,877**	98,342	**67,602**	84,014
Commercial paper		**12,468**	20,158	**12,104**	17,596
Securitisation notes	4.4	**11,677**	12,177	**–**	–
Covered bonds	4.4	**37,456**	33,313	**33,592**	29,452
Bank acceptances		**25**	32	**25**	32
Total debt issues [2]		**142,503**	164,022	**113,323**	131,094
Short-term debt issues by currency					
USD		**12,410**	20,147	**12,047**	17,585
AUD		**29**	42	**29**	42
GBP		**5,175**	3,470	**5,175**	3,470
Other currencies		**28**	227	**28**	227
Total short-term debt issues		**17,642**	23,886	**17,279**	21,324
Long-term debt issues by currency [3]					
USD		**39,568**	48,293	**34,779**	43,802
EUR		**33,556**	36,172	**25,992**	28,601
AUD		**34,912**	37,909	**23,015**	24,770
GBP		**4,938**	3,653	**4,298**	2,510
NZD		**3,351**	3,596	**494**	834
JPY		**1,662**	2,115	**1,534**	1,989
Other currencies		**6,806**	8,331	**5,864**	7,197
Offshore loans (all JPY)		**68**	67	**68**	67
Total long-term debt issues		**124,861**	140,136	**96,044**	109,770
Maturity distribution of debt issues [4]					
Less than twelve months		**36,406**	50,127	**31,029**	43,025
Greater than twelve months		**106,097**	113,895	**82,294**	88,069
Total debt issues		**142,503**	164,022	**113,323**	131,094

1 Comparative information has been restated to conform to presentation in the current year.
2 Debt issues include unrealised movements of $3,095 million predominantly due to foreign exchange gains and losses and fair value hedge adjustments.
3 Long-term debt disclosed relates to debt issues which have a maturity at inception of greater than 12 months.
4 Represents the remaining contractual maturity of the underlying instrument.

The Group's long-term debt issues include notes issued under the: USD70 billion Euro Medium Term Note Program; the USD50 billion US Medium Term Note Program; USD30 billion Covered Bond Program; Unlimited Domestic Debt Program; Unlimited ASB Domestic Medium Term Note Program; USD25 billion CBA New York Branch Medium Term Note Program; EUR7 billion ASB Covered Bond Program; USD10 billion ASB US Medium Term Note Program and other applicable debt documentation. Notes issued under debt programs are both fixed and variable rate. Interest rate risk associated with the notes is incorporated within the Bank's interest rate risk framework. The Bank, from time to time, as part of its Balance Sheet management, may consider opportunities to repurchase outstanding long-term debt pursuant to open-market purchases or other means. Such repurchases help manage the Bank's debt maturity profile, overall funding costs and assist in meeting regulatory changes and requirements.

Notes to the financial statements
For the year ended 30 June 2020

4.3 Debt issues (continued)

	Group		
	30 Jun 20	30 Jun 19	30 Jun 18
Short-term borrowings by commercial paper program [1]	$M (except where indicated)		
Total			
Outstanding at year end [2]	**12,468**	20,158	26,868
Maximum amount outstanding at any month end	**19,937**	24,557	32,336
Average amount outstanding	**16,546**	21,592	30,007
US Commercial Paper Program			
Outstanding at year end [2]	**12,406**	20,120	26,792
Maximum amount outstanding at any month end	**19,683**	24,481	32,127
Average amount outstanding	**16,392**	21,494	29,887
Weighted average interest rate on:			
Average amount outstanding	**1. 9%**	2. 6%	1. 8%
Outstanding at year end	**0. 8%**	2. 7%	2. 3%
Euro Commercial Paper Program			
Outstanding at year end [2]	**62**	38	76
Maximum amount outstanding at any month end	**390**	163	219
Average amount outstanding	**154**	98	120
Weighted average interest rate on:			
Average amount outstanding	**0. 9%**	2. 2%	1. 5%
Outstanding at year end	**0. 4%**	2. 7%	2. 2%

1 Short-term borrowings include callable medium-term notes of $5,149 million (2019: $3,696 million) which have been excluded from the table above.
2 The amount outstanding at year end is measured at amortised cost.

Exchange rates utilised [1]	Currency	As at 30 Jun 20	As at 30 Jun 19
AUD 1.00 =	USD	**0.6854**	0.7013
	EUR	**0.6114**	0.6170
	GBP	**0.5584**	0.5533
	NZD	**1.0705**	1.0460
	JPY	**73.8002**	75.6460

1 End of day, Sydney time.

Guarantee arrangement

Guarantee under the Commonwealth Bank Sale Act

Historically, the due payment of all monies payable by the Bank was guaranteed by the Commonwealth of Australia under section 117 of the *Commonwealth Banks Act 1959* (as amended) at 30 June 1996. With the sale of the Commonwealth's shareholding in the Bank this guarantee has been progressively phased out under transitional arrangements found in the *Commonwealth Bank Sale Act 1995*.

Demand deposits are no longer guaranteed by the Commonwealth under this guarantee. However, debt issues payable by the Bank under a contract entered into prior to 19 July 1996 remain guaranteed until maturity.

ACCOUNTING POLICIES

Debt issues include short and long-term debt issues of the Group and consist of commercial paper, securitisation notes, covered bonds and medium-term notes.

Debt issues are initially measured at fair value and subsequently measured at amortised cost.

Premiums, discounts and associated issue expenses are recognised in the Income Statement using the effective interest method from the date of issue, to ensure the carrying value of securities equals their redemption value by maturity date. Interest is recognised in the Income Statement using the effective interest method. Any profits or losses arising from redemption prior to maturity are taken to the Income Statement in the period in which they are realised.

The Group hedges interest rate and foreign currency rate risk on certain debt issues. When fair value hedge accounting is applied to fixed rate debt issues, the carrying values are adjusted for changes in fair value related to the hedged risks.

4.4 Securitisation, covered bonds and transferred assets

The Group enters into transactions in the normal course of business that transfers financial assets to counterparties or to Special Purpose Vehicles (SPVs). Transferred financial assets that do not qualify for derecognition are typically associated with repurchase agreements and our covered bonds and securitisation programs. The underlying assets remain on the Group's Balance Sheet.

At the Balance Sheet date, transferred financial assets that did not qualify for derecognition and their associated liabilities are as follows:

	Group					
	Repurchase agreements		Covered bonds		Securitisation [1]	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Carrying amount of transferred assets	**19,119**	19,129	**43,190**	39,129	**12,791**	13,521
Carrying amount of associated liabilities	**16,876**	19,099	**37,456**	33,313	**11,677**	12,177
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred assets					**12,813**	13,524
Fair value of associated liabilities					**11,693**	12,177
Net position					**1,120**	1,347

	Bank					
	Repurchase agreements		Covered bonds		Securitisation [2, 3, 4]	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Carrying amount of transferred assets	**19,326**	19,245	**38,359**	34,160	**12,791**	13,871
Carrying amount of associated liabilities	**17,084**	19,215	**33,592**	29,452	**12,514**	13,637
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred assets					**12,813**	13,874
Fair value of associated liabilities					**12,514**	13,637
Net position					**299**	237

1 Securitisation liabilities of the Group include RMBS notes issued by securitisation SPVs and held by external investors.
2 Information has been restated to reflect the change in accounting policy detailed in Note 1.1.
3 Securitisation liabilities of the Bank include borrowings from securitisation SPVs, recognised on transfer of residential mortgages by the Bank. The carrying amount of associated liabilities from securitisation SPVs is recorded under loans due to controlled entities.
4 Securitisation assets exclude $129,124 million of assets (30 June 2019: $56,403 million), where the Bank holds all of the issued instruments of the securitisation vehicle.

ACCOUNTING POLICIES

Repurchase agreements

Securities sold under agreement to repurchase are retained on the Balance Sheet when substantially all the risks and rewards of ownership remain with the Group, and the counterparty liability is included separately on the Balance Sheet when cash consideration is received.

Securitisation programs

The Group pools and equitably assigns residential mortgages as securities to investors through a series of wholly controlled securitisation vehicles. Where the Bank and ASB retain substantially all of the risks and rewards associated with the mortgages, the Bank and ASB continue to recognise the mortgages on their Balance Sheets. The Group is entitled to any residual income of the securitisation programs after all payments due to investors have been met, where the Group is the income unitholder. The investors have recourse only to the pool of mortgages in the SPV they have invested in.

Covered bonds programs

To complement existing wholesale funding sources, the Group has established two global covered bond programs for the Bank and ASB. Certain residential mortgages have been assigned to SPV's associated with covered bond programs to provide security on the payments to investors. Similarly to securitisation programs, the Group is entitled to any residual income after all payments due to covered bond investors have been met. As the Bank and ASB retain substantially all of the risks and rewards associated with the mortgages, the Bank and ASB continue to recognise the mortgages on their Balance Sheets. The covered investors have dual recourse to the Bank and the covered pool assets.

Critical accounting judgements and estimates

The Group exercises judgement at inception and periodically thereafter, to assess whether a structured entity should be consolidated based on the Bank's power over the relevant activities of the entity and the significance of its exposure to variable returns of the structured entity. Such assessments are predominantly required for the Group's securitisation programs, and structured transactions such as covered bond programs.

5. Our investing, trading and other banking activities

OVERVIEW

In addition to loans, the Group holds other assets to support its activities. Cash and liquid assets, Receivables from financial institutions, trading assets and investment securities are held for liquidity purposes, to generate returns and to meet customer demand. The mix and nature of assets is driven by multiple factors including the Board's risk appetite, regulatory requirements, customer demand and the generation of shareholder returns.

The Group also transacts derivatives to meet customer demand and to manage its financial risks (interest rate, foreign currency, commodity and credit risks).

Refer to Note 9.1 for additional information relating to the Group's approach to managing financial risks through the use of derivatives.

5.1 Cash and liquid assets

	Group		Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Notes, coins, cash at banks and money at short call	**27,307**	16,655	**24,010**	15,534
Securities purchased under agreements to resell	**16,858**	12,732	**16,290**	11,378
Total cash and liquid assets	**44,165**	29,387	**40,300**	26,912

ACCOUNTING POLICIES

Cash and liquid assets include cash at branches, cash at banks, nostro balances, money at call with an original maturity of three months or less and securities purchased under agreements to resell. Cash and liquid assets are initially recognised at fair value and subsequently measured at amortised cost. Interest is recognised in the Income Statement using the effective interest method.

Securities, including bonds and equities, purchased under agreements to resell are not recognised in the financial statements where substantially all the risks and rewards of ownership remain with the counterparty. An asset for the agreed resale amount by the counterparty is recognised within Cash and liquid assets.

5.2 Receivables from and payables to financial institutions

	Group		Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Collateral placed	**7,425**	4,184	**7,576**	4,132
Other receivables	**1,122**	3,909	**733**	3,202
Receivables from financial institutions	**8,547**	8,093	**8,309**	7,334
Collateral received	**4,820**	5,484	**4,070**	4,905
Term funding facility from RBA	**1,500**	–	**1,500**	–
Other payables	**10,109**	17,886	**9,780**	17,713
Payables to financial institutions	**16,429**	23,370	**15,350**	22,618

ACCOUNTING POLICIES

Receivables from and payables to financial institutions include cash collateral, short-term deposits and other balances. Cash collateral includes initial and variation margins in relation to derivative transactions and varies based on trading activities. Receivables from and payables to financial institutions are measured at amortised cost.

The Term Funding Facility (TFF) is provided by The Reserve Bank of Australia, and is collateralised by residential mortgage backed securities issued by the Group. The TFF is initially recognised at its fair value and subsequently measured at amortised cost using the effective interest rate method.

5.3 Assets at fair value through Income Statement

Assets at fair value through Income Statement	Group [1] 30 Jun 20 $M	Group [1] 30 Jun 19 $M	Bank [1] 30 Jun 20 $M	Bank [1] 30 Jun 19 $M
Trading				
Government bonds, notes and securities	**31,255**	21,955	**31,245**	21,949
Corporate/financial institution bonds, notes and securities	**3,750**	3,264	**3,750**	3,264
Commodities	**3,418**	404	**3,418**	404
Shares and equity investments	**–**	29	**–**	5
Total trading assets	**38,423**	25,652	**38,413**	25,622
Other				
Commodities financing and other lending	**7,869**	7,272	**7,871**	7,271
Receivables from corporate/financial institutions	**159**	434	**–**	235
Government securities	**77**	81	**–**	–
Shares and equity investments	**17**	238	**–**	–
Total other assets at fair value through Income Statement	**8,122**	8,025	**7,871**	7,506
Total assets at fair value through Income Statement	**46,545**	33,677	**46,284**	33,128
Maturity distribution of assets at fair value through Income Statement				
Less than twelve months	**45,548**	33,450	**45,364**	32,947
More than twelve months	**997**	227	**920**	181
Total assets at fair value through Income Statement	**46,545**	33,677	**46,284**	33,128

1 Comparative information has been restated to reflect the change in accounting policy detailed in Note 1.1.

ACCOUNTING POLICIES

Assets at fair value through Income Statement include financial assets held for trading, commodity financing transactions, and other financial assets designated at fair value through profit or loss. Trading assets are those acquired principally for sale in the near term. Commodity inventories are measured at fair value less costs to sell in accordance with the broker trader exemption under AASB 102 *Inventories*. Commodity financing and other lending are mandatorily recognised at fair value through profit or loss, because the contractual cash flows are not solely payments of principal and interest. Other financial assets are designated at fair value through profit or loss, because they are managed with the objective of realising cash flows through sale. Assets at fair value through Income Statement are measured at fair value with changes in fair value recognised in Other banking income.

5.4 Derivative financial instruments and hedge accounting

Derivatives are classified as "held for trading" or "held for hedging". Held for trading derivatives are contracts entered into in order to meet customers' needs, to undertake market making and positioning activities, or for risk management purposes that are not designated in hedge accounting relationships. Held for hedging derivatives are instruments held for risk management purposes, which meet the criteria for hedge accounting. Derivative financial instruments are contracts whose values are derived from one or more underlying prices, indexes or other variables.

The fair value of derivative financial instruments is set out in the following tables:

Derivatives assets and liabilities	Group 30 Jun 20 Fair value asset $M	Group 30 Jun 20 Fair value liability $M	Group 30 Jun 19 Fair value asset $M	Group 30 Jun 19 Fair value liability $M
Held for trading				
Foreign exchange rate related contracts:				
Forwards	**6,899**	**(6,677)**	5,404	(5,492)
Swaps	**7,443**	**(12,638)**	4,078	(7,327)
Options	**441**	**(455)**	349	(346)
Total foreign exchange rate related contracts	**14,783**	**(19,770)**	9,831	(13,165)
Interest rate related contracts:				
Swaps	**8,732**	**(4,252)**	6,978	(3,758)
Futures	**148**	**(69)**	46	(132)
Options	**845**	**(572)**	554	(463)
Total interest rate related contracts	**9,725**	**(4,893)**	7,578	(4,353)
Credit related swaps	**31**	**(74)**	21	(49)
Equity related contracts:				
Swaps	**5**	**–**	10	(26)
Options	**–**	**–**	1	(3)
Total equity related contracts	**5**	**–**	11	(29)
Commodity related contracts:				
Swaps	**558**	**(407)**	207	(193)
Options	**103**	**(66)**	57	(76)
Total commodity related contracts	**661**	**(473)**	264	(269)
Identified embedded derivatives	**95**	**(70)**	160	(60)
Total derivative assets/(liabilities) held for trading	**25,300**	**(25,280)**	17,865	(17,925)

Held for trading derivatives are expected to be recovered or due to be settled within 12 months of the Balance Sheet date.

	Group 30 Jun 20 Fair value asset $M	Group 30 Jun 20 Fair value liability $M	Group 30 Jun 19 Fair value asset $M	Group 30 Jun 19 Fair value liability $M
Fair value hedges				
Foreign exchange rate related swaps	**3,797**	**(3,842)**	5,089	(2,384)
Interest rate related swaps	**493**	**(977)**	379	(1,440)
Total fair value hedges	**4,290**	**(4,819)**	5,468	(3,824)
Cash flow hedges				
Foreign exchange rate related swaps	**531**	**(1,007)**	1,470	(643)
Interest rate related swaps	**156**	**(211)**	411	(365)
Commodity price related swaps	**–**	**(30)**	–	(5)
Total cash flow hedges	**687**	**(1,248)**	1,881	(1,013)
Net investment hedges				
Foreign exchange rate related forwards	**8**	**–**	1	(15)
Total net investment hedges	**8**	**–**	1	(15)
Total derivative assets/(liabilities) held for hedging	**4,985**	**(6,067)**	7,350	(4,852)

The majority of hedging derivatives are expected to be recovered or due to be settled more than 12 months after the Balance Sheet date.

Notes to the financial statements
For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

	Bank			
	30 Jun 20		30 Jun 19	
	Fair value asset	Fair value liability	Fair value asset	Fair value liability
Derivatives assets and liabilities	$M	$M	$M	$M
Held for trading				
Foreign exchange rate related contracts:				
Forwards	**6,881**	**(6,633)**	5,392	(5,465)
Swaps	**8,254**	**(13,736)**	5,036	(8,161)
Options	**439**	**(452)**	348	(345)
Derivatives held with controlled entities	**22**	**(2,127)**	41	(2,015)
Total foreign exchange rate related contracts	**15,596**	**(22,948)**	10,817	(15,986)
Interest rate related contracts:				
Swaps	**8,483**	**(4,174)**	6,735	(3,653)
Futures	**148**	**(69)**	47	(132)
Options	**845**	**(572)**	554	(463)
Derivatives held with controlled entities	**20**	**(1)**	16	(91)
Total interest rate related contracts	**9,496**	**(4,816)**	7,352	(4,339)
Credit related swaps	**31**	**(74)**	21	(49)
Equity related contracts:				
Swaps	**5**	**–**	10	(26)
Options	**–**	**–**	1	(3)
Total equity related contracts	**5**	**–**	11	(29)
Commodity related contracts:				
Swaps	**557**	**(407)**	207	(193)
Options	**104**	**(66)**	57	(76)
Total commodity related contracts	**661**	**(473)**	264	(269)
Identified embedded derivatives	**95**	**(70)**	160	(60)
Total derivative assets/(liabilities) held for trading	**25,884**	**(28,381)**	18,625	(20,732)

Held for trading derivatives are expected to be recovered or due to be settled within 12 months of the Balance Sheet date.

Notes to the financial statements
For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

	Bank			
	30 Jun 20		30 Jun 19	
	Fair value asset	Fair value liability	Fair value asset	Fair value liability
	$M	$M	$M	$M
Fair value hedges				
Foreign exchange rate related contracts:				
Swaps	**2,341**	**(2,852)**	3,707	(1,670)
Derivatives held with controlled entities	**9**	**(2,791)**	–	(1,948)
Total foreign exchange rate related contracts	**2,350**	**(5,643)**	3,707	(3,618)
Interest rate related contracts:				
Swaps	**457**	**(950)**	333	(1,393)
Derivatives held with controlled entities	**–**	**(82)**	–	(68)
Total interest rate related contracts	**457**	**(1,032)**	333	(1,461)
Total fair value hedges	**2,807**	**(6,675)**	4,040	(5,079)
Cash flow hedges				
Foreign exchange rate related contracts:				
Swaps	**413**	**(862)**	1,329	(471)
Derivatives held with controlled entities	**129**	**(128)**	–	(97)
Total foreign exchange rate related contracts	**542**	**(990)**	1,329	(568)
Interest rate related contracts:				
Swaps	**79**	**(172)**	316	(255)
Derivatives held with controlled entities	**2**	**–**	–	–
Total interest rate related contracts	**81**	**(172)**	316	(255)
Commodity price related contracts:				
Swaps	**–**	**(30)**	–	(5)
Total commodity price related contracts	**–**	**(30)**	–	(5)
Total cash flow hedges	**623**	**(1,192)**	1,645	(828)
Net investment hedges				
Foreign exchange rate related forward contracts	**8**	**–**	1	(15)
Total net investment hedges	**8**	**–**	1	(15)
Total derivative assets/(liabilities) held for hedging	**3,438**	**(7,867)**	5,686	(5,922)

The majority of hedging derivatives are expected to be recovered or due to be settled more than 12 months after the Balance Sheet date.

The Bank will be required to post collateral on hedging derivatives with securitisation and covered bond trusts, its controlled entities, or novate the derivatives to other appropriately rated counterparties in the event that the Bank's credit rating falls below specified thresholds. The thresholds for collateral posting vary between two and three notches from the current rating, depending on the ratings agency. The thresholds for novation vary between four and six notches from the current rating, depending on the ratings agency. The fair value of funding these collateral arrangements has been recognised by the Bank as a funding valuation adjustment. The adjustment did not have a material impact on the Bank's Income Statement for the year. As the arrangement is between the Bank and the trusts, the fair value is eliminated on consolidation and will only be recognised by the Group if the trusts are deconsolidated.

Notes to the financial statements
For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

The table below shows the deferred gains and losses, which are expected to be transferred to the Income Statement in the same period when the hedge items impact the Income Statement:

	Group Total		Bank Total	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Within 6 months	**(89)**	47	**(43)**	57
6 months–1 year	**(173)**	(103)	**(59)**	(32)
1–2 years	**(40)**	(340)	**224**	(215)
2–5 years	**2,320**	1,476	**2,126**	1,516
After 5 years	**161**	53	**287**	207
Net deferred gains/(losses)	**2,179**	1,133	**2,535**	1,533

ACCOUNTING POLICIES

Derivatives transacted for hedging purposes

Derivatives are initially measured at fair value. Subsequent to initial recognition, gains or losses on derivatives are recognised in the Income Statement, unless they are entered into for hedging purposes and designated in a cash flow hedge.

Hedging strategy and hedge accounting

The Group risk management strategy (refer to notes 9.1 and 9.3) is to manage market risks within risk limits to minimise profit and capital volatility. The use of derivative and other hedging instruments for hedging purposes gives rise to potential volatility in the Income Statement because of mismatches in the accounting treatment between derivatives and other hedging instruments and the underlying exposures being hedged. The Group's and the Bank's objective is to reduce volatility in the Income Statement by applying hedge accounting.

Fair value hedges

Fair value hedges are used by the Group to manage exposure to changes in the fair value of an asset, liability or unrecognised firm commitments, predominantly associated with investment securities, debt issues and loan capital. Changes in fair values can arise from fluctuations in interest or foreign exchange rates. The Group principally uses interest rate swaps, cross currency swaps and futures to protect against such fluctuations.

Changes in the value of fair value hedges are recognised in the Income Statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. All gains and losses associated with the ineffective portion of fair value hedge relationships are recognised immediately as Other banking income.

If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to the Income Statement from the date of discontinuation over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the Income Statement.

Cash flow hedges

Cash flow hedges are used by the Group to manage exposure to variability in future cash flows, which could affect profit or loss and may result from fluctuations in interest and exchange rates or in commodity prices on financial assets, financial liabilities or highly probable forecast transactions, predominantly associated with floating rate domestic loans and deposits. The Group principally uses interest rate swaps, cross currency swaps, futures and equity related swaps to protect against such fluctuations.

Changes in fair value associated with the effective portion of a cash flow hedge are recognised through other comprehensive income in the Cash flow hedge reserve within equity. Ineffective portions are recognised immediately in the Income Statement. Amounts deferred in equity are transferred to the Income Statement in the period in which the hedged forecast transaction takes place.

When a hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified to profit or loss in the period in which the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recycled immediately to the Income Statement. Where it is appropriate, non-derivative financial assets and liabilities are also designated as hedging instruments in cash flow hedge relationships.

Net investment hedges

The Group holds investments in foreign operations, where changes in net assets resulting from changes in foreign currency rates are recognised in Foreign currency translation reserve and results in volatility in shareholders' equity. To protect against the foreign currency risk, the Group enters into foreign currency forwards that are designated as hedging instruments in net investment hedges. Gains and losses on derivative contracts relating to the effective portion of the net investment hedge are recognised in the Foreign currency translation reserve in equity. Ineffective portions are recognised immediately in the Income Statement. Gains and losses accumulated in equity are included in the Income Statement when the foreign subsidiary or branch is disposed of.

Notes to the financial statements
For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

Risk components

In some hedging relationships, the Group and the Bank designate risk components of hedged items as follows:

- benchmark interest rate risk as a component of interest rate risk, such as the Bank Bill Benchmark Rate component; and
- spot exchange rate risk as a component of foreign currency risk for foreign currency financial assets and liabilities.

Hedging the benchmark interest rate risk or spot exchange rate risk components results in other risks, such as credit risk and liquidity risk, being excluded from the hedge accounting relationship.

Economic relationships and hedge effectiveness

The Group performs both prospective and retrospective tests to determine the economic relationship between the hedged item and the hedging instrument, and to assess hedge effectiveness. At inception of the hedge relationship, prospective testing is performed on a matched terms basis. This test checks that the critical terms are matched between the hedging instrument and the hedged item. At the same time a hedging ratio is established by matching the notional of the derivatives with the principal of the portfolio or financial instruments being hedged, in most cases the ratio is 100%. Retrospective testing for each reporting period uses a regression model, which compares the change in the fair value of the hedged item and the change in the fair value of the hedging instrument. For a hedge to be deemed effective, the change in fair values should be within 80% to 125% of each other. Should the result fall outside this range the hedge would be deemed ineffective and recognised immediately through the Income Statement in line with each hedge relationship policy above.

Sources of hedge ineffectiveness affecting hedge accounting are:

- differences in discounting between the hedged item and the hedging instrument. Collateralised derivatives are discounted using Overnight Indexed Swaps (OIS) discount curves, which are not applied to the hedged item;
- change in the credit risk of the hedging instrument; and
- mismatches between the contractual terms of the hedged item and the hedging instrument.

No other sources of hedge ineffectiveness have arisen during the year.

Embedded derivatives

In certain instances, a derivative may be embedded within a host contract. It is accounted for separately as a stand-alone derivative at fair value, where:

- the host contract is not carried at fair value through the Income Statement; and
- the economic characteristics and risks of the embedded derivative are not closely related to the host contract.

Notes to the financial statements

For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

Hedging instruments

The following table provides details of the Group's and the Bank's hedging instruments by the type of hedge relationship in which they are designated and the type of hedged risk.

	Group 30 Jun 20			Bank 30 Jun 20		
	Notional $M	Fair value derivative assets $M	Fair value derivative liability $M	Notional $M	Fair value derivative assets $M	Fair value derivative liability $M
Fair value hedges						
Interest rate	97,007	493	(977)	80,899	457	(1,032)
Foreign exchange	405	23	(3)	–	–	–
Interest rate and foreign exchange	45,998	3,774	(3,839)	45,063	2,350	(5,643)
Total fair value hedges	143,410	4,290	(4,819)	125,962	2,807	(6,675)
Cash flow hedges						
Interest rate	443,408	156	(211)	397,136	81	(172)
Foreign exchange	14,946	531	(1,007)	16,221	542	(990)
Commodity price	75	–	(30)	75	–	(30)
Total cash flow hedges	458,429	687	(1,248)	413,432	623	(1,192)
Net investment hedges						
Foreign exchange	524	8	–	524	8	–
Total net investment hedges	524	8	–	524	8	–
Total hedging instrument assets/(liabilities)	602,363	4,985	(6,067)	539,918	3,438	(7,867)

	Group 30 Jun 19			Bank 30 Jun 19		
	Notional $M	Fair value derivative assets $M	Fair value derivative liability $M	Notional $M	Fair value derivative assets $M	Fair value derivative liability $M
Fair value hedges						
Interest rate	112,725	379	(1,440)	98,365	333	(1,461)
Foreign exchange	709	7	(6)	–	–	–
Interest rate and foreign exchange	59,070	5,082	(2,378)	55,587	3,707	(3,618)
Total fair value hedges	172,504	5,468	(3,824)	153,952	4,040	(5,079)
Cash flow hedges						
Interest rate	529,431	411	(365)	481,685	316	(255)
Foreign exchange	19,400	1,470	(643)	16,835	1,329	(568)
Commodity price	80	–	(5)	80	–	(5)
Total cash flow hedges	548,911	1,881	(1,013)	498,600	1,645	(828)
Net investment hedges						
Foreign exchange	481	1	(15)	481	1	(15)
Total net investment hedges	481	1	(15)	481	1	(15)
Total hedging instrument assets/(liabilities)	721,896	7,350	(4,852)	653,033	5,686	(5,922)

In addition to derivative instruments used to hedge foreign currency risk, the Group and the Bank designate debt issues as hedging instruments of certain foreign exchange risk exposures. The carrying value of debt issues designated as cash flow hedging instruments as at 30 June 2020 was $1,136 million with average maturity of five years for the Group (30 June 2019: $949 million with average maturity of four years) and $54 million with average maturity of one year for the Bank (30 June 2019: $62 million with average maturity of two years).

Notes to the financial statements

For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

The table below provides maturity analysis of expected notional values of the Group's hedging instruments by the type of hedge relationship in which they are designated and the type of hedged risk.

		Group 30 Jun 20 Notional amounts			
	Hedged risk	Due within 1 year $M	Due from 1 to 5 years $M	Due beyond 5 years $M	Total $M
Fair value hedges	Interest rate	12,545	42,759	41,703	97,007
	Foreign exchange	405	–	–	405
	Interest rate and foreign exchange	4,940	26,364	14,694	45,998
Cash flow hedges	Interest rate	258,881	179,302	5,225	443,408
	Foreign exchange	6,762	4,179	4,005	14,946
	Commodity price	5	32	38	75
Net investment hedges	Foreign exchange	524	–	–	524

		Group [1] 30 Jun 19 Notional amounts			
	Hedged risk	Due within 1 year $M	Due from 1 to 5 years $M	Due beyond 5 years $M	Total $M
Fair value hedges	Interest rate	16,714	45,248	50,763	112,725
	Foreign exchange	709	–	–	709
	Interest rate and foreign exchange	12,575	29,577	16,918	59,070
Cash flow hedges	Interest rate	338,071	185,963	5,397	529,431
	Foreign exchange	12,386	4,722	2,292	19,400
	Commodity price	5	23	52	80
Net investment hedges	Foreign exchange	481	–	–	481

1 Comparative information has been restated to conform to presentation in the current year.

As at 30 June 2020, the weighted average fixed interest rate of interest rate swaps hedging interest rate risk was 1.36% (30 June 2019: 2.00%). The major currency pairs of cross currency swaps designated in hedge relationships are receive USD/pay AUD and receive EUR/pay USD with weighted average foreign currency rates of: AUD/USD 0.75 and USD/EUR 0.83 (30 June 2019: AUD/USD 0.85, USD/EUR 0.82).

Notes to the financial statements
For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

The table below provides maturity analysis of expected notional values of the Bank's hedging instruments by the type of hedge relationship in which they are designated and the type of hedged risk.

		Bank 30 Jun 20 Notional amounts			
	Hedged risk	Due within 1 year $M	Due from 1 to 5 years $M	Due beyond 5 years $M	Total $M
Fair value hedges	Interest rate	9,952	32,216	38,731	80,899
	Foreign exchange	–	–	–	–
	Interest rate and foreign exchange	6,768	23,662	14,633	45,063
Cash flow hedges	Interest rate	242,158	150,029	4,949	397,136
	Foreign exchange	6,177	6,039	4,005	16,221
	Commodity price	5	32	38	75
Net investment hedges	Foreign exchange	524	–	–	524

		Bank [1] 30 Jun 19 Notional amounts			
	Hedged risk	Due within 1 year $M	Due from 1 to 5 years $M	Due beyond 5 years $M	Total $M
Fair value hedges	Interest rate	14,685	36,050	47,630	98,365
	Foreign exchange	–	–	–	–
	Interest rate and foreign exchange	10,649	29,850	15,088	55,587
Cash flow hedges	Interest rate	316,484	160,217	4,984	481,685
	Foreign exchange	9,955	4,588	2,292	16,835
	Commodity price	5	23	52	80
Net investment hedges	Foreign exchange	481	–	–	481

1 Comparative information has been restated to conform to presentation in the current year.

As at 30 June 2020, the weighted average fixed interest rate of interest rate swaps hedging interest rate risk was 1.36% (30 June 2019: 2.00%). The major currencies of cross currency swaps designated in hedge relationships are receive USD/pay AUD and receive EUR/pay USD with weighted average foreign currency rates of: AUD/USD 0.73 and USD/EUR 0.83 (30 June 2019: AUD/USD 0.84, USD/EUR 0.83).

Notes to the financial statements
For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

Hedged items in fair value hedges

The table below provides details of the Group's and the Bank's hedged items designated in fair value hedge relationships by the type of hedged risk.

		Group 30 Jun 20		Bank 30 Jun 20	
Hedged items	**Hedged risk**	Carrying amount $M	Fair value adjustment [1,2] $M	Carrying amount $M	Fair Value adjustment [1,2] $M
Investment securities at fair value through Other Comprehensive Income	Interest rate	49,892	5,901	44,381	5,893
Investment securities at fair value through Other Comprehensive Income	Interest rate and foreign exchange	4,557	555	4,318	555
Loans, bills discounted and other receivables	Interest rate	1,743	109	1,585	104
Shares in and loans to controlled entities	Interest rate	–	–	1,546	78
Shares in and loans to controlled entities	Interest rate and foreign exchange	–	–	21,300	1,447
Deposits and other public borrowings	Interest rate	(58)	(8)	(58)	(8)
Deposits and other public borrowings	Interest rate and foreign exchange	(50)	(3)	(50)	(3)
Assets held for sale	Foreign exchange	403	24	–	–
Debt issues	Interest rate	(27,139)	(2,146)	(18,740)	(1,810)
Debt issues	Interest rate and foreign exchange	(55,444)	(3,449)	(39,366)	(2,596)
Loan capital	Interest rate	(9,757)	(1,212)	(9,371)	(1,200)
Loan capital	Interest rate and foreign exchange	(9,274)	(474)	(9,274)	(474)

		Group 30 Jun 19		Bank [3] 30 Jun 19	
Hedged items	**Hedged risk**	Carrying amount $M	Fair value adjustment [1,2] $M	Carrying amount $M	Fair value adjustment [1,2] $M
Investment securities at fair value through Other Comprehensive Income	Interest rate	44,493	4,438	40,064	4,425
Investment securities at fair value through Other Comprehensive Income	Interest rate and foreign exchange	10,130	201	10,130	201
Loans, bills discounted and other receivables	Interest rate	2,136	63	1,900	57
Shares in and loans to controlled entities	Interest rate	–	–	1,533	65
Shares in and loans to controlled entities	Interest rate and foreign exchange	–	–	19,690	853
Deposits and other public borrowings	Interest rate	(557)	(7)	(557)	(7)
Deposits and other public borrowings	Interest rate and foreign exchange	(49)	(5)	(49)	(5)
Assets held for sale	Foreign exchange	1,161	49	–	–
Debt issues	Interest rate	(26,319)	(746)	(17,713)	(573)
Debt issues	Interest rate and foreign exchange	(63,566)	(2,155)	(47,585)	(1,368)
Loan capital	Interest rate	(5,974)	(326)	(5,582)	(316)
Loan capital	Interest rate and foreign exchange	(9,443)	(192)	(9,443)	(193)

1 Represents the accumulated amount of the fair value adjustment included in the carrying amount. The cumulative amount that is related to ceased hedge relationships where the risk being hedged was interest rate and foreign exchange risk is nil.
2 Changes in fair value of the hedged item used as a basis to determine effectiveness. The changes in fair value of the hedged items are recognised in Other banking income.
3 Comparative information has been restated to conform to presentation in the current year.

Notes to the financial statements

For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

Hedge items in cash flow hedges and net investment hedges

The table below provides details of the Group's and the Bank's hedged items designated in cash flow and net investment hedge relationships by the type of hedged risk.

		Group 30 Jun 20		Bank 30 Jun 20	
Hedged items	Hedged risk	Cash flow hedge reserve [1] $M	Foreign currency translation reserve [2] $M	Cash flow hedge reserve [1] $M	Foreign currency translation reserve [2] $M
Cash flow hedges					
Investment securities at fair value through Other Comprehensive Income	Foreign exchange	26	–	26	–
Loans, bills discounted and other receivables	Interest rate	4,906	–	4,471	–
Loans, bills discounted and other receivables	Foreign exchange	19	–	19	–
Shares in and loans to controlled entities	Interest rate	–	–	3	–
Shares in and loans to controlled entities	Foreign exchange	–	–	88	–
Deposits and other public borrowings	Interest rate	(2,665)	–	(2,194)	–
Debt issues	Interest rate	(60)	–	(55)	–
Debt issues	Foreign exchange	(18)	–	140	–
Loan capital	Interest rate	(4)	–	(4)	–
Loan capital	Foreign exchange	85	–	85	–
Highly probable forecast transactions [3]	Foreign exchange	(66)	–	–	–
Highly probable forecast transactions	Commodity price	(44)	–	(44)	–
Net investment hedges					
Foreign operations	Foreign exchange	–	(14)	–	(14)
Total		**2,179**	**(14)**	**2,535**	**(14)**

1 Represents the accumulated effective amount of the hedging instrument deferred to Cash flow hedge reserve. The cumulative amount related to ceased hedge relationships where the risk being hedged was interest rate and foreign exchange risk is a loss of $11 million for the Group and the Bank. A cumulative gain of $5 million related to ceased hedge relationships was amortised to Income Statement during the period.

2 Represents the accumulated effective amount of the hedging instrument deferred to Foreign currency translation reserve. The cumulative amount related to ceased hedge relationships where the risk being hedged was foreign exchange risk is nil.

3 A cumulative loss of $12 million was reclassified to the Income Statement during the period as a result of highly probable forecast transactions no longer meeting the required criteria.

Notes to the financial statements

For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

		Group 30 Jun 19		Bank 30 Jun 19	
Hedged items	Hedged risk	Cash flow hedge reserve [1] $M	Foreign currency translation reserve [2] $M	Cash flow hedge reserve [1] $M	Foreign currency translation reserve [2] $M
Cash flow hedges					
Investment securities at fair value through Other Comprehensive Income	Foreign exchange	15	–	15	–
Loans, bills discounted and other receivables	Interest rate	4,085	–	3,834	–
Shares in and loans to controlled entities	Interest rate	–	–	3	–
Shares in and loans to controlled entities	Foreign exchange	–	–	68	–
Deposits and other public borrowings	Interest rate	(2,741)	–	(2,447)	–
Debt issues	Interest rate	(7)	–	(6)	–
Debt issues	Foreign exchange	(117)	–	76	–
Loan capital	Interest rate	(3)	–	(3)	–
Loan capital	Foreign exchange	10	–	10	–
Highly probable forecast transactions	Foreign exchange	(92)	–	–	–
Highly probable forecast transactions	Commodity price	(17)	–	(17)	–
Net investment hedges					
Foreign operations	Foreign exchange	–	(33)	–	(33)
Total		**1,133**	**(33)**	**1,533**	**(33)**

1 Represents the accumulated effective amount of the hedging instrument deferred to Cash flow hedge reserve. The cumulative amount related to ceased hedge relationships where the risk being hedged was interest rate and foreign exchange risk is a loss of $13 million for the Group and the Bank. A cumulative loss of $1 million related to ceased hedge relationships was amortised to Income Statement during the period.

2 Represents the accumulated effective amount of the hedging instrument deferred to Foreign currency translation reserve. The cumulative amount related to ceased hedge relationships where the risk being hedged was foreign exchange risk is nil.

Notes to the financial statements
For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

Hedge effectiveness

The table below details effectiveness of the Group's and the Bank's hedges by the type of hedge relationship and the type of hedged risk.

	Group 30 Jun 20			Bank 30 Jun 20		
	Change in value of hedged item [1] $M	Change in value of hedging instrument $M	Hedge ineffectiveness recognised in Income Statement [2] $M	Change in value of hedged item [1] $M	Change in value of hedging instrument $M	Hedge ineffectiveness recognised in Income Statement [2] $M
Fair value hedges						
Interest rate	(590)	606	16	(553)	510	(43)
Interest rate and foreign exchange	(2,687)	2,666	(21)	(1,715)	1,676	(39)
Foreign exchange	(25)	25	–	–	–	–
Total fair value hedges	(3,302)	3,297	(5)	(2,268)	2,186	(82)
Cash flow hedges and net investment hedges						
Interest rate	(954)	945	(9)	(955)	944	(11)
Foreign exchange	(175)	175	–	(90)	90	–
Commodity prices	29	(29)	–	29	(29)	–
Total cash flow hedges and net investment hedges	(1,100)	1,091	(9)	(1,016)	1,005	(11)

1 Changes in value of hedged item for Fair value hedges is recognised in Other banking income. Changes in value of the hedged item for Cash flow hedges is only used as basis for recognising ineffectiveness and represents the lower of the change in the hedged item and the hedging instrument. During the year, the unrealised gains deferred to the Cash flow hedge reserve were $1,042 million for the Group and $1,001 million for the Bank, and no gain or loss was recognised in the Net investment hedge reserve for the Group and the Bank.

2 Hedge ineffectiveness is recognised in Other banking income.

	Group [1] 30 Jun 19			Bank [1] 30 Jun 19		
	Change in value of hedged item [2] $M	Change in value of hedging instrument $M	Hedge ineffectiveness recognised in Income Statement [3] $M	Change in value of hedged item [2] $M	Change in value of hedging instrument $M	Hedge ineffectiveness recognised in Income Statement [3] $M
Fair value hedges						
Interest rate	1,257	(1,269)	(12)	1,384	(1,397)	(13)
Interest rate and foreign exchange	(4,548)	4,569	21	(2,538)	2,561	23
Foreign exchange	49	(49)	–	–	–	–
Total fair value hedges	(3,242)	3,251	9	(1,154)	1,164	10
Cash flow hedges and net investment hedges						
Interest rate	(1,279)	1,283	4	(1,302)	1,308	6
Foreign exchange	(669)	669	–	(667)	667	–
Commodity prices	(5)	5	–	(5)	5	–
Total cash flow hedges and net investment hedges	(1,953)	1,957	4	(1,974)	1,980	6

1 Comparative information has been restated to conform to presentation in the current year.

2 Changes in value of hedged item for Fair value hedges is recognised in Other banking income. Changes in value of the hedged item for Cash flow hedges is only used as basis for recognising ineffectiveness and represents the lower of the change in the hedged item and the hedging instrument. During the year, the unrealised gains deferred to the Cash flow hedge reserve were $1,355 million for the Group and $1,428 million for the Bank, and a loss recognised in the Foreign currency translation reserve was $20 million for the Group and the Bank.

3 Hedge ineffectiveness is recognised in Other banking income.

Notes to the financial statements
For the year ended 30 June 2020

5.4 Derivative financial instruments and hedge accounting (continued)

IBOR reform

The Group has designated hedging relationships where hedged items and/or hedging instruments reference LIBOR. These rates are in the process of being transitioned to RFRs, as discussed in note 12.4. The table below provides more information on the hedge accounting relationships that are impacted by IBOR reform.

Hedging instruments

	Notional designated beyond 31 Dec 2021							
	USD Libor $M	GBP Libor $M	CHF Libor $M	JPY Libor $M	Total [1] $M	Notional designated up to 31 Dec 2021 [2] $M	Other not impacted by IBOR reform [3] $M	Total notional $M
Cash flow hedges	5,785	–	–	–	5,785	13,049	439,595	458,429
Fair value hedges	38,534	3,169	2,305	705	44,713	12,788	85,909	143,410

Hedged items

	Carrying values of financial instruments designated as hedged items beyond 31 Dec 2021 [4]			
	USD Libor $M	GBP Libor $M	CHF Libor $M	JPY Libor $M
Investment securities through OCI	10,346	1,946	–	–
Debt issues	27,077	1,527	2,360	261
Loan capital	8,635	–	–	541
Deposits and other public borrowings	1,030	–	–	–
Loans	2,207	–	–	–

1 Hedging instrument notional directly impacted by IBOR reform.

2 Hedging instrument notional linked to IBOR (impacted by the IBOR reform) that matures before 1 January 2022.

3 Hedging instrument notional not impacted by IBOR reform.

4 Hedged item carrying value directly impacted by IBOR reform.

Notes to the financial statements
For the year ended 30 June 2020

5.5 Investment securities

	Group 30 Jun 20 $M	Group 30 Jun 19 $M	Bank 30 Jun 20 $M	Bank 30 Jun 19 $M
Investment securities at fair value through OCI				
Government bonds, notes and securities	**57,190**	50,560	**53,558**	48,454
Corporate/financial institution bonds, notes and securities	**12,971**	18,075	**11,502**	16,407
Covered bonds, mortgage backed securities and SSA [1]	**8,818**	10,210	**6,719**	8,306
Shares and equity investments	**570**	67	**556**	45
Total investment securities at fair value through OCI	**79,549**	78,912	**72,335**	73,212
Investment securities at amortised cost				
Covered bonds, mortgage backed securities and SSA [1]	**5,168**	7,349	**5,167**	7,349
Government bonds, notes and securities	**5**	6	**–**	–
Total investment securities at amortised cost	**5,173**	7,355	**5,167**	7,349
Total investment securities	**84,722**	86,267	**77,502**	80,561

1 Supranational, Sovereign and Agency Securities (SSA).

As at 30 June 2020, Investment securities at fair value through other comprehensive income expected to be recovered within 12 months of the Balance Sheet date were $12,679 million (2019: $10,409 million) for the Group, and $10,494 million (2019: $8,639 million) for the Bank. As at 30 June 2020, Investment securities at amortised cost amounts expected to be recovered within 12 months of the Balance Sheet date were $1,655 million (2019: $1,622 million) for the Group and the Bank.

Notes to the financial statements
For the year ended 30 June 2020

5.5 Investment securities (continued)

Maturity distribution and yield analysis

Group – Maturity period at 30 June 2020

	0 to 1 year $M	0 to 1 year %	1 to 5 years $M	1 to 5 years %	5 to 10 years $M	5 to 10 years %	10 or more years $M	10 or more years %	Non-maturing $M	Total $M
Investment securities at fair value through OCI										
Government bonds, notes and securities	9,239	0. 37	18,672	0. 78	24,262	0. 95	5,017	1. 47	–	**57,190**
Corporate/financial institution bonds, notes and securities	2,479	0. 53	10,377	0. 90	110	1. 95	5	1. 66	–	**12,971**
Covered bonds, mortgage backed securities and SSA	687	1. 03	6,234	1. 18	1,078	0. 99	819	1. 66	–	**8,818**
Shares and equity investments	–	–	–	–	–	–	–	–	570	**570**
Total investment securities at fair value through OCI	**12,405**		**35,283**		**25,450**		**5,841**		**570**	**79,549**
Investment securities at amortised cost										
Covered bonds, mortgage backed securities and SSA	10	2. 20	–	–	163	1. 38	4,995	1. 34	–	**5,168**
Government bonds, notes and securities	5	0. 61	–	–	–	–	–	–	–	**5**
Total investment securities at amortised cost	**15**		**–**		**163**		**4,995**		**–**	**5,173**
Total investment securities	**12,420**		**35,283**		**25,613**		**10,836**		**570**	**84,722**

ACCOUNTING POLICIES

Investment securities primarily include public debt securities held as part of the Group's liquidity portfolio.

Investment securities at fair value through other comprehensive income

Debt securities

This category includes debt securities held within the business model whose objective is achieved by both collecting contractual cash flows and selling the assets. The contractual cash flows on these financial assets comprise payments of principal and interest only. These securities are initially recognised at their fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value through other comprehensive income.

Interest income and foreign exchange gains and losses on these securities are recognised in the Income Statement. The securities are assessed for impairment using the expected credit loss approach described in Note 3.2. Impairment is recognised in the Loan impairment expense line in the Income Statement.

When debt securities at fair value through other comprehensive income are derecognised, the cumulative gain or loss recognised in other comprehensive income is reclassified to the Other banking income line in the Income Statement.

Equity securities

This category also includes non-traded equity instruments designated at fair value through other comprehensive income. Fair value gains and losses and foreign exchange gains and losses on these equity instruments are recognised in other comprehensive income and are not reclassified to the Income Statement on derecognition.

Investment securities at amortised cost

This category includes debt securities held within the business model whose objective is to hold financial assets in order to collect contractual cash flows. The contractual cash flows on these financial assets comprise the payment of principal and interest only. These securities are initially recognised at their fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method and are presented net of provisions for impairment. For the accounting policy for provisions for impairment, refer to Note 3.2.

6. Other assets

OVERVIEW

The Group's other assets comprise of assets not included in its lending, investing, trading and other banking activities. Other assets include right-of-use assets and Property, plant and equipment held for own use and for lease through our asset finance businesses. Other assets also include software, brand names and goodwill. These assets support the Group's business activities.

6.1 Property, plant and equipment

	Group		Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Right-of-use assets [1]				
At cost	**3,505**	–	**3,195**	–
Accumulated depreciation	**(521)**	–	**(470)**	–
Closing balance	**2,984**	–	**2,725**	–
Land and buildings				
At 30 June valuation	**438**	442	**394**	399
Total land and buildings	**438**	442	**394**	399
Leasehold improvements				
At cost	**1,645**	1,587	**1,465**	1,409
Accumulated depreciation	**(1,109)**	(1,041)	**(999)**	(935)
Closing balance	**536**	546	**466**	474
Equipment				
At cost	**2,171**	2,163	**1,823**	1,857
Accumulated depreciation	**(1,671)**	(1,653)	**(1,456)**	(1,446)
Closing balance	**500**	510	**367**	411
Total right-of-use assets and property, plant and equipment held for own use	**4,458**	1,498	**3,952**	1,284
Assets held as lessor				
At cost	**1,503**	1,202	**136**	136
Accumulated depreciation and impairment	**(359)**	(317)	**(37)**	(31)
Closing balance	**1,144**	885	**99**	105
Total property, plant and equipment	**5,602**	2,383	**4,051**	1,389

1 The adoption of AASB 16 *Leases* on 1 July 2019 resulted in recognition of $2,659 million right-of-use asset by the Group (the Bank: $2,385 million). For details on the adoption of AASB 16, refer to Note 1.1.

6.1 Property, plant and equipment (continued)

Reconciliation of movements in the carrying amount of Property, plant and equipment is set out below:

	Group		Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Right-of-use assets [1]				
Adoption of AASB 16 [2]	**2,659**	–	**2,385**	–
Additions	**963**	–	**894**	–
Disposals	**(111)**	–	**(82)**	–
Depreciation	**(521)**	–	**(470)**	–
Foreign currency translation adjustment	**(6)**	–	**(2)**	–
Carrying amount at the end of the period	**2,984**	–	**2,725**	–
Land and buildings				
Carrying amount at the beginning of the year	**442**	440	**399**	397
Additions	**15**	10	**15**	9
Disposals	**(8)**	(18)	**(5)**	(15)
Net revaluations	**24**	38	**20**	37
Depreciation	**(34)**	(34)	**(34)**	(34)
Foreign currency translation adjustment	**(1)**	6	**(1)**	5
Carrying amount at the end of the year	**438**	442	**394**	399
Leasehold improvements				
Carrying amount at the beginning of the year	**546**	537	**474**	444
Additions	**117**	154	**102**	140
Disposals	**(5)**	(12)	**(4)**	(13)
Depreciation	**(118)**	(135)	**(105)**	(117)
Reclassification to assets held for sale	**–**	(23)	**–**	–
Foreign currency translation adjustment	**(4)**	25	**(1)**	20
Carrying amount at the end of the year	**536**	546	**466**	474
Equipment				
Carrying amount at the beginning of the year	**510**	531	**411**	457
Additions	**146**	170	**81**	122
Disposals	**(6)**	–	**(3)**	(4)
Depreciation	**(186)**	(194)	**(159)**	(175)
Reclassification to assets held for sale	**–**	(14)	**–**	–
Foreign currency translation adjustment	**36**	17	**37**	11
Carrying amount at the end of the year	**500**	510	**367**	411
Assets held as lessor				
Carrying amount at the beginning of the year	**885**	1,068	**105**	162
Additions	**567**	–	**–**	–
Disposals	**(144)**	(111)	**–**	(49)
Impairment losses [3]	**(81)**	–	**–**	–
Depreciation	**(83)**	(72)	**(6)**	(8)
Foreign currency translation adjustment	**–**	–	**–**	–
Carrying amount at the end of the year	**1,144**	885	**99**	105

1 Right-of-use assets primarily relate to leases of commercial and retail premises.

2 The adoption of AASB 16 *Leases* on 1 July 2019 resulted in recognition of $2,659 million right-of-use asset by the Group (the Bank: $2,385 million). For details on the adoption of AASB 16, refer to Note 1.1.

3 Due to the impact of COVID-19 on the aviation sector, a total impairment of $81 million was recognised in Other banking income relating to aircraft which are owned by the Group and leased to various airlines.

6.1 Property, plant and equipment (continued)

ACCOUNTING POLICIES

The Group measures its land and buildings at fair value, based on annual independent market valuations performed during the year. These fair values fall under the Level 3 category of the fair value hierarchy as defined in Note 9.5. Revaluation adjustments are reflected in the Asset revaluation reserve, except to the extent they reverse a revaluation decrease of the same asset previously recognised in the Income Statement. Upon disposal, realised amounts in the Asset revaluation reserve are transferred to Retained profits.

Other property, plant and equipment assets are stated at cost, including direct and incremental acquisition costs less accumulated depreciation and impairment if required. Subsequent costs are capitalised where it enhances the asset. Depreciation is calculated using the straight-line method over the asset's estimated useful economic life.

The useful lives of major depreciable asset categories are as follows:

Right-of-use assets	Unexpired lease term
Land	Indefinite, not depreciated
Buildings	Up to 30 years
Equipment	3–8 years
Leasehold improvements	Lower of unexpired lease term or lives as above
Assets held as lessor:	
Aircraft	25 years
Rail	35–40 years
Ships	25–40 years

Leases are entered into to meet the business needs of entities in the Group. Leases are primarily over commercial and retail premises and plant and equipment. Where the Group is a lessee, all leases will be recognised on the Balance Sheet as a lease liability and right-of-use asset, unless the underlying asset is of low value or the lease has a term of 12 months or less. Rentals of leases with low value underlying assets or where the lease term is 12 months or less are recognised over the lease term as Operating expenses in the Income Statement.

Right-of-use assets are initially measured at cost comprising the following:

- the initial amount of the lease liability measured at the present value of the future lease payments;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- an estimate of the costs to be incurred upon disassembling or restoring the underlying asset to the condition required by the terms of the lease.

The right-of-use asset is depreciated over the lease term on a straight-line basis within Operating expenses in the Income Statement.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in the Income Statement if the carrying amount of the right-of-use asset has been fully written down.

Critical accounting judgements and estimates

Judgement has been applied by the Group in assessing which arrangements contain a lease, the period over which the lease exists and the variability of future cash flows when recognising right-of-use assets. The Group assesses at each Balance Sheet date useful lives and residual values and whether there is any objective evidence of impairment.

In determining the value in use of assets held as lessor, the Group incorporates the cash inflows over the lease term, as well as the expected selling price on expiry of the lease. Market disruption, lower demand for assets, decline in asset prices as well as credit events specific to individual lessees can result in a reduction of the asset's recoverable values. There remains significant uncertainty regarding the severity of the impact of COVID-19 on the aviation sector, and the duration of restrictions on domestic and international travel.

If an asset's carrying amount is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

6.2 Intangible assets

	Group		Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Goodwill				
Purchased goodwill at cost	**5,284**	5,974	**2,522**	2,522
Closing balance	**5,284**	5,974	**2,522**	2,522
Computer software costs				
Cost	**4,438**	4,837	**3,960**	4,396
Accumulated amortisation	**(3,089)**	(3,125)	**(2,807)**	(2,842)
Closing balance	**1,349**	1,712	**1,153**	1,554
Brand names [1]				
Cost	**201**	203	**186**	186
Accumulated amortisation	**–**	(2)	**–**	–
Closing balance	**201**	201	**186**	186
Other intangibles [2]				
Cost	**267**	351	**231**	219
Accumulated amortisation	**(157)**	(273)	**(141)**	(164)
Closing balance	**110**	78	**90**	55
Total intangible assets	**6,944**	7,965	**3,951**	4,317

1 Brand names predominantly represent the value of royalty costs foregone by the Group through acquiring the Bankwest brand name. The royalty costs that would have been incurred by an entity using the Bankwest brand name are based on an annual percentage of income generated by Bankwest. The Bankwest brand name has an indefinite useful life, as there is no foreseeable limit to the period over which the brand name is expected to generate cash flows. This balance also includes the Aussie Home Loans brand name ($16 million) which has an indefinite useful life. They are not subject to amortisation, but require annual impairment testing. No impairment was recognised during the year. The Count Financial brand name of $3 million was impaired during the year ended 30 June 2019.

2 Other intangibles include the value of customer and credit card relationships acquired from Bankwest and Aussie Home Loans. This value represents future net income generated from the relationships that existed at Balance Sheet date. The assets have a useful life of between 6 and 10 years based on the attrition rates of customers. Other intangibles also include prepaid software licences with a net book value of $99 million (30 June 2019: $54 million). Customer relationship intangibles in relation to Count Financial of $13 million were impaired during the year ended 30 June 2019.

Impairment tests for goodwill and intangible assets with indefinite lives

To assess whether goodwill and other assets with indefinite useful lives are impaired, the carrying amount of a cash-generating unit or a group of cash-generating units are compared to the recoverable amount. The recoverable amount is determined based on fair value less cost to sell, primarily using an earnings multiple applicable to that type of business. The category of this fair value is Level 3 as defined in Note 9.5.

Earnings multiples relating to the Group's banking cash-generating units are sourced from publicly available data associated with Australian businesses displaying similar characteristics to those cash-generating units, and are applied to current earnings. The key assumption is the Price-Earnings (P/E) multiple observed for these businesses, which for the banking businesses were in the range of 11.8x–12.7x (2019: 11.6x–12.0x).

Goodwill allocation to cash generating units

	Group		Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Retail Banking Services	**3,744**	3,744	**1,988**	1,988
Business and Private Banking	**1,267**	1,271	**534**	534
Wealth Management	**–**	679	**–**	–
New Zealand	**262**	269	**–**	–
IFS and Other	**11**	11	**–**	–
Total	**5,284**	5,974	**2,522**	2,522

Notes to the financial statements
For the year ended 30 June 2020

6.2 Intangible assets (continued)

Reconciliation of the carrying amounts of Intangible assets is set out below:

	Group		Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Goodwill				
Opening balance	**5,974**	6,941	**2,522**	2,522
Additions	**–**	–	**–**	–
Transfers/disposals/other adjustments [1]	**(690)**	(967)	**–**	–
Closing balance	**5,284**	5,974	**2,522**	2,522
Computer software costs				
Opening balance	**1,712**	1,819	**1,554**	1,682
Additions [2]	**407**	343	**384**	287
Amortisation and write-offs [3]	**(769)**	(450)	**(785)**	(415)
Reclassification to assets held for sale	**(1)**	–	**–**	–
Closing balance	**1,349**	1,712	**1,153**	1,554
Brand names				
Opening balance	**201**	205	**186**	186
Additions	**–**	–	**–**	–
Impairment [4]	**–**	(4)	**–**	–
Closing balance	**201**	201	**186**	186
Other intangibles				
Opening balance	**78**	125	**55**	76
Additions	**210**	140	**209**	142
Amortisation and impairment [5]	**(178)**	(187)	**(174)**	(163)
Closing balance	**110**	78	**90**	55

1 Includes reclassifications to Assets held for sale and foreign currency revaluation.
2 Primarily relates to internal development costs.
3 Includes amounts associated with discontinued operations.
4 The Count Financial brand name of $3 million was impaired during the year ended 30 June 2019.
5 Customer relationship intangibles in relation to Count Financial of $13 million were impaired during the year ended 30 June 2019.

Notes to the financial statements
For the year ended 30 June 2020

6.2 Intangible assets (continued)

ACCOUNTING POLICIES

Intangible assets are identifiable non-monetary assets without physical substance. They are recognised only if it is probable the asset will generate future benefits for the Group. Those assets with an indefinite useful life are tested for impairment annually. All intangible assets must be tested for impairment when there is an indication that its carrying amount may be greater than its recoverable amount.

Goodwill

Goodwill arises on the acquisition of a business and represents the excess of the consideration paid over the fair value of the net assets and liabilities acquired. Goodwill is tested for impairment annually through allocation to a group of Cash Generating Units (CGUs). The CGUs' recoverable amount is then compared to the carrying amount of the CGUs including goodwill and an impairment is recognised for any excess carrying value.

Computer software costs

Certain internal and external costs directly incurred in acquiring and developing software, are capitalised and amortised over the estimated useful life on a straight-line basis. The majority of software projects are amortised over two to five years. Software maintenance is expensed as incurred.

During the year ended 30 June 2020, the Group changed the amortisation method for its core banking software, which was previously amortised on a straight-line basis over ten years. The core banking software is now amortised applying a diminishing balance methodology, over a useful life of approximately nine years. The financial impact of this change is presented in Note 2.4.

Brand names

Brand names acquired in a business combination include Aussie Home Loans, Bankwest and Count Financial Limited and these were initially recognised at fair value. Aussie Home Loans and Bankwest brand names are assessed as having an indefinite useful life as there is no foreseeable limit to the period over which the brand names are expected to generate cash flows. Count Financial brand name was fully impaired during the year ended 30 June 2019.

Other intangibles

Other intangibles predominantly comprise customer relationships and prepaid software licences. Customer relationships acquired as part of a business combination are initially measured at fair value. They are subsequently measured at cost less accumulated amortisation and any impairment losses. Amortisation is calculated based on the timing of projected cash flows associated with those relationships.

Critical accounting judgements and estimates

Goodwill is allocated to CGUs whose recoverable amount is calculated for the purpose of impairment testing. The recoverable amount calculation relies primarily on publicly available earnings multiples, which are disclosed on page 179.

Notes to the financial statements
For the year ended 30 June 2020

6.3 Other assets

		Group		Bank [1]	
		30 Jun 20	30 Jun 19	30 Jun 20	30 Jun 19
	Note	$M	$M	$M	$M
Accrued interest receivable		**1,901**	2,421	**1,980**	2,527
Accrued fees and reimbursements receivable [2]		**1,067**	1,117	**216**	258
Securities sold not delivered		**3,640**	1,893	**3,002**	1,323
Intragroup current tax receivable		**–**	–	**209**	320
Current tax assets		**16**	624	**10**	609
Prepayments		**333**	291	**217**	190
Defined benefit superannuation plan surplus	10.2	**681**	462	**681**	462
Other [3]		**1,201**	307	**602**	171
Total other assets		**8,839**	7,115	**6,917**	5,860

1 Information has been restated to reflect the change in accounting policy detailed in Note 1.1.
2 Accrued fees and reimbursements receivable as at 30 June 2020 include trail commission receivable of $453 million for the Group (30 June 2019: $442 million).
3 As at 30 June 2020, other assets include $654 million of proceeds receivable in relation to divestments of businesses.

Except for the defined benefits superannuation plan surplus, the majority of the above amounts are expected to be recovered within 12 months of the Balance Sheet date.

ACCOUNTING POLICIES

Other assets include interest and fee receivables, current tax assets, prepayments receivables on unsettled trades and the surplus within defined benefit plans. Interest receivables are recognised on an accruals basis, fees and reimbursements receivable are recognised once the service is provided and trade date accounted securities sold not delivered are recognised between trade execution and final settlement. The remaining other assets are recognised on an accrual or service performed basis and amortised over the period in which the economic benefits from these assets are received. Further defined benefit plan details are provided in Note 10.2.

Notes to the financial statements
For the year ended 30 June 2020

7. Other liabilities

OVERVIEW

Other liabilities include provisions, interest payable, fees and bills payable and unsettled trades. Provisions principally cover annual leave and long service leave employee entitlements as well as general insurance claims, provisions for customer remediation, compliance and regulation programs and litigations. It also includes provisions for impairment losses on financial guarantees and other off Balance Sheet instruments issued by the Group.

Certain provisions involve significant judgement to determine the likely outcome of events as well as a reliable estimate of the outflow. Where future events are uncertain, or where the outflow cannot be reliably determined, these are disclosed as contingent liabilities. Contingent liabilities are not recognised on the Group's Balance Sheet but are disclosed in Note 12.1. Contingent liabilities in respect of litigation, investigations and reviews are disclosed in Note 7.1.

7.1 Provisions

		Group [1]		Bank [1]	
		30 Jun 20	30 Jun 19	30 Jun 20	30 Jun 19
	Note	$M	$M	$M	$M
Employee entitlements		**1,039**	970	**910**	906
General insurance claims		**338**	292	**–**	–
Customer remediation		**1,031**	959	**1,034**	901
Dividends	8.4	**121**	119	**121**	119
Compliance and regulation		**188**	213	**188**	213
Restructuring		**324**	240	**321**	242
Off Balance Sheet instruments		**119**	84	**113**	82
Other [2]		**248**	91	**227**	91
Total provisions		**3,408**	2,968	**2,914**	2,554

1 Comparative information has been restated to conform to presentation in the current year.
2 The adoption of AASB 16 *Leases* on 1 July 2019 resulted in an increase of $135 million in the Group's make-good provisions in relation to property leases (Bank: $121 million). As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16, refer to Note 1.1.

Maturity distribution of provisions

	Group [1]		Bank [1]	
	30 Jun 20	30 Jun 19	30 Jun 20	30 Jun 19
	$M	$M	$M	$M
Less than 12 months	**2,826**	2,501	**2,416**	2,042
More than 12 months	**582**	467	**498**	512
Total provisions	**3,408**	2,968	**2,914**	2,554

1 Comparative information has been restated to conform to presentation in the current year.

Notes to the financial statements
For the year ended 30 June 2020

7.1 Provisions (continued)

	Group [1]		Bank [1]	
	30 Jun 20	30 Jun 19	30 Jun 20	30 Jun 19
Reconciliation	**$M**	**$M**	**$M**	**$M**
General insurance claims:				
Opening balance	**292**	219	**–**	–
Movement in reinsurance and other recoveries on outstanding claims	**61**	19	**–**	–
Net claims incurred	**573**	528	**–**	–
Movement in prior year claims	**(16)**	7	**–**	–
Amounts utilised during the year	**(572)**	(481)	**–**	–
Closing balance	**338**	292	**–**	–
Customer remediation:				
Opening balance	**959**	162	**901**	134
Additional provisions [2]	**445**	963	**448**	903
Amounts utilised during the year	**(327)**	(166)	**(315)**	(136)
Reclassification to liabilities held for sale	**(46)**	–	**–**	–
Closing balance	**1,031**	959	**1,034**	901
Compliance and regulation:				
Opening balance	**213**	283	**213**	283
Additional provisions [3]	**107**	125	**107**	125
Amounts utilised during the year	**(132)**	(188)	**(132)**	(188)
Release of provisions	**–**	(7)	**–**	(7)
Closing balance	**188**	213	**188**	213
Restructuring:				
Opening balance	**240**	174	**242**	172
Additional provisions	**223**	220	**218**	222
Amounts utilised during the year	**(115)**	(154)	**(115)**	(152)
Release of provisions	**(24)**	–	**(24)**	–
Closing balance	**324**	240	**321**	242
Off Balance sheet instruments:				
Opening balance	**84**	28	**82**	28
Changes on adoption of AASB 9	**–**	87	**–**	84
Additional provisions	**48**	–	**44**	–
Amounts utilised during the year	**(13)**	–	**(13)**	–
Release of provisions	**–**	(31)	**–**	(30)
Closing balance	**119**	84	**113**	82
Other:				
Opening balance	**91**	155	**91**	150
Changes on adoption of AASB 16 [4]	**135**	–	**121**	–
Additional provisions	**46**	32	**43**	31
Amounts utilised during the year	**(24)**	(90)	**(28)**	(90)
Reclassification to liabilities held for sale	**–**	(6)	**–**	–
Closing balance	**248**	91	**227**	91

1 Comparative information has been restated to conform to presentation in the current year.
2 Customer remediation includes provisions for Aligned Advice, Banking and other Wealth Management remediation including related program costs.
3 Compliance and regulation includes additional provisions recognised during the current year for Financial Crimes Compliance Program of Action, Better Risk Outcomes Program (BROP) and litigation related costs.
4 The adoption of AASB 16 *Leases* on 1 July 2019 resulted in an increase of $135 million in the Group's make-good provisions in relation to property leases (Bank: $121 million). As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16, refer to Note 1.1.

ACCOUNTING POLICIES

Provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated. Where the effect of the time value of money is material, the amount of the provision is measured as the present value of expenditures required to settle the obligation, based on a market observable rate.

Notes to the financial statements
For the year ended 30 June 2020

7.1 Provisions (continued)

Provisions for employee entitlements (such as long service leave, annual leave and other employee benefits)

This provision is calculated based on expected payments. Where the payments are expected to be more than one year in the future, these provisions factor in the expected period of service by employees, as well as salary increases. These future obligations are discounted using a market observable rate.

General insurance claims

This provision is to cover future claims on general insurance contracts that have been incurred but not reported and reinsurance arrangements. The provision will be realised upon settlement of claims whose maturities were uncertain at the reporting date.

Customer remediation

This provision covers customer remediation costs and related program costs.

Compliance and regulation

This provision relates to project and other administrative costs associated with certain compliance and regulatory programs of the Group.

Restructuring provision

The provision includes direct expenditures arising from changes in the scope of the Group's business relating primarily to divestment transactions. The provision includes costs, which are both necessarily entailed by the divestment and are not associated with the ongoing activities of the Group. A provision for restructuring costs is only recognised when the Group has a detailed formal restructuring plan and the restructuring has either commenced or has been publicly announced.

Other provisions

Other provisions include self-insurance provisions, make-good provisions in relation to property leases, and provisions for certain other costs.

Critical accounting judgements and estimates

Provisions are held in respect of a range of future obligations, some of which involve significant judgement about the likely outcome of various events and estimated future cash flows.

Customer remediation

Provisions for customer remediation require significant levels of estimation and judgement. The amount raised depends on a number of different assumptions, such as the number of years impacted, the forecast refund rate and the average cost per case. The Group is committed to comprehensively and efficiently addressing the full range of remediation issues impacting customers of the Banking and Wealth Management businesses. Significant resources have been committed to a comprehensive program of work, to ensure that all issues are identified and addressed.

Aligned Advice remediation – ongoing service fees

Aligned advisors were not employed by the Group but were representatives authorised to provide financial advice under the licences of the Group's subsidiaries, Financial Wisdom Limited (FWL), Count Financial Limited (Count Financial) and Commonwealth Financial Planning Limited - Pathways (CFP-Pathways).

The Group completed the sale of Count Financial to CountPlus Limited (CountPlus) on 1 October 2019, and ceased providing licensee services through CFP-Pathways and Financial Wisdom in March and June 2020, respectively. The Bank entered into reimbursement agreements with Financial Wisdom and CFP-Pathways, and an indemnity deed with CountPlus, to cover potential remediation of past issues including ongoing service fees. For details on the reimbursement agreements and the indemnity deed, refer to Note 11.2.

During the year ended 30 June 2020, the Group recognised a net increase in the provision for Aligned Advice remediation issues and program costs of $300 million, including ongoing service fees charged where no service was provided. As at 30 June 2020, the provision held by the Group in relation to Aligned Advice remediation was $804 million (30 June 2019: $534 million). The provision includes $418 million for customer fee refunds (30 June 2019: $251 million), $280 million for interest on fees subject to refunds (30 June 2019: $123 million) and $106 million for costs to implement the remediation program (30 June 2019: $160 million).

The Group's estimate of the proportion of fees to be refunded is based on sample testing and assumes a refund rate of 37% (30 June 2019: 24%). This compares to a refund rate of 22%, which was paid for our salaried advisors. An increase/(decrease) in the failure rate by 1% would result in an increase/(decrease) in the provision of approximately $20 million (30 June 2019: $15 million).

The Group is continuing to engage with ASIC in relation to its remediation approach.

Banking and other Wealth customer remediation

During the year ended 30 June 2020, the Group raised an additional $94 million provision for Banking and other Wealth customer remediation programs (30 June 2019: $384 million). As at 30 June 2020, the provision held by the Group in relation to Banking and other Wealth customer remediation was $227 million (30 June 2019: $384 million).

The provision for Banking remediation includes an estimate of customer refunds (including interest) relating to business banking products (including bank guarantees, cash deposit accounts, merchants billing and certain commercial lending products), retail banking products (including home loans and other retail products), and the related program costs.

The Wealth remediation provision includes an estimate of customer refunds (including interest) relating to advice quality, transactions with deceased estates, the Loan Protection Insurance product, certain superannuation and other products, and the related program costs.

Notes to the financial statements
For the year ended 30 June 2020

7.1 Provisions (continued)

Litigation, investigations and reviews

The Group is party to a number of legal proceedings, and the subject of various investigations and reviews. Provisions have been raised where indicated in accordance with the principles outlined in the accounting policy section of this note.

Litigation

The main litigated claims against the Group as at 30 June 2020 are summarised below.

Shareholder class actions

In October 2017 and June 2018 two separate shareholder class action proceedings were filed against CBA in the Federal Court of Australia, alleging breaches of CBA's continuous disclosure obligations and misleading and deceptive conduct in relation to the subject matter of the civil penalty proceedings brought against CBA by the Australian Transaction Reports and Analysis Centre (AUSTRAC). The AUSTRAC proceedings concerned contraventions of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth).

The resolution of the AUSTRAC civil penalty proceedings was approved by the Federal Court on 20 June 2018 with CBA paying a penalty of $700 million and legal costs.

It is alleged in the class actions that CBA shareholders who acquired an interest in CBA shares between 16 June 2014 and 3 August 2017 suffered losses as a result of the alleged conduct. The two class actions are being case managed together, with a single harmonised statement of claim. CBA denies the allegations made against it, and it is currently not possible to determine the ultimate impact of these claims, if any, on the Group. The Group has provided for legal costs expected to be incurred in the defence of the claims.

Superannuation class actions

The Group is also defending four class action claims in relation to superannuation products.

On 9 October 2018, a class action was filed against Colonial First State Investments Limited (CFSIL) and CBA in the Federal Court of Australia. The claim initially related to investment in cash and deposit options (which are cash and deposit products provided by CBA) in the Colonial First State First Choice Superannuation Trust and Commonwealth Essential Super. A second further amended statement of claim and amended application was filed on 2 June 2020, joining Avanteos Investments Limited (AIL) as a party in respect of claims regarding the FirstWrap Pooled Cash Account and expanding the existing claims made against CFSIL and CBA. The main claims are that members invested in these cash and deposit options received lower interest rates than they could have received had CFSIL/AIL offered similar products made available in the market by another bank with comparable risk and that CFSIL/AIL retained the margin that arises through the internal transfer pricing process in respect of deposits made with CBA, for their own benefit. It is claimed CFSIL/AIL breached their duties as a trustee of the funds, CFSIL breached its duties as a Responsible Entity of the underlying managed investment schemes and that CBA was involved in CFSIL/AIL's breaches. CBA, CFSIL and AIL deny the allegations and are defending the proceedings. The Court has ordered the parties to participate in a mediation of this matter, which is scheduled to take place on 3 September 2020.

On 18 October 2019 another class action was commenced against CFSIL in the Federal Court of Australia. The claim relates to certain fees charged to members of the Colonial First State First Choice Superannuation Trust. It is alleged that CFSIL breached its duties as trustee and acted unconscionably because it failed, between 2013 and 2019, to take steps to avoid the payment of grandfathered commissions to financial advisers, which would have resulted in a reduction of the fees paid by members in respect of whom those commissions were paid. CFSIL denies the allegations and is defending the proceedings. The Court has ordered the parties to participate in a mediation of this matter by 18 December 2020.

On 24 October 2019 a third class action was filed against CFSIL and a former executive director of CFSIL in the Federal Court of Australia, relating to alleged contraventions of statutory obligations under superannuation law and trustee breaches in the period 2013 to 2017. The class action relates to the transfer of certain default balances held by members of FirstChoice Employer Super to a MySuper product. The key allegation is that members should have been transferred to a MySuper product earlier than they were, and that the alleged failure to effect the transfer as soon as reasonably practical caused affected members to pay higher fees and receive lower investment returns during the point of delay. The allegations are denied and CFSIL and its former director are defending the class action. The Court has ordered the parties to participate in a mediation which will take place on 20 November 2020.

On 22 January 2020, a fourth class action was filed against CFSIL and The Colonial Mutual Life Assurance Society Limited (CMLA) in the Federal Court of Australia. The class action alleges that CFSIL did not act in the best interests of members and breached its trustee duties when taking out group insurance policies obtained from CMLA. The key allegation is that CFSIL entered into and maintained insurance policies with CMLA on terms that were less favourable to members than would have reasonably been available in the market. It is alleged that CMLA was knowingly involved in CFSIL's contraventions as trustee and profited from those contraventions. The allegations are denied and CFSIL and CMLA are defending the class action.

The Group has provided for the legal costs expected to be incurred in the defence of the claims.

US BBSW class action

In 2016 a class action was commenced in the United States District Court in New York against CBA, other banks and two brokers, claiming a conspiracy among competitors to manipulate the BBSW benchmark for mutual gain. The claims include allegations that United States racketeering and antitrust legislation have been contravened. In November 2018, the Court dismissed the claims against CBA and the other foreign defendants, but in April 2019, an amended complaint was filed that included new allegations and added a new named plaintiff. The defendants applied to the Court to dismiss the amended complaint. In February 2020, the judge determined that the new named plaintiff's claims could proceed against CBA and nine other banks. CBA denies the allegations and will be defending the class action. The breadth of the putative class (if any) that may be allowed to claim against CBA will not be determined until at the earliest August 2021. The preparation of the substantive proceedings has now commenced.

Notes to the financial statements
For the year ended 30 June 2020

7.1 Provisions (continued)

It is currently not possible to determine the ultimate impact of this claim, if any, on the Group. The Group has provided for legal costs expected to be incurred in the defence of this class action.

Consumer credit insurance class action

On 10 June 2020 a class action was commenced against CBA and CMLA in the Federal Court of Australia. The claim relates to consumer credit insurance for credit cards and personal loans that was sold between 1 January 2010 and 7 March 2018. The class action alleges that CBA and CMLA engaged in unconscionable and misleading or deceptive conduct, failed to act in the best interests of customers and provided them with inappropriate advice. In particular, it is alleged that some customers were excluded from claiming certain benefits under the policies and the insurance was therefore unsuitable or of no value. Allegations are also made in relation to the manner in which the insurance was sold. The Court has made orders requiring CBA and CMLA to file their responses to the claim by 21 September 2020. It is currently not possible to determine the ultimate impact of this claim, if any, on the Group. The Group has provided for legal costs expected to be incurred in the defence of this class action.

ASIC regulatory enforcement proceedings

CFSIL My Super

On 17 March 2020 ASIC commenced civil penalty proceedings against CFSIL in the Federal Court of Australia for alleged breaches of the *Australian Securities and Investments Commission Act 2001* (Cth) and *Corporations Act 2001* (Cth) (Corporations Act) arising from communications with members of the FirstChoice Fund. In 2012, the Australian government passed legislation requiring trustees, such as CFSIL to allocate member contributions to a default "MySuper" superannuation product in certain circumstances. ASIC alleges, amongst other things, that CFSIL communicated with members both in template letters and on telephone calls, in a misleading or deceptive manner regarding the provision of investment directions to stay with CFSIL's FirstChoice Fund rather than transitioning to CFSIL's MySuper product.

CFSIL filed its response to the claim on 17 July 2020. It is currently not possible to determine the ultimate impact of this claim. The Group has provided for legal costs expected to be incurred in the defence of this claim.

Commonwealth Essential Super

On 22 June 2020 ASIC commenced civil penalty proceedings against CFSIL and CBA in the Federal Court of Australia for alleged contraventions of the conflicted remuneration provisions in the Corporations Act relating to the arrangements between CFSIL and CBA for the distribution of Commonwealth Essential Super (CES). CES is a superannuation product issued by CFSIL. It is currently not possible to determine the ultimate impact of this claim, if any, on the Group. The Group has provided for legal costs expected to be incurred in the defence of this claim.

Ongoing regulatory investigations and reviews

The Group undertakes ongoing compliance activities, including breach reporting, reviews of products, advice, conduct and services provided to customers, as well as interest, fees and premiums charged. Some of these activities have resulted in remediation programs and where required the Group consults with the relevant regulator on the proposed remediation action.

Provisions have been recognised by the Group where the criteria outlined in the accounting policy section of this note are satisfied. Contingent liabilities exist with respect to these matters where it is not possible to determine the extent of any obligation to remediate or the potential liability cannot be reliably estimated.

There are also a number of ongoing matters where regulators are investigating whether CBA or a Group entity has breached legal or regulatory obligations. Where a breach has occurred, regulators are likely to impose, or apply to a Court for, fines and/or other sanctions. These matters include investigations by APRA and ASIC of issues which were referred to them by the Financial Services Royal Commission, as well as a number of other matters notified to, or identified by, regulators.

In addition to possible regulatory action, there may also be financial exposure to claims by customers and this could include further class actions, customer remediation or claims for compensation. The outcomes and total costs associated with such regulatory investigations and possible customer claims remain uncertain.

These investigations include ASIC's investigation regarding the AUSTRAC proceedings noted above. In September 2017, following the commencement of the civil proceedings against CBA by AUSTRAC, ASIC launched an investigation in relation to the Group's disclosure concerning the matters the subject of the AUSTRAC proceedings. ASIC is also investigating, among other things, whether the directors and officers of CBA complied with other specific obligations under the Corporations Act. It is currently not possible to determine the ultimate impact of this investigation, if any, on the Group. The Group has provided for the legal costs expected to be incurred in relation to this investigation.

Fair Work Ombudsman (FWO) investigation

The FWO's investigation in relation to CBA's self-disclosure of discrepancies in employee arrangements and entitlements is ongoing, and CBA continues to engage with FWO and respond to its requests for information. It is currently not possible to determine the ultimate impact of this investigation on the Group.

CBA is continuing with its broad review of employee entitlements and is remediating impacted current and former employees as the review progresses. We continue to update both the FWO and the Finance Sector Union and will provide a broader update on progress in due course. The Group holds a provision for remediation and program costs related to this matter.

Notes to the financial statements
For the year ended 30 June 2020

7.1 Provisions (continued)

New Zealand compliance audit findings

The Labour Inspectorate in New Zealand is undertaking a programme of compliance audits on a number of organisations in respect of the *Holidays Act 2003* (Holidays Act). On 18 December 2018, ASB Bank Limited (ASB) received the Labour Inspectorate's report of its findings on ASB's compliance with the Holidays Act. The findings, based on a sample of employees, include that ASB has not complied with the requirements of the Holidays Act by not including certain incentive payments in ASB's calculation of gross earnings under the Holidays Act. ASB's position in relation to that finding is that the application of the law is yet to be finally determined. That finding, if extrapolated to ASB's entire workforce, would result in an estimated liability of NZD 33 million in total for the preceding six years' annual holiday payments. ASB continues to engage with the Labour Inspectorate on the matter. The Group holds a provision for this matter.

Home loan pricing inquiry

In October 2019, the ACCC commenced an industry-wide inquiry into home loan pricing. The inquiry involves consideration of a wide range of issues including the interest rates paid by new and existing customers, how the cost of financing for banks has affected bank decisions on interest rates and barriers to customers switching home loans with the focus on the period since 1 January 2019. CBA is co-operating with the ACCC in its requests for information. The ACCC published an interim report on 27 April 2020. The final report from the inquiry is due by 30 November 2020.

Other regulatory matters

The following matters were significant regulatory investigations and reviews, which have been completed, but have resulted in ongoing action required by the Group.

Enforceable undertaking to ASIC (foreign exchange)

In December 2016 CBA provided an enforceable undertaking (EU) to ASIC arising from an investigation into wholesale spot foreign exchange (FX) trading between 2008 and 2013. The EU included the engagement of an independent expert, to review and assess the changes we have made to our trading operating model in recent years, including in training, procedures and oversight.

It also included a voluntary contribution of $2.5 million to support the further development of financial literacy education relating to changes to delivery of care in the aged care sector.

CBA provided details of the implementation of its Final FX EU Program to ASIC in March 2019. The independent expert conducted an assessment of CBA's implementation and submitted its final expert report on 31 May 2019. The report highlighted certain terms of the consolidated Final FX EU Program, which were yet to be implemented, certain matters that could not be assessed and some other areas for improvement. CBA has steps underway to address the matters raised in the independent expert's report and is having ongoing discussions with ASIC in respect of the FX EU Program.

Prudential inquiry into CBA and enforceable undertaking to APRA

On 28 August 2017 APRA announced it would establish an independent prudential inquiry (the Inquiry) into the Group focusing on the governance, culture and accountability frameworks and practices within the Group. The final report of the Inquiry was released on 1 May 2018 (the Final Report). The Final Report made a number of findings regarding the complex interplay of organisational and cultural factors within the Group and the need for enhanced management of non-financial risks. In response to the Final Report, the Group acknowledged that it will implement all of the recommendations and agreed to adjust its minimum operational risk capital requirements by an additional $1 billion (an impact to risk weighted assets of $12.5 billion) until such time as the recommendations are implemented to APRA's satisfaction.

CBA has entered into an EU under which CBA's remedial action (Remedial Action Plan) in response to the Final Report would be agreed and monitored regularly by APRA. The Remedial Action Plan provides a detailed program of change outlining how CBA will improve the way it runs its business, manages risk, and works with regulators. The Remedial Action Plan also provides a comprehensive assurance framework, with Promontory Australasia (Sydney) Pty Ltd (Promontory) having been appointed as the independent reviewer, and which is required to report to APRA on the Group's progress against committed milestones every 3 months.

Promontory is continuing to provide APRA with quarterly progress reports, and CBA is committed to report publicly on its progress against the Remedial Action Plan twice a year. Six Promontory reports have been released by CBA. Promontory has noted that the Remedial Action Plan program of work remains on track and CBA's commitment to implementing the Inquiry's recommendations in a timely and comprehensive way continued to be strong with all 176 milestones on schedule to be delivered by the applicable due dates.

The Group has provided for costs associated with the implementation of the Remedial Action Plan.

Financial crime compliance

As noted above, in 2018 the Group resolved the AUSTRAC proceedings relating to contraventions of anti-money laundering/counter-terrorism financing (AML/CTF) laws.

Recognising the crucial role that the Group plays in fighting financial crime, it continues to strengthen and invest significantly in its financial crime capabilities, including in its AML/CTF Compliance team and through the Program of Action with coverage across all aspects of financial crime (including anti-money laundering/counter-terrorism financing, sanctions and anti-bribery and corruption) and all business units. The Group has provided for costs of running the Program of Action.

The Group provides updates to AUSTRAC and the Group's other regulators on the Program of Action implemented by the Group following the civil penalty proceedings commenced against it by AUSTRAC.

However, there is no assurance that AUSTRAC or the Group's other regulators will agree that the Group's Program of Action will be adequate or that the Program of Action will effectively enhance the Group's financial crime compliance programs across its business units and the jurisdictions in which it operates. While the Group is not currently aware of any other enforcement action by other domestic or foreign regulators in respect of its financial crime compliance, there can be no assurance that the Group will not be subject to such enforcement actions in the future.

Notes to the financial statements
For the year ended 30 June 2020

7.1 Provisions (continued)

Enforceable undertaking to ASIC (BBSW)

On 21 June 2018, the Federal Court approved an agreement between CBA and ASIC to resolve proceedings concerning alleged market manipulation and unconscionable conduct in respect of the bank bill market. CBA paid a civil penalty of $5 million and a community benefit payment of $15 million to Financial Literacy Australia. It also agreed to pay ASIC's costs of the investigation and legal costs. The Group provided for these costs in an earlier period.

As part of the settlement CBA also entered into an EU with ASIC under which CBA undertook to engage an independent expert to assess changes it has made (and will make) to its policies, procedures, controls systems, training, guidance and framework for the monitoring and supervision of employees and trading in Prime Bank Bills and CBA's BBSW-referenced product businesses. On 5 October 2018, CBA appointed EY as the independent expert. CBA provided its BBSW Program of remediation work to ASIC and EY on 21 December 2018. EY reviewed the BBSW Program and provided certain recommendations in its report dated 23 April 2019. CBA considered those recommendations with ASIC and EY and delivered its Final BBSW Program to ASIC and EY on 23 July 2019.

EY delivered its report on CBA's Final BBSW Program on 30 August 2019. Once the terms of the Final BBSW Program are agreed to by ASIC, that program will be implemented. The Group has provided for costs associated with implementation of the BBSW program.

Enforceable undertaking to the Office of Australian Information Commissioner (OAIC)

In June 2019, the Australian Information Commissioner (Commissioner) accepted an EU offered by CBA, which requires further enhancements to the management and retention of customer personal information within CBA and certain subsidiaries.

The EU follows CBA's work to address two incidents: one relating to the disposal by a third party of magnetic data tapes containing historical customer statements and the other relating to potential unauthorised internal user access to certain systems and applications containing customer personal information. CBA reported the incidents to the Commissioner in 2016 and 2018 respectively and has since been working to address these incidents. CBA found no evidence that its customers' personal information was compromised by the incident reported in 2016, and has found no evidence to date that there have been any instances of unauthorised access by CBA employees or third parties as a result of the incident reported in 2018.

The Group has provided for certain costs associated with implementation and compliance with the EU provided to the Commissioner.

Other matters

Exposures to divested businesses

The Group has potential exposures to divested businesses, including through the provision of services, warranties and indemnities. These exposures may have an adverse impact on the Group's financial performance and position. The Group has recognised provisions where payments in relation to the exposures are probable and reliably measurable.

Notes to the financial statements
For the year ended 30 June 2020

7.2 Bills payable and other liabilities

	Group [1]		Bank [1, 2]	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Bills payable	**657**	756	**582**	664
Accrued interest payable	**1,693**	2,676	**1,366**	2,238
Accrued fees, employee incentives and other items payable [3]	**1,738**	2,173	**1,434**	1,689
Securities purchased not delivered	**3,850**	2,414	**3,061**	1,774
Unearned income [4]	**1,415**	1,439	**888**	1,011
Lease liabilities [5]	**3,112**	–	**2,861**	–
Other	**723**	610	**1,674**	1,311
Total bills payable and other liabilities	**13,188**	10,068	**11,866**	8,687

1 Comparative information has been restated to conform to presentation in the current year.
2 Comparative information has been restated to reflect the change in accounting policy detailed in Note 1.1.
3 Accrued fees payable as at 30 June 2020 include trail commissions payable of $200 million for the Group (30 June 2019: $265 million).
4 Unearned income includes annual facility fees, commitment fees and upfront fees that are deferred and recognised over the service periods. Of the unearned income recognised at the beginning of the period, the Group and the Bank has recognised $616 million and $592 million, respectively, as income for the period ended 30 June 2020 (30 June 2019: $643 million for the Group and $622 million for the Bank).
5 Current period amounts reflect the adoption of AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1.1.

ACCOUNTING POLICIES

Bills payable and Other liabilities include accrued interest payable, accrued incentives payable, accrued fees payable, lease liabilities and unearned income. Bills payable and Other liabilities are measured at the contractual amount payable. As most payables are short-term in nature, the contractual amount payable approximates fair value.

Where the Group is a lessee, all leases will be recognised on the Balance Sheet as a lease liability and right-of-use asset, unless the underlying asset is of low value or the lease has a term of 12 months or less. Rentals of leases with low value underlying assets or where the lease term is 12 months or less are recognised over the lease term as Operating expenses in the Income Statement. Lease liabilities are initially measured at the net present value of the following lease payments (if applicable):

- fixed payments, less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease liabilities are remeasured when there is a change in future lease payments arising from a change in the above. When lease liabilities are remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in the Income Statement if the carrying amount of the right-of-use asset has been fully written down. Lease liabilities are measured at amortised cost using the effective interest method.

Notes to the financial statements
For the year ended 30 June 2020

8. Our capital, equity and reserves

OVERVIEW

The Group maintains a strong capital position in order to satisfy regulatory capital requirements, provide financial security to its depositors and creditors and adequate return to its shareholders. The Group's shareholders' equity includes issued ordinary shares, retained earnings and reserves.

This section provides analysis of the Group's shareholders' equity including changes during the period.

8.1 Capital adequacy

The Bank is an Authorised Deposit-taking Institution (ADI) regulated by APRA under the authority of the *Banking Act 1959*. APRA has set minimum regulatory capital requirements for banks based on the Basel Committee on Banking Supervision (BCBS) guidelines.

The Basel III measurement and monitoring of capital has been effective from 1 January 2013. APRA has adopted a more conservative approach than the minimum standards published by the BCBS and also adopted an accelerated timetable for implementation. The requirements define what is acceptable as capital and provide methods of measuring the risks incurred by the Bank.

The regulatory capital requirements are measured for the Extended Licenced Entity Group (known as "Level 1", comprising the Bank and APRA approved subsidiaries) and for the Bank and all of its banking subsidiaries, which includes ASB Bank (known as "Level 2" or the "Group").

All entities which are consolidated for accounting purposes are included within the Group capital adequacy calculations except for:

- the insurance and funds management operating subsidiaries; and
- the entities through which securitisation of Group assets are conducted.

Regulatory capital is divided into Common Equity Tier 1 (CET1), Additional Tier 1 Capital and Tier 2 Capital. CET1 primarily consists of shareholders' equity, less goodwill and other prescribed adjustments. Additional Tier 1 Capital is comprised of high quality capital providing a permanent and unrestricted commitment of funds, is freely available to absorb losses, ranks behind the claims of depositors and other more senior creditors and provides for fully discretionary capital distributions. Tier 1 capital is the aggregate of CET1 and Additional Tier 1 Capital. Tier 2 Capital is hybrid and debt instruments that fall short of necessary conditions to qualify as Additional Tier 1 to APRA. Total Capital is the aggregate of Tier 1 and Tier 2 Capital.

The tangible component of the investment in the insurance and funds management operations are deducted 100% from CET1.

Capital adequacy is measured by means of risk based capital ratios. The capital ratios reflect capital (CET1, Additional Tier 1, Tier 2 and Total Capital) as a percentage of total Risk Weighted Assets (RWA). RWA represents an allocation of risks associated with the Group's assets and other related exposures.

The Group has a range of instruments and methodologies available to effectively manage capital. These include share issues and buybacks, dividend and DRP policies, hybrid capital raising and dated and undated subordinated loan capital issuances. All major capital related initiatives require approval of the Board.

The Group's capital position is monitored on a continuous basis and reported monthly to the Executive Leadership Team, Asset and Liability Committee and at regular intervals throughout the year to the Board.

The Group's capital ratios throughout the 2018, 2019 and 2020 financial years were in compliance with both APRA minimum capital adequacy requirements and the Board approved minimums. The Group is required to inform APRA immediately of any breach or potential breach of its minimum prudential capital adequacy requirements, including details of remedial action taken or planned to be taken.

8.2 Loan capital

		Currency amount (M)	Endnotes	Group 30 Jun 20 $M	Group 30 Jun 19 $M	Bank 30 Jun 20 $M	Bank 30 Jun 19 $M
Tier 1 loan capital							
Undated	FRN	USD 100	1	**146**	143	**146**	143
Undated	PERLS VII	AUD 3,000	2	**2,991**	2,985	**2,991**	2,985
Undated	PERLS VIII	AUD 1,450	2	**1,446**	1,441	**1,446**	1,441
Undated	PERLS IX	AUD 1,640	2	**1,633**	1,628	**1,633**	1,628
Undated	PERLS X	AUD 1,365	2	**1,358**	1,356	**1,354**	1,352
Undated	PERLS XI	AUD 1,590	2	**1,581**	1,580	**1,578**	1,576
Undated	PERLS XII	AUD 1,650	2	**1,636**	–	**1,634**	–
Total Tier 1 loan capital				**10,791**	9,133	**10,782**	9,125
Tier 2 loan capital							
AUD denominated			3	**1,364**	1,774	**1,364**	1,774
USD denominated			4	**8,362**	4,616	**8,362**	4,616
JPY denominated			5	**993**	968	**993**	968
NZD denominated			6	**372**	379	**–**	–
EUR denominated			7	**3,674**	5,259	**3,674**	5,259
Other currencies denominated			8	**114**	318	**114**	318
Total Tier 2 loan capital				**14,879**	13,314	**14,507**	12,935
Fair value hedge adjustments				**1,687**	519	**1,675**	509
Total loan capital [1]				**27,357**	22,966	**26,964**	22,569

1 Loan capital includes unrealised movements of $1,350 million predominantly due to foreign exchange gains and losses and fair value hedge adjustments.

As at 30 June 2020, there were no securities issued by the Group and the Bank that were contractually due for redemption in the next 12 months (30 June 2019: $1,604 million for the Group, $1,620 for the Bank). The Group has the right to call some securities before the contractual maturity.

1. USD100 million floating rate notes

On 15 October 1986, the State Bank of Victoria issued USD125 million of floating rate notes, the current outstanding balance is USD100 million. The floating rate notes are perpetual but were able to be redeemed from October 1991. They were assigned to the Bank on 1 January 1991.

The Bank entered into an agreement with the Commonwealth of Australia on 31 December 1991 which provides that, if certain events occur, the Bank may either issue CBA ordinary shares to the Commonwealth of Australia, or (with the consent of the Commonwealth of Australia) conduct a renounceable rights issue for CBA ordinary shares to all shareholders. The capital raised must be used to pay any amounts due and payable on the floating rate notes.

The floating rate notes were issued into the international markets and are subject to English law. They qualify as Additional Tier 1 Capital of the Bank under the Basel III transitional arrangements for capital instruments as implemented by APRA.

2. PERLS VII, PERLS VIII, PERLS IX, PERLS X, PERLS XI and PERLS XII

On 1 October 2014, the Bank issued $3,000 million of CommBank PERLS VII Capital Notes (PERLS VII). On 30 March 2016, the Bank issued $1,450 million of CommBank PERLS VIII Capital Notes (PERLS VIII). On 31 March 2017, the Bank issued $1,640 million of CommBank PERLS IX Capital Notes (PERLS IX). On 6 April 2018, the Bank issued $1,365 million of CommBank PERLS X Capital Notes (PERLS X). On 17 December 2018, the Bank issued $1,590 million of CommBank PERLS XI Capital Notes (PERLS XI). On 14 November 2019, the Bank issued $1,650 million of CommBank PERLS XII Capital Notes (PERLS XII). PERLS VII, PERLS VIII, PERLS IX, PERLS X, PERLS XI and PERSL XII are subordinated, unsecured notes.

PERLS VII, PERLS VIII, PERLS IX, PERLS X, PERLS XI and PERLS XII are listed on the ASX and are subject to New South Wales law. They qualify as Additional Tier 1 Capital of the Bank under Basel III as implemented by APRA.

3. AUD denominated Tier 2 loan capital issuances

- $25 million subordinated floating rate notes, issued April 1999, due April 2029;
- $1,000 million subordinated notes issued November 2014, and redeemed in November 2019
- $750 million subordinated notes issued June 2016, due June 2026;
- $100 million subordinated Euro Medium Term Notes (EMTN) issued September 2019, due September 2034;
- $280 million subordinated notes issued March 2020, due March 2035; and
- $210 million subordinated notes issued May 2020, due May 2035.

8.2 Loan Capital (continued)

4. USD denominated Tier 2 loan capital issuances

- USD1,250 million subordinated notes issued December 2015, due December 2025;
- USD750 million subordinated EMTN issued October 2016, due October 2026;
- USD1,250 million subordinated notes issued January 2018, due in January 2048;
- USD1,250 million subordinated Medium Term Notes (MTN) issued September 2019, due September 2034; and
- USD1,250 million subordinated MTN issued September 2019, due in September 2039.

5. JPY denominated Tier 2 loan capital issuances

- JPY20 billion perpetual subordinated EMTN, issued February 1999;
- JPY40 billion subordinated EMTNs issued December 2016 (three tranches JPY20 billion, JPY10 billion and JPY10 billion), due December 2026; and
- JPY13.3 billion subordinated EMTN issued March 2017, due March 2027.

6. NZD denominated Tier 2 loan capital issuances

- NZD400 million subordinated, unsecured notes, issued November 2016, due December 2026:

  On 30 November 2016, ASB Bank Limited issued NZD400 million subordinated, unsecured notes (ASB Notes 2) with a face value of NZD1 each. ASB Notes 2 are listed on the New Zealand Stock Exchange (NZX) debt market and are subject to New South Wales and New Zealand law. They qualify as Tier 2 Capital of the Bank and ASB under Basel III as implemented by APRA and the RBNZ.

7. EUR denominated Tier 2 loan capital issuances

- EUR1,000 million subordinated notes, issued August 2009, and redeemed in August 2019;
- EUR1,250 million subordinated notes issued April 2015, due April 2027; and
- EUR1,000 million subordinated EMTN, issued October 2017, due October 2029.

8. Other foreign currency denominated Tier 2 loan capital issuances

- CNY1,000 million subordinated notes issued March 2015, and redeemed in March 2020; and
- HKD608 million subordinated EMTN issued March 2017, due March 2027.

All Tier 2 Capital securities issued prior to 1 January 2013 qualify as Tier 2 Capital of the Bank under the Basel III transitional arrangements for capital instruments as implemented by APRA. All Tier 2 Capital securities issued after 1 January 2013 qualify as Tier 2 Capital of the Bank under Basel III as implemented by APRA.

PERLS VII, PERLS VIII, PERLS IX, PERLS X, PERLS XI and PERLS XII, and all Tier 2 Capital securities issued after 1 January 2013, are subject to Basel III, under which these securities must be exchanged for a variable number of CBA ordinary shares or written down if a capital trigger event (PERLS VII, PERLS VIII, PERLS IX, PERLS X, PERLS XI and PERLS XII only) or a non-viability trigger event (all securities) occurs. Any exchange will occur as described in the terms of the applicable instrument documentation.

ACCOUNTING POLICIES

Loan capital consists of instruments issued by the Group, which qualify as regulatory capital under the Prudential Standards set by the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of New Zealand (RBNZ). Loan capital is initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method. Interest expense incurred is recognised in Net interest income.

Notes to the financial statements

For the year ended 30 June 2020

8.3 Shareholders' equity

	Group 30 Jun 20 $M	Group 30 Jun 19 $M	Bank 30 Jun 20 $M	Bank 30 Jun 19 $M
Ordinary share capital				
Shares on issue:				
Opening balance	**38,283**	37,535	**38,281**	37,533
Dividend reinvestment plan (net of issue costs) [1, 2]	**(1)**	748	**(1)**	748
	38,282	38,283	**38,280**	38,281
Less treasury shares:				
Opening balance	**(263)**	(265)	**(69)**	–
Purchase of treasury shares [3, 4]	**(65)**	(93)	**(65)**	(69)
Sale and vesting of treasury shares [3, 4]	**98**	95	**34**	–
Decrease in treasury shares on deconsolidation of CommInsure Life	**79**	–	**–**	–
	(151)	(263)	**(100)**	(69)
Closing balance	**38,131**	38,020	**38,180**	38,212

1 The DRP in respect of the interim 2019/2020, final 2018/2019 and interim 2018/2019 dividends were satisfied in full through the on-market purchase and transfer of 7,080,363 shares at $73.37, 7,810,285 shares at $78.61 and 8,080,558 shares at $73.21 respectively to participating shareholders.

2 The determined dividend includes an amount attributable to the final 2017/2018 dividend reinvestment plan of $749 million. The value of shares issued under plan rules net of issue costs was $748 million.

3 Relates to the movements in treasury shares held within the employee share plans and treasury shares held within life insurance statutory funds (prior to deconsolidation of CommInsure Life on 1 November 2019).

4 Movement in treasury shares includes 649,480 shares acquired at an average price of $79.62 for satisfying the Company's obligations under various equity settled share plans (30 June 2019: 1,178,102 shares acquired at an average price of $69.95). Other than shares purchased as part of the Non-Executive Director fee sacrifice arrangements disclosed in Note 10.3, shares purchased were not on behalf of or initially allocated to a director.

Number of shares on issue	Group 30 Jun 20 Shares	Group 30 Jun 19 Shares	Bank 30 Jun 20 Shares	Bank 30 Jun 19 Shares
Opening balance (excluding treasury shares deduction)	**1,770,239,507**	1,759,842,930	**1,770,239,507**	1,759,842,930
Dividend reinvestment plan issues:				
2017/2018 Final dividend fully paid ordinary shares $72.05	**–**	10,396,577	**–**	10,396,577
2018/2019 Interim dividend fully paid ordinary shares $73.21 [1]	**–**	–	**–**	–
2018/2019 Final dividend fully paid ordinary shares $78.61 [1]	**–**	–	**–**	–
2019/2020 Interim dividend fully paid ordinary shares $73.37 [1]	**–**	–	**–**	–
Closing balance (excluding treasury shares deduction)	**1,770,239,507**	1,770,239,507	**1,770,239,507**	1,770,239,507
Less: treasury shares [2, 3]	**(2,095,440)**	(3,503,541)	**(1,365,183)**	(994,913)
Closing balance	**1,768,144,067**	1,766,735,966	**1,768,874,324**	1,769,244,594

1 The DRP in respect of the interim 2019/2020, final 2018/2019 and interim 2018/2019 dividends were satisfied in full through the on-market purchase and transfer of 7,080,363 shares at $73.37, 7,810,285 shares at $78.61 and 8,080,558 shares at $73.21, respectively to participating shareholders.

2 Relates to treasury shares held within the employee share plans and life insurance statutory funds (prior to deconsolidation of CommInsure Life on 1 November 2019).

3 Comparative information has been restated to conform to presentation in the current year.

Ordinary shares have no par value and the Company does not have a limited amount of share capital.

Ordinary shares entitle holders to receive dividends payable to ordinary shareholders and to participate in the proceeds available to ordinary shareholders on winding up of the Company in proportion to the number of fully paid ordinary shares held. On a show of hands every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll one vote for each share held.

Notes to the financial statements

For the year ended 30 June 2020

8.3 Shareholders' equity (continued)

Retained profits	Group 30 Jun 20 $M	Group 30 Jun 19 $M	Bank 30 Jun 20 $M	Bank 30 Jun 19 $M
Opening balance	**28,482**	28,360	**23,099**	23,819
Changes on adoption of AASB 16 [1]	**(146)**	–	**(146)**	–
Changes on adoption of AASB 9 and AASB 15	**–**	(955)	**–**	(868)
Restated opening balance	**28,336**	27,405	**22,953**	22,951
Actuarial gains/(losses) from defined benefit superannuation plans	**116**	(49)	**115**	(50)
Realised gains and dividend income on treasury shares	**13**	12	**–**	–
Net profit attributable to equity holders of the Bank	**9,634**	8,571	**10,168**	7,783
Total available for appropriation	**38,099**	35,939	**33,236**	30,684
Transfers from/(to) general reserve [2]	**733**	126	**586**	(2)
Transfer from capital reserve [3]	**–**	–	**1,254**	–
Transfers from asset revaluation reserve	**8**	23	**4**	23
Interim dividend – cash component	**(3,021)**	(2,949)	**(3,021)**	(2,949)
Interim dividend – dividend reinvestment plan [4]	**(519)**	(592)	**(519)**	(592)
Final dividend – cash component	**(3,474)**	(3,316)	**(3,474)**	(3,316)
Final dividend – dividend reinvestment plan [4, 5]	**(615)**	(749)	**(615)**	(749)
Closing balance	**31,211**	28,482	**27,451**	23,099

1 The Group adopted AASB 16 *Leases* on 1 July 2019. As permitted by AASB 16, the Group recognised the cumulative effect of initially applying the new requirements as an adjustment to opening Retained profits at 1 July 2019. Comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1.1.

2 Following deconsolidation of CommInsure Life on 1 November 2019, the Group is no longer required to quarantine undistributable profits in general reserve. As a result, general reserve was reclassified to Retained profits.

3 The capital reserve previously held by the Bank was related to historic internal restructuring of the Group's life insurance and funds management businesses. The reserve was eliminated on consolidation. The reserve was reclassified to the Bank's retained earnings following deconsolidation of CFSGAM and CommInsure Life during the year ended 30 June 2020.

4 The DRP in respect of the interim 2019/2020, final 2018/2019 and interim 2018/2019 dividends were satisfied in full through the on-market purchase and transfer of 7,080,363 shares at $73.37, 7,810,285 shares at $78.61 and 8,080,558 shares at $73.21, respectively to participating shareholders.

5 The determined dividend includes an amount attributable to the final 2017/2018 dividend reinvestment plan of $749 million. The value of shares issued under plan rules net of issue costs was $748 million.

Notes to the financial statements
For the year ended 30 June 2020

8.3 Shareholders' equity (continued)

Reserves	Group 30 Jun 20 $M	Group 30 Jun 19 $M	Bank 30 Jun 20 $M	Bank 30 Jun 19 $M
General reserve				
Opening balance	**733**	859	**586**	584
Transfer (to)/from retained profits [1]	**(733)**	(126)	**(586)**	2
Closing balance	**–**	733	**–**	586
Capital reserve				
Opening balance	**–**	–	**1,254**	1,254
Transfer to retained profits [2]	**–**	–	**(1,254)**	–
Closing balance	**–**	–	**–**	1,254
Asset revaluation reserve				
Opening balance	**246**	235	**216**	206
Revaluation of properties	**24**	38	**20**	37
Transfer to retained profits	**(8)**	(23)	**(4)**	(23)
Income tax effect	**(5)**	(4)	**(5)**	(4)
Closing balance	**257**	246	**227**	216
Foreign currency translation reserve				
Opening balance	**912**	448	**302**	88
Currency translation adjustments of foreign operations	**(237)**	491	**(46)**	233
Currency translation on net investment hedge	**(5)**	(20)	**(5)**	(19)
Income tax effect	**8**	(7)	**–**	–
Closing balance	**678**	912	**251**	302
Cash flow hedge reserve [3]				
Opening balance	**787**	(160)	**1,073**	70
Gains/(losses) on cash flow hedging instruments:				
Recognised in Other Comprehensive Income	**1,243**	1,603	**1,505**	1,928
Transferred to Income Statement:				
Interest income	**(2,008)**	(859)	**(1,979)**	(875)
Interest expense	**1,854**	1,044	**1,487**	771
Other banking income	**(44)**	(433)	**(11)**	(396)
Income tax effect	**(319)**	(408)	**(308)**	(425)
Closing balance	**1,513**	787	**1,767**	1,073
Employee compensation reserve				
Opening balance	**161**	145	**161**	139
Current period movement	**(23)**	16	**(23)**	22
Closing balance	**138**	161	**138**	161

1 Following deconsolidation of CommInsure Life on 1 November 2019, the Group is no longer required to quarantine undistributable profits in general reserve. As a result, general reserve was reclassified to Retained profits.
2 The capital reserve previously held by the Bank was related to historic internal restructuring of the Group's life insurance and funds management businesses. The reserve was eliminated on consolidation. The reserve was reclassified to the Bank's retained earnings following deconsolidation of CFSGAM and CommInsure Life during the year ended 30 June 2020.
3 Comparative information has been restated to conform to presentation in the current year.

Notes to the financial statements
For the year ended 30 June 2020

8.3 Shareholders' equity (continued)

	Group 30 Jun 20 $M	Group 30 Jun 19 $M	Bank 30 Jun 20 $M	Bank 30 Jun 19 $M
Investment securities revaluation reserve				
Opening balance	**253**	–	**221**	–
Change on adoption of AASB 9	**–**	149	**–**	227
Restated opening balance	**253**	149	**221**	227
Net (losses)/gains on revaluation of investment securities	**(200)**	140	**(184)**	18
Net losses on investment securities transferred to Income Statement on disposal	**(49)**	(42)	**(49)**	(42)
Income tax effect	**76**	6	**73**	18
Closing balance	**80**	253	**61**	221
Available-for-sale investments reserve				
Opening balance	**–**	149	**–**	227
Change on adoption of AASB 9	**–**	(149)	**–**	(227)
Restated balance	**–**	–	**–**	–
Total reserves	**2,666**	3,092	**2,444**	3,813
Shareholders' Equity attributable to equity holders of the Bank	**72,008**	69,594	**68,075**	65,124
Shareholders' Equity attributable to non-controlling interests	**5**	55	**–**	–
Total Shareholders' Equity	**72,013**	69,649	**68,075**	65,124

8.3 Shareholders' equity (continued)

ACCOUNTING POLICIES

Shareholders' equity includes Ordinary share capital, Retained profits and Reserves. Policies for each component are set out below:

Ordinary share capital

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs. Where the Bank or entities within the Group purchase shares in the Bank, the consideration paid is deducted from total shareholders' equity and the shares are treated as treasury shares until they are subsequently sold, reissued or cancelled. Where such shares are sold or reissued, any consideration received is included in shareholders' equity.

Retained profits

Retained profits includes the accumulated profits for the Group including certain amounts recognised directly in retained profits less dividends paid.

Reserves

General reserve

In prior periods General reserve was derived from profits and was available for dividend payments except for undistributable profits in respect of the Group's life insurance business. Following deconsolidation of CommInsure Life on 1 November 2019, the Group is no longer required to quarantine undistributable profits in General reserve. As a result General reserve was reclassified to Retained profits.

Capital reserve

The Capital reserve previously held by the Bank was related to historic internal restructuring of the Group's life insurance and funds management businesses. The reserve was eliminated on consolidation. The reserve was reclassified to the Bank's retained earnings following deconsolidation of CFSGAM and CommInsure Life during the year ended 30 June 2020.

Asset revaluation reserve

The Asset revaluation reserve is used to record revaluation adjustments on the Group's property assets. Where an asset is sold or disposed of, any balance in the reserve in relation to the asset is transferred directly to Retained profits.

Foreign currency translation reserve

Exchange differences arising on translation of the Group's foreign operations are accumulated in the Foreign currency translation reserve. Specifically assets and liabilities are translated at the prevailing exchange rate at Balance Sheet date; revenue and expenses are translated at the transaction date; and all resulting exchange differences are recognised in the Foreign currency translation reserve.

When a foreign operation is disposed of, exchange differences are recycled out of the reserve and recognised in the Income Statement.

Cash flow hedge reserve

The Cash flow hedge reserve is used to record fair value gains or losses associated with the effective portion of designated cash flow hedging instruments. Amounts are reclassified to the Income Statement when the hedged transaction impacts profit or loss.

Employee compensation reserve

The Employee compensation reserve is used to recognise the fair value of shares and other equity instruments issued to employees under the employee share plans and bonus schemes.

Investment securities revaluation reserve

The Investment securities revaluation reserve includes changes in the fair value of Investment securities measured at fair value through other comprehensive income. For debt securities, these changes are reclassified to the Income Statement when the asset is derecognised. For equity securities, these changes are not reclassified to the Income Statement when derecognised.

8.4 Dividends

		Group			Bank	
		30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 20	30 Jun 19
	Note	$M	$M	$M	$M	$M
Ordinary shares						
Interim ordinary dividend (fully franked) (2020: 200 cents; 2019: 200 cents; 2018: 200 cents)						
Interim ordinary dividend paid – cash component only		**3,021**	2,949	2,969	**3,021**	2,949
Interim ordinary dividend paid – Dividend Reinvestment Plan [1]		**519**	592	536	**519**	592
Total dividend paid		**3,540**	3,541	3,505	**3,540**	3,541
Other provision carried		**121**	119	113	**121**	119
Dividend proposed and not recognised as a liability (fully franked) (2020: 98 cents; 2019: 231 cents; 2018: 231 cents) [2]		**1,735**	4,089	4,065	**1,735**	4,089
Provision for dividends						
Opening balance		**119**	113	100	**119**	113
Provision made during the year		**7,630**	7,606	7,484	**7,630**	7,606
Provision used during the year		**(7,628)**	(7,600)	(7,471)	**(7,628)**	(7,600)
Closing balance	7.1	**121**	119	113	**121**	119

1 The DRP in respect of the interim 2019/2020 and interim 2018/2019 dividends were satisfied in full through the on-market purchase and transfer of 7,080,363 and 8,080,558 shares, respectively to participating shareholders. The DRP in respect of the interim 2017/2018 dividend was satisfied by the issue of shares.

2 The 2020 final dividend will be satisfied by cash disbursements with the DRP anticipated to be satisfied by the issuance of shares. The 2019 final dividend was satisfied by cash disbursements with the DRP satisfied in full through the on-market purchase and transfer of 7,810,285 shares. The 2018 final dividend was satisfied by cash disbursements of $3,316 million and $749 million being reinvested by the participants through the DRP.

Final dividend

The Directors have determined a fully franked (30%) final dividend of 98 cents per share amounting to $1,735 million. The dividend will be payable on 30 September 2020 to shareholders on the register at 5pm AEST on 20 August 2020. The ex-dividend date is 19 August 2020.

Dividend policy

In determining the dividend, the Board considers a range of factors in accordance with Bank's dividend policy including:

- paying cash dividends at strong and sustainable levels;
- targeting a full-year payout ratio of 70% to 80%; and
- maximising the use of its franking account by paying fully franked dividends.

In light of the heightened economic risk caused by COVID-19, the Bank has taken into consideration APRA's guidance on capital distributions outlined in its letter on 29 July 2020. For 2020, APRA expects that ADIs will retain at least half of their earnings, and actively use dividend reinvestment plans and/or other capital management initiatives to at least partially offset the diminution in capital from distributions.

Dividend franking account

After fully franking the final dividend to be paid for the year, the amount of credits available at the 30% tax rate as at 30 June 2020 to frank dividends for subsequent financial years, is $2,007 million (2019: $1,190 million). This figure is based on the franking accounts of the Bank at 30 June 2020, adjusted for franking credits that will arise from the payment of income tax payable on profits for the year and prior years, franking debits that will arise from the payment of dividends proposed, and franking credits that may not be available to be distributed in subsequent financial periods.

The Bank expects that future tax payments will generate sufficient franking credits for the Bank to be able to continue to fully frank future dividend payments. These calculations have been based on the taxation law as at 30 June 2020.

Notes to the financial statements
For the year ended 30 June 2020

8.4 Dividends (continued)

Dividend history

Half year ended	Cents per share	Payment date	Half year payout ratio [1] %	Full year payout ratio [1] %	DRP price $	DRP participation rate [2] %
31 December 2017	200	28/03/2018	71. 45	–	75. 38	15. 3
30 June 2018	231	28/09/2018	91. 93	81. 15	72. 05	18. 4
31 December 2018	200	28/03/2019	76. 98	–	73. 21	16. 7
30 June 2019	231	26/09/2019	102. 95	89. 02	78. 61	15. 0
31 December 2019	200	31/03/2020	57. 47	–	73. 37	14. 7
30 June 2020	98	30/09/2020	49. 95	54. 76	–	–

1 Dividend payout ratio: dividends divided by statutory earnings (earnings are net of dividends on other equity instruments).
2 DRP participation rate: the percentage of total issued share capital participating in the DRP.

ACCOUNTING POLICIES

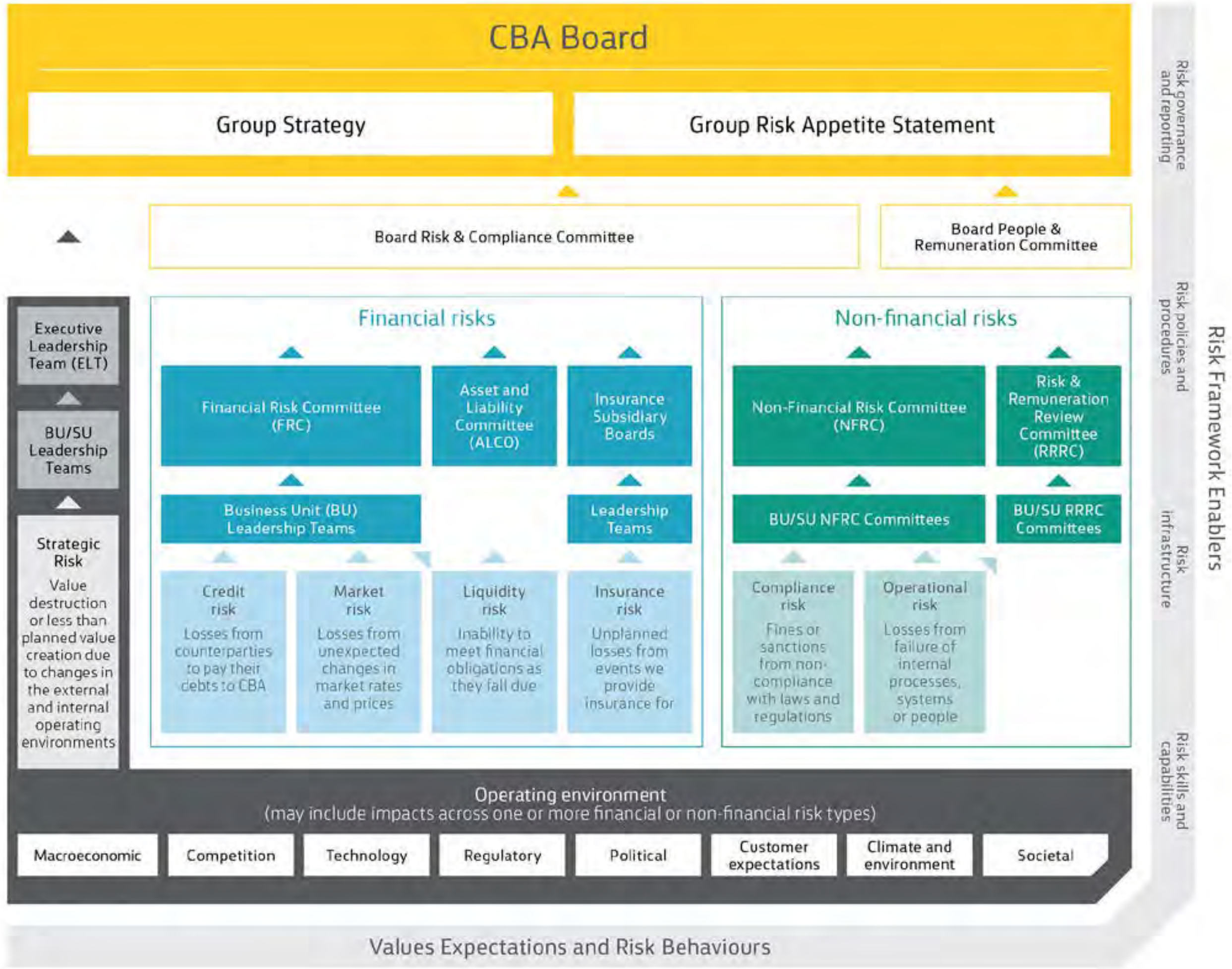
Dividends represent a distribution of profits that holders of ordinary shares receive from time to time. Dividends determined by the Board of the Bank are recognised with a corresponding reduction of retained earnings when the dividend is paid. The Board takes into consideration factors including the Group's relative capital strength and the Group's existing dividend payout ratio guidelines in determining the amount of dividends to be paid.

Notes to the financial statements
For the year ended 30 June 2020

9. Risk management

OVERVIEW

The Group is exposed to financial risks, non-financial risks and strategic risks arising from its operations. The Group manages these risks through its Risk Management Framework (the Framework), which evolves to accommodate changes in the business operating environment, better practice approaches, and regulatory and community expectations. The components of the Framework are illustrated below, including the governance that enables executive and Board oversight of these risks.



Further details on each of the material risks, and how the Group manages them, are outlined in this note.

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

Notes to the financial statements
For the year ended 30 June 2020

9.1 Risk management framework

The Framework enables the appropriate development and implementation of strategies, policies and procedures to manage risk. The Framework incorporates the requirements of APRA Prudential Standard CPS 220 "Risk Management" supported by the three key documentary components:

- **The Group Risk Appetite Statement (RAS)** articulates the type and degree of risk the Board is prepared to accept and the maximum level of risk that the institution must operate within.
- **The Group Risk Management Approach (RMA)** describes the Group's approach to ensure comprehensive management of its risks in support of achieving its strategic goals and objectives.
- **The Group Business Plan (Plan)** summarises the Group's approach to the implementation of its strategic objectives. The Plan has a rolling three year duration and reflects material risks arising from its implementation.

The Framework is underpinned by the following Risk Framework Enablers that allow the Group to effectively identify, record, manage and monitor risks:

Risk governance and reporting

The Group is committed to ensuring that its risk management practices reflect a high standard of governance. This enables management to undertake, in an effective manner, prudent risk-taking activities. The Board operates as the highest level of the Group's risk governance. The Board Risk and Compliance Committee is responsible for the oversight and governance of risks impacting the Group. It oversees the design, implementation and operation of the Framework and helps formulate the Group's risk appetite for consideration by the Board. In particular it:

- monitors the Group's risk profile (including identification of emerging risks); and
- reviews regular reports from management on the measurement of risk and the adequacy and effectiveness of the Group's risk management and internal control systems.

At management level, risk governance is undertaken by a structured hierarchy of personal delegations and management committees and forums across the Group and within the Business Units (BUs) and Support Units (SUs).

Regular management information is produced that allows financial and non-financial risk positions to be monitored against approved risk appetite and policy limits. At Board level, the majority of risk reporting is provided to the Board Risk and Compliance Committee; although select matters are reported directly to the Board as required. Controls reporting is provided to the Board Audit Committee.

The Group operates a Three Lines of Accountability model that places the accountability for risk ownership with the Line 1 BUs and Support Units (SUs), while focusing the mandate of Line 2 Risk teams on risk appetite and the Framework, assurance, approval or acceptance of risk decisions of Line 1 and advice. Line 3 Internal Audit provides independent assurance to the Board, regulators and other stakeholders on the effectiveness of risk management, internal controls and governance.

Risk policies & procedures

Risk policies and procedures provide guidance to the business on the management of each material risk. They support the framework by:

- summarising the principles and practices to be used by the Group in identifying and assessing its material risks; and
- quantifying the operating tolerances for material risks.

Risk management infrastructure

The Framework is supported by key infrastructure systems and processes for the management of the Group's material risks. The key risk management systems and processes in place include:

- **Risk processes** to identify, assess, escalate, monitor and manage risks and issues;
- **Management information systems** to measure and aggregate risks across the Group;
- **Risk models and tools**;
- **A Risk-Adjusted Performance Measurement (RAPM)** process that is a means of assessing the performance of a business after adjustment for its capital consumption and is used as a basis for executive incentives; and
- **An Internal Capital Adequacy Assessment Process (ICAAP)** used alongside other risk techniques (including stress testing), to quantify the Group's risks for use in risk decisions, capital plans and strategic decisions.

Risk skills and capabilities

In addition to having the necessary risk skills and capabilities for their roles, it is important for all Group employees to have an awareness of the Framework as it relates to their role, as well as the need to adopt the CBA risk behaviours to ensure a positive CBA risk culture. Risk skills and capabilities are developed through:

- **Communication of the Group RAS and the CBA RMA**: Following approval by the Board, the updated RAS and RMA are communicated to all employees. Employees are also made aware of the Group and BU/SU RASs via the remuneration process (which highlights that individual employee performance will be assessed in light of their compliance);
- **Group Mandatory Learning modules**;
- **The Operational Risk and Compliance Training program**;
- **Induction and ongoing learning**; and
- **Talent sourcing and acquisition**.

Notes to the financial statements
For the year ended 30 June 2020

9.1 Risk management framework (continued)

Risk culture and conduct risk

Risk culture is the beliefs, values and practices within the organisation that determine how risks are identified, measured, governed, and acted upon. A positive risk culture drives the right risk decisions and helps the Group make sound judgements in new and unfamiliar circumstances. The risk behaviours that demonstrate a positive risk culture and are expected of employees by the Board, senior management, customers, communities, shareholders and regulators, are guided by CBA values that emphasise doing what is right, accountability, service, excellence and getting things done the right way.

The Board's RAS in relation to conduct risk requires business practices that are fair to customers, protect the fair and efficient operation of the market and engender confidence in our products and services. Annually, the CBA Board forms a view regarding the effectiveness of the Group's risk culture in keeping risk-taking within appetite. Action plans are initiated and monitored to drive positive risk culture changes in areas of need.

Responding to COVID-19 risks

At times, changes in the Bank's external and internal operating environments may have an impact on the nature of one or more of our material risk types, including our strategic risks. An example is the COVID-19 pandemic, which rapidly introduced an array of new and elevated risks to the safety of our people, the resilience of the Group's operations, the strength of our Balance Sheet and the financial security of our customers and the community. A number of actions were taken to address these risks, such as:

- measures to support and protect our people;
- relief measures to support our customers;
- infrastructure changes to ensure stability of key services;
- continued enhancement of the Bank's cyber defences;
- increased oversight of critical suppliers;
- increased forward looking loan loss provisions; and
- ongoing monitoring of the Group's lending portfolios.

The Board and Management continue to actively monitor the situation and adapt the Group's response as required.

Notes to the financial statements
For the year ended 30 June 2020

9.1 Risk management framework (continued)

Material risk types

Description	Governing Policies and Key Management Committees	Key controls and risk mitigation strategies
Credit risk		
Credit risk is the potential for loss arising from the failure of a counterparty to meet their contractual obligations to the Group. The Group is primarily exposed to credit risk through: • Residential mortgage lending; • Unsecured retail lending; • Commercial lending; and • Large corporate (institutional) lending and markets exposures.	**Governing Policies:** • Group Credit Risk Policies, Principles, Framework and Governance • Group and BU Credit Risk Policies **Key Management Committee:** • Financial Risk Committee • BU/SU Financial Risk Committees.	• Defined credit risk indicators set in the Group RAS; • Transacting with counterparties that demonstrate the ability and willingness to service their obligations through performance of due diligence and thorough credit quality assessments; • Applications assessed by credit decisioning models, with more complex or higher risk applications referred to credit authority holders; • Taking collateral where appropriate; • Pricing appropriately for risk; • Credit concentration frameworks that set exposure limits to counterparties, groups of related counterparties, industry sectors and countries; • Regular monitoring of credit quality, concentrations, arrears, policy exceptions and policy breaches; • Working with impaired counterparties, or those in danger of becoming so, to help them rehabilitate their financial positions; and • Stress testing, either at a counterparty or portfolio level.
Market risk (including equity risk)		
Market risk is the risk that market rates and prices will change and that this may have an adverse effect on the profitability and/or net worth of the Group. The Group is primarily exposed to market risk through: • Traded Market Risk; • Interest Rate Risk in the Banking Book (IRRBB); • Structural Foreign Exchange Risk; • Lease Residual Value Risk; and • Non-Traded Equity Risk.	**Governing Policies:** • The Group Market Risk Policy **Key Management Committee:** • Financial Risk Committee (Oversight of traded market risk) • Asset and Liability Committee (ALCO) (Oversight of IRRBB)	• Defined market indicators set in the Group RAS; • Minimal appetite for proprietary trading; • Conservative market risk limits with granular concentration limits at a position level including currency/index, tenor and product type; • Pricing appropriately for risk; • Back-testing of Value at risk (VaR) models against hypothetical profit and loss; • Daily monitoring and attribution of traded market risk exposures including risk sensitivities, VaR and stress testing; • Weekly monitoring of VaR and stress test measures for derivative valuation adjustments (XVAs); • Monthly monitoring of residual value risk exposures versus limits; • Managing the Balance Sheet with a view to balancing Net Interest Income profit volatility and market value; • Daily monitoring of IRRBB market risk exposures including risk sensitivities, credit spread risk, VaR and stress testing; • Monthly monitoring of Net Interest Earnings at Risk versus limits; and • Transfer pricing for risk.

Notes to the financial statements
For the year ended 30 June 2020

9.1 Risk management framework (continued)

Description	Governing Policies and Key Management Committees	Key controls and risk mitigation strategies
Liquidity and funding risk		
Liquidity risk is the combined risks of not being able to meet financial obligations as they fall due (funding liquidity risk), and that liquidity in financial markets, such as the market for debt securities, may reduce significantly (market liquidity risk). The Group is exposed to liquidity risk primarily through: • The funding mismatch between the Group's loans, investments and sources of funding.	**Governing Policies:** • Group Liquidity Policy **Key Management Committee:** • ALCO	• Defined liquidity risk indicators in the Group RAS; • The Annual Funding Strategy (the Group's wholesale funding strategy based on a three year funding plan); • Maintaining a diverse, yet stable, pool of potential funding sources across different currencies, geographies, entities and products; • Maintaining sufficient liquidity buffers and short-term funding capacity to withstand periods of disruption in long-term wholesale funding markets and unanticipated changes in the Balance Sheet funding gap; • Limiting the portion of wholesale funding sourced from offshore; • Conservatively managing the mismatch between asset and liability maturities; • Maintaining a conservative mix of readily saleable or repo-eligible liquid assets; • Daily monitoring of liquidity risk exposures, including Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR); • Market and idiosyncratic stress test scenarios; and • The Contingency Funding Plan provides strategies for addressing liquidity shortfalls in a crisis situation.
Operational risk		
Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Group is exposed to operational risk primarily through: • Process execution errors; • Cyber security losses; • Technology failures; • Data management issues; • Model risks; • Accounting, legal and taxation risks; • Third parties; • People (employment practice and workplace safety); • Fraud (external and internal); and • Non-technology business disruption.	**Governing Policies:** • Operational Risk Management Framework (ORMF) • Group Outsourcing Policy • Group Model Policy • Group Fraud Management Policy • Group Policy on Business Continuity Management • Group Whistle-blower Policy • Group Protective Security Policy • Group Data Quality Management Policy **Key Management Committee:** • Non-Financial Risk Committee • BU/SU Non-Financial Risk Committees • Model Risk Governance Committee	• Defined operational risk indicators in the Group RAS; • Implementation of manual and automated controls to prevent, detect and mitigate the specific operational risks that the Group is exposed to; • Regular Risk and Control Self-Assessment (RCSA) to assess key risks and controls for each BU/SU; • Routine Controls Assurance Program tests to assess whether controls are designed and operating effectively to maintain risk exposures within acceptable levels; • Incident management processes to identify, assess, record, report and manage actual operational or compliance events that have occurred. This data is used to guide management to strengthen processes and controls; • Issue management processes to identify, assess, record, report and manage weaknesses or gaps in controls; • Risk in Change process to effectively understand and manage the risks from changes to the business through projects or initiatives; • Quantitative Risk Assessments are scenarios conducted to provide an understanding of potential unexpected losses; • Establishment of Key Risk Indicators to monitor movements in risk exposures over time; and • Assurance undertaken by Line 2 Risk teams to assess that operational risks are appropriately identified and managed across the Group.

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

Notes to the financial statements
For the year ended 30 June 2020

9.1 Risk management framework (continued)

Description	Governing Policies and Key Management Committees	Key controls and risk mitigation strategies
Compliance risk		
Compliance risk is the risk of sanctions and financial loss the Group may suffer as a result of the Group's failure to comply with laws, regulations, rules, statements of regulatory policy, and codes of conduct applicable to its business activities. The Group is exposed to compliance risk primarily through: • Regulatory and licencing obligations, including privacy and conflicts of interest obligations; • Financial crime (Anti Money Laundering (AML), Counter Terrorism Financing (CTF), Anti-Bribery and Corruption, and Sanctions); and • Poor conduct (product design and distribution, market conduct and employee misconduct).	**Governing Policies:** • Group Compliance Management Framework (CMF) and policies • Group and BU Compliance policies and standards • AML/CTF Group Program, • Anti-Bribery & Corruption Policy, • Group Economic Trade Sanctions Policy • Code of Conduct • Product Development and Distribution **Key Management Committee:** • Non-Financial Risk Committee • BU/SU Non-Financial Risk Committees	• Compliance risk indicators included in the Group RAS; • Mandatory online compliance training for all employees; • Regulatory change management to establish compliant business practices; • Maintenance of obligation registers; • Compliance risk profiling through the RCSA; • Review of key compliance and conduct processes and controls through the regulatory assurance program and compliance monitoring; • Group wide minimum standards in key compliance areas; • Co-operative and transparent relationships with regulators; • Board and management governance and reporting; • Pre-employment due diligence on the Group's employees and enhanced screening for high risk roles; • Training and awareness sessions to staff highlighting the community impact of financial crime and the Group's role to detect, deter and disrupt money laundering, terrorist financing and other serious crime; • Customer on-boarding processes to meet AML/CTF identification and screening requirements; • Ongoing customer due diligence to ensure information the Group maintains on customers is accurate; • Risk assessments on customers, products and channels to ensure the Group understands the money laundering and terrorist financing risks; • Enhanced customer due diligence on higher risk segments; • Monitoring customer payments, trade and all transactions to manage the AML/CTF and sanctions risks identified; • Undertake statutory reporting requirements including International Funds Transfer Instructions, Threshold Transaction Reports and Suspicious Matter Reports; • Controls to prevent corruption of public officials by employees, representatives, suppliers or third party agents, including disclosure and approval of gifts and entertainment, charitable donations and sponsorships; and • Conduct Risk strategy and Code of Conduct, supported by mandatory training for all staff.

Notes to the financial statements
For the year ended 30 June 2020

9.1 Risk management framework (continued)

Description	Governing Policies and Key Management Committees	Key controls and risk mitigation strategies
Insurance risk		
Insurance risk is the risk of loss due to the potential for events the Group has insured against occurring more frequently or with greater severity than anticipated. The Group is primarily exposed to insurance risk through home and motor events through a wholly-owned subsidiary in Australia.	**Governing Policies:** • Product Management Policy • Underwriting Policy • Claims Management Policy • Reinsurance Management Policy **Key Management Committee:** • Executive Committees of insurance writing businesses	• Defined insurance risk indicators set in the Group RAS; • Sound product design and pricing to ensure that customers understand the extent of their cover and that premiums are sufficient to cover the risk involved; • Limits, standards and underwriting authorities to ensure acceptance of appropriate risks; • Regular monitoring of loss ratios, aggregations and concentrations; • Catastrophe modelling and stress testing; • Actuarial review of claims provisions; • Controls to ensure valid claims are paid without undue delay; and • Reinsurance to manage the volatility of insurance risk and limit exposure to significant, individual or aggregate risks or risk concentrations.
Strategic risk		
Strategic risk is the risk of material stakeholder value destruction or less than planned value creation. The Group is exposed to strategic risk primarily through: • Changes in the Group's external and internal operating environments (including macro-economic conditions, competitive forces, technology, regulatory, political and social trends, customer expectations and the environment); and • Risk associated with the process for strategy development and monitoring of strategy implementation.	**Governing Policies:** • Group Strategic Risk Management Policy • Environmental & Social Policy **Key Management Committee:** • Executive Leadership Team	Strategic risk: • Strategy development, approval and review; • Identifying and monitoring changes and potential changes to the operating environment; and • Monitoring execution progress of strategies. In developing the strategy, the following is considered: • Impact of strategy on the Group's risk profile and measures of risk appetite; • Recent execution progress; and • Assumptions concerning the operating environment. Climate risk represents a strategic risk due to the potential material transition and physical climate related impacts to the Group, if not managed effectively. The potential adverse impacts of climate change manifest, and are therefore measured and managed, as an outcome of the other material risk types. In order to understand these potential impacts, and in support of our commitment to limiting the impacts of climate change the Group: • Develops scenario analyses to understand the impacts of both transition and physical climate-related risks on the business and the implications for strategic and tactical portfolio decisions; and • Develops strong policy frameworks which consider Environmental, Social and Governance issues, including climate change impacts in assessing our relationships with customers and suppliers. Corporate Responsibility programs outline the objectives for safeguarding the environment, while supporting economic growth and development and provide guidelines in monitoring and reducing the Group's own greenhouse gas emissions and energy use.

9.2 Credit risk

Credit risk management principles and portfolio standards

The Group has clearly defined credit policies for the approval and management of credit risk. Credit policies apply to all credit risks, with specific portfolio standards applying to all major lending areas. These set the minimum requirements in assessing the integrity and ability of counterparties to meet their contracted financial obligations for repayment, acceptable forms of collateral and security and the frequency of credit reviews.

The Group's credit policies and frameworks include concentration limits, which are designed to achieve portfolio outcomes that are consistent with the Group's risk appetite and risk/return expectations.

The Credit Portfolio Assurance unit, part of Group Financial Risk, reviews credit portfolios and business unit compliance with credit policies, frameworks, application of credit risk ratings and other key practices on a regular basis.

The credit risk portfolio has two major segments:

(i) Retail managed segment

This segment has sub-segments covering housing loans, credit cards, personal loans, and personal overdrafts. It also covers most non-retail lending where the aggregated credit exposure to a group of related obligors is less than $1 million.

Auto-decisioning is used to approve credit applications for eligible counterparties in this segment. Auto-decisioning uses a scorecard approach based on a combination of factors, which may include the Group's historical experience on similar applications, information from a credit reference bureau, the Group's existing knowledge of a counterparty's behaviour and updated information provided by the counterparty.

Loan applications that do not meet scorecard auto-decisioning requirements may be referred to a Personal Credit Approval Authority (PCAA) for manual decisioning.

After loan origination, these portfolios are managed using behavioural scoring systems and a delinquency band approach, such as actions taken when loan payments are greater than 30 days past due differ from actions when payments are greater than 60 days past due. Loans past due are reviewed by the relevant Arrears Management or Financial Assistance Team.

(ii) Risk-rated segment

This segment comprises non-retail exposures, including bank and sovereign exposures. Each exposure is assigned an internal Credit Risk-Rating (CRR) based on Probability of Default (PD) and Loss Given Default (LGD).

Either a PD Rating Tool or expert judgement is used to determine the PD for customers in this segment. Expert judgement is used where the complexity of the transaction and/or the counterparty is such that it is inappropriate to rely completely on a statistical model. External ratings may be used for benchmarking in the expert judgement assessment.

The CRR is designed to:

- aid in assessing changes to counterparty credit quality;
- influence decisions on approval, management and pricing of individual credit facilities; and
- provide the basis for reporting details of the Group's credit portfolio.

Credit risk-rated exposures are generally reviewed on an individual basis, at least annually, and fall within the following categories:

- "Pass" – these credit facilities qualify for approval of new or increased exposure on normal commercial terms; and
- "Troublesome or Impaired Assets (TIAs)" – these credit facilities are not eligible for new or increased exposure, unless it facilitates rehabilitation to "pass grade" or protects or improves the Group's position by maximising recovery prospects. Where a counterparty is in default but no loss is expected based on an assessment of the security position and other factors, the facility may be classed as troublesome but not impaired. Where a loss is expected, a facility is classified as impaired. Restructured facilities, where the original contractual arrangements have been modified outside commercial terms to provide concessions for the customer's financial difficulties, are classified as impaired.

Default is to be recorded with one or more of the following:

- the customer is 90 days or more overdue on a scheduled credit repayment; or
- the customer is unlikely to repay their credit obligation to the Group in full without taking action, such as realising on available security.

Credit risk measurement

The measurement of credit risk uses analytical tools to calculate both: (i) Expected, and (ii) Unexpected Loss probabilities for the credit portfolio. The use of analytical tools is governed by the Model Risk Governance Committee.

(i) Expected loss

Expected loss (EL) is the product of:

- PD;
- Exposure at Default (EAD); and
- LGD.

The PD, expressed as a percentage, is the estimate of the probability that a client will default within the next 12 months.

9.2 Credit risk (continued)

(i) Expected loss (continued)

EAD is the estimate of the amount of a facility that will be outstanding under a facility in the event of default. Estimates are based on a downturn in economic conditions. The estimate is based on the actual amount outstanding, plus the undrawn amount multiplied by a credit conversion factor (CCF). The CCF represents the potential rate of conversion from undrawn 12 months prior to default to drawn at default. For most committed facilities, the Group applies a CCF of 100% to the undrawn amount.

For uncommitted facilities, the EAD will generally be the drawn balance only. For defaulted facilities, it is the actual amount outstanding at default. For retail exposures, a modelling approach can be used based on factors including limit usage, arrears and loan type to segment accounts into homogeneous pools to calculate EAD.

LGD expressed as a percentage, is the estimated proportion of a facility likely to be lost in the event of default. LGD is impacted by:

- type and level of any collateral held;
- liquidity and volatility of collateral;
- carrying costs (effectively the costs of providing a facility that is not generating an interest return); and
- realisation costs.

Various factors are considered when calculating PD, EAD and LGD. Considerations include the potential for default by a borrower due to economic, management, industry, other risks, and the mitigating benefits of any collateral held as security.

(ii) Unexpected loss

In addition to EL, a more stressed loss amount is calculated. This Unexpected Loss estimate directly affects the calculation of regulatory and internal economic capital requirements. Refer to the Performance Overview section and Note 8.1 for information relating to regulatory capital.

Climate related risk

Climate risk is a risk for the Group. The impacts of climate change have the potential to affect our customers' ability to service and repay their loans, and the value of collateral the Group holds to secure loans. These impacts include long-term changes in climatic conditions, extreme weather events, and the action taken by governments, regulators or society more generally to transition to a low carbon economy.

The Group is a major provider of non-retail loans. A key step in credit risk due diligence for non-retail lending is the assessment of potential transactions for environmental, social and governance (ESG) risks, including climate risk, through our ESG Risk Assessment Tool. All Institutional Bank loans, as well as large loans in other business units, are evaluated through the Group's compulsory ESG risk assessment process. The risk of climate change is assessed at origination and during the annual review process for Institutional Bank loans. Exposures with medium or high risk profile are subject to additional due diligence and heightened consideration and assessment in the credit process. During the year ended 30 June 2020, the Group recognised provisions for impairment of $90 million reflecting the impact of extreme weather events on the credit quality of the Group's loan portfolio.

Credit risk mitigation, collateral and other credit enhancements

The Group has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be taken to mitigate credit risk. These include valuation parameters, review frequency and independence of valuation.

The general nature of collateral that may be taken, and the balances held, are summarised below by financial asset classes.

Cash and liquid assets

Collateral is not usually sought on the majority of Cash and liquid asset balances as these types of exposures are generally considered low risk. However, securities purchased under agreement to resell are collateralised by highly liquid debt securities. The collateral related to agreements to resell has been legally transferred to the Group subject to an agreement to return them for a fixed price.

The Group's Cash and liquid asset balance included $25,562 million (2019: $14,527 million) deposited with Central Banks and is considered to carry less credit risk.

Receivables from other financial institutions

Collateral is usually not sought on these balances as exposures are generally considered to be of low risk. The exposures are mainly short-term, to investment grade banks and include collateral posted by the Group.

Trading assets at fair value through Income Statement and investment securities at fair value through OCI

These assets are carried at fair value, which accounts for the credit risk. Investment securities at amortised cost are measured at amortised cost and presented net of provisions for impairment. Collateral is not generally sought from the issuer or counterparty but collateral may be implicit in the terms of the instrument (such as an asset-backed security).

Insurance assets

These assets are carried at fair value, which accounts for the credit risk. Collateral is not generally sought or provided on these types of assets, other than a fixed charge over properties backing Australian mortgage investments. In most cases the credit risk of insurance assets is borne by policyholders. However, on certain insurance contracts the Group retains exposure to credit risk.

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

Other assets at fair value through Income Statement

These assets are carried at fair value, which accounts for the credit risk.

Derivative assets

The Group's use of derivative contracts is outlined in Note 5.4. The Group is exposed to counterparty credit risk on derivative contracts. The counterparty credit risk is affected by the nature of the trades, the counterparty, netting, and collateral arrangements. Credit risk from derivatives is mitigated where possible (typically for financial institutions counterparties, but less frequently for corporate or government counterparties) through netting agreements, whereby derivative assets and liabilities with the same counterparty can be offset and cleared with Central Counterparties (CCPs). The International Swaps and Derivatives Association (ISDA) Master Agreement (or other derivative agreements) are used by the Group as an agreement for documenting Over-the-Counter (OTC) derivatives.

The fair value of collateral held and the potential effect of offset obtained by applying master netting agreements are disclosed in Note 9.7.

Due from controlled entities

Collateral is not generally taken on these intergroup balances.

Credit commitments and contingent liabilities

The Group applies fundamentally the same risk management policies for off Balance Sheet risks as it does for its on Balance Sheet risks. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction. Of the Group's off Balance Sheet exposures, $103,325 million (2019: $99,936 million) are secured.

Loans, bills discounted and other receivables

The principal collateral types for loans and receivable balances are:

- mortgages over residential and commercial real estate; and
- charges over business assets such as cash, shares, inventory, fixed assets and accounts receivables.

Collateral security is generally taken except for government, bank and corporate counterparties that are often externally risk-rated and of strong financial standing. Longer term consumer finance, such as housing loans, are generally secured against real estate, while short-term revolving consumer credit is generally not secured by formal collateral.

The collateral mitigating credit risk of the key lending portfolios is addressed in the table 'Collateral held against Loans, Bills Discounted and Other Receivables' within this note.

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

Maximum exposure to credit risk by industry and asset class before collateral held or other credit enhancements

	Group At 30 June 2020									
	Sovereign $M	Agriculture $M	Bank and other financial $M	Home loans $M	Construction $M	Other personal $M	Asset financing $M	Other comm and indust. $M	Other $M	Total $M
Australia										
Credit risk exposures relating to on Balance Sheet assets:										
Cash and liquid assets	8,611	–	14,113	–	–	–	–	–	–	22,724
Receivables from financial institutions	–	–	2,127	–	–	–	–	–	–	2,127
Assets at fair value through Income Statement:										
Trading	28,071	–	842	–	–	–	–	5,759	–	34,672
Other	77	105	1,188	–	–	–	–	6,708	44	8,122
Derivative assets	1,268	76	22,649	–	26	–	–	4,801	–	28,820
Investment securities:										
At amortised cost	9	–	5,159	–	–	–	–	–	–	5,168
At fair value through Other Comprehensive Income	47,601	–	12,366	–	–	–	–	570	–	60,537
Loans, bills discounted and other receivables [1]	23,521	9,680	13,136	485,795	3,600	17,695	10,434	109,184	–	673,045
Other assets [2]	637	1	8,876	9	1	14	–	189	14,656	24,383
Assets held for sale	–	–	772	–	–	–	–	12	984	1,768
Total on Balance Sheet Australia	109,795	9,862	81,228	485,804	3,627	17,709	10,434	127,223	15,684	861,366
Credit risk exposures relating to off Balance Sheet assets:										
Guarantees	492	20	1,465	–	259	–	–	3,067	–	5,303
Loan commitments	636	1,969	6,479	71,313	2,355	21,346	–	38,594	–	142,692
Other commitments	66	9	1,162	–	1,521	–	–	3,768	–	6,526
Total Australia	110,989	11,860	90,334	557,117	7,762	39,055	10,434	172,652	15,684	1,015,887
Overseas										
Credit risk exposures relating to on Balance Sheet assets:										
Cash and liquid assets	13,937	–	7,504	–	–	–	–	–	–	21,441
Receivables from financial institutions	61	–	6,359	–	–	–	–	–	–	6,420
Assets at fair value through Income Statement:										
Trading	3,184	–	274	–	–	–	–	293	–	3,751
Other	–	–	–	–	–	–	–	–	–	–
Derivative assets	128	22	939	–	–	–	–	376	–	1,465
Investment securities:										
At amortised cost	5	–	–	–	–	–	–	–	–	5
At fair value through Other Comprehensive Income	17,068	–	1,944	–	–	–	–	–	–	19,012
Loans, bills discounted and other receivables [1]	69	9,601	6,382	57,085	593	1,876	779	29,245	–	105,630
Other assets [2]	24	–	19	4	1	5	4	347	1,692	2,096
Assets held for sale	–	–	–	–	–	–	–	–	2	2
Total on Balance Sheet overseas	34,476	9,623	23,421	57,089	594	1,881	783	30,261	1,694	159,822
Credit risk exposures relating to off Balance Sheet assets:										
Guarantees	–	2	754	–	52	–	–	337	–	1,145
Loan commitments	415	764	6,300	7,805	210	2,144	99	8,108	–	25,845
Other commitments	1	1	243	–	1	–	–	586	–	832
Total overseas	34,892	10,390	30,718	64,894	857	4,025	882	39,292	1,694	187,644
Total gross credit risk	145,881	22,250	121,052	622,011	8,619	43,080	11,316	211,944	17,378	1,203,531

1 Loans, bills discounted and other receivables is presented gross of provisions for impairment and unearned income in line with Note 3.1.

2 For the purpose of reconciling to the Balance Sheet, "Other assets" predominantly comprises assets which do not give rise to credit exposure, including Property, plant and equipment, Investment in associates and joint ventures, Intangible assets, Deferred tax assets and Other assets.

Notes to the financial statements

For the year ended 30 June 2020

9.2 Credit risk (continued)

	Group [1] At 30 June 2019									
	Sovereign $M	Agriculture $M	Bank and other financial $M	Home loans $M	Construction $M	Other personal $M	Asset financing $M	Other comm and indust. $M	Other $M	Total $M
Australia										
Credit risk exposures relating to on Balance Sheet assets:										
Cash and liquid assets	4,575	–	11,930	–	–	–	–	–	–	16,505
Receivables from financial institutions	–	–	3,037	–	–	–	–	–	–	3,037
Assets at fair value through Income Statement:										
Trading	21,354	–	941	–	–	–	–	2,454	–	24,749
Other	81	–	434	–	–	–	–	7,268	242	8,025
Derivative assets	1,414	64	18,550	–	4	–	–	1,150	–	21,182
Investment securities:										
At amortised cost	9	–	7,341	–	–	–	–	–	–	7,350
At fair value through Other Comprehensive Income	43,540	–	16,893	–	–	–	–	67	–	60,500
Loans, bills discounted and other receivables [2]	22,404	9,140	11,952	467,361	3,194	21,508	10,471	106,991	–	653,021
Other assets [3]	488	3	5,496	–	–	10	–	230	14,175	20,402
Assets held for sale	1,423	–	5,633	–	–	–	–	3,943	4,211	15,210
Total on Balance Sheet Australia	95,288	9,207	82,207	467,361	3,198	21,518	10,471	122,103	18,628	829,981
Credit risk exposures relating to off Balance Sheet assets:										
Guarantees	36	20	1,584	–	324	–	–	3,195	–	5,159
Loan commitments	605	1,975	7,675	67,874	2,331	21,207	–	34,156	–	135,823
Other commitments	58	11	1,362	–	1,390	214	12	2,963	–	6,010
Total Australia	95,987	11,213	92,828	535,235	7,243	42,939	10,483	162,417	18,628	976,973
Overseas										
Credit risk exposures relating to on Balance Sheet assets:										
Cash and liquid assets	9,952	–	2,930	–	–	–	–	–	–	12,882
Receivables from financial institutions	–	–	5,056	–	–	–	–	–	–	5,056
Assets at fair value through Income Statement:										
Trading	602	–	251	–	–	–	–	50	–	903
Other	–	–	–	–	–	–	–	–	–	–
Derivative assets	169	12	2,110	–	–	–	–	1,742	–	4,033
Investment securities:										
At amortised cost	5	–	–	–	–	–	–	–	–	5
At fair value through Other Comprehensive Income	16,092	–	2,320	–	–	–	–	–	–	18,412
Loans, bills discounted and other receivables [2]	82	10,612	5,774	55,581	573	1,924	722	32,724	–	107,992
Other assets [3]	30	–	338	–	–	4	8	49	1,308	1,737
Assets held for sale	683	–	469	–	–	–	–	23	166	1,341
Total on Balance Sheet overseas	27,615	10,624	19,248	55,581	573	1,928	730	34,588	1,474	152,361
Credit risk exposures relating to off Balance Sheet assets:										
Guarantees	–	10	949	–	54	–	–	334	–	1,347
Loan commitments	419	834	5,034	7,875	222	2,098	48	9,849	–	26,379
Other commitments	–	–	473	–	3	–	–	612	–	1,088
Total overseas	28,034	11,468	25,704	63,456	852	4,026	778	45,383	1,474	181,175
Total gross credit risk	124,021	22,681	118,532	598,691	8,095	46,965	11,261	207,800	20,102	1,158,148

1 Comparative information has been restated to conform to presentation in the current year.

2 Loans, bills discounted and other receivables is presented gross of provisions for impairment and unearned income in line with Note 3.1.

3 For the purpose of reconciling to the Balance Sheet, "Other assets" predominantly comprises assets which do not give rise to credit exposure, including Property, plant and equipment, Investment in associates and joint ventures, Intangible assets, Deferred tax assets and Other assets.

Notes to the financial statements

For the year ended 30 June 2020

9.2 Credit risk (continued)

Large exposures

Concentrations of exposure to any counterparty or counterparty group are controlled by a large credit exposure policy, which defines a graduated limit framework that restricts credit limits based on the internally assessed CRR, the type of client, and facility tenor. All exposures outside the policy limits require approval by the Executive Credit Authority.

The following table shows the number of the Group's non-retail (excluding banks and sovereign) aggregated counterparty exposures (including direct and contingent exposures), which individually were greater than 5% of the Group's capital resources (Tier 1 and Tier 2 capital):

	Group	
	30 Jun 20 Number	30 Jun 19 Number
5% to less than 10% of the Group's capital resources	–	–
10% to less than 15% of the Group's capital resources	–	–

The Group has a high quality, well diversified credit portfolio, with 62% of the gross loans and other receivables in domestic mortgage loans and a further 7% in overseas mortgage loans, primarily in New Zealand. Overseas loans account for 14% of loans and advances.

Distribution of financial assets by credit classification

When doubt arises as to the collectability of a credit facility, the financial instrument is classified and reported as impaired. Provisions for impairment are raised where there is objective evidence of impairment and for an amount adequate to cover assessed credit related losses. The Group regularly reviews its financial assets and monitors adherence to contractual terms. Credit risk-rated exposures are assessed, at least at each Balance Sheet date, to determine whether the financial asset is impaired.

Distribution of financial instruments by credit quality

The tables on pages 214 to 221 provide information about the gross carrying amount of the Group's and the Bank's loans, bills discounted and other receivables by credit rating grade and ECL stage.

This segmentation of loans in retail and risk-rated portfolios is based on the mapping of a counterparty's internally assessed PD to S&P Global ratings, reflecting a counterparty's ability to meet their credit obligations. In particular, retail PD pools have been aligned to the Group's PD grades which are consistent with rating agency views of credit quality segmentation.

Credit grade	S&P rating equivalent
Investment	AAA to BBB-
Pass	BB+ to B-
Weak	CCC and below, in default

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

Distribution of financial instruments by credit quality

	Group 30 Jun 20				
Loans, bills and discounted and other receivables	Stage 1 collectively assessed $M	Stage 2 [1] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Credit grade					
Investment	387,863	39,677	–	–	**427,540**
Pass	219,819	110,821	–	–	**330,640**
Weak	2,569	10,384	4,490	2,168	**19,611**
Gross carrying amount	**610,251**	**160,882**	**4,490**	**2,168**	**777,791**
Undrawn credit commitments					
Credit grade					
Investment	78,651	16,443	–	–	**95,094**
Pass	32,916	14,293	–	–	**47,209**
Weak	255	497	81	86	**919**
Total undrawn credit commitments	**111,822**	**31,233**	**81**	**86**	**143,222**
Total credit exposures	**722,073**	**192,115**	**4,571**	**2,254**	**921,013**
Impairment provision	**1,549**	**3,249**	**479**	**967**	**6,244**
Provisions to credit exposure, %	**0.2**	**1.7**	**10.5**	**42.9**	**0.7**
Financial guarantees and other off Balance Sheet instruments					
Credit grade					
Investment	9,877	1,380	–	–	**11,257**
Pass	3,300	4,734	–	–	**8,034**
Weak	27	314	27	83	**451**
Total financial guarantees and other off Balance Sheet instruments	**13,204**	**6,428**	**27**	**83**	**19,742**
Impairment provision	**20**	**97**	**2**	**–**	**119**
Provisions to credit exposure, %	**0.2**	**1.5**	**7.4**	**–**	**0.6**
Total credit exposures					
Credit grade					
Investment	476,391	57,500	–	–	**533,891**
Pass	256,035	129,848	–	–	**385,883**
Weak	2,851	11,195	4,598	2,337	**20,981**
Total credit exposures	**735,277**	**198,543**	**4,598**	**2,337**	**940,755**
Total impairment provision	**1,569**	**3,346**	**481**	**967**	**6,363**
Provisions to credit exposure, %	**0.2**	**1.7**	**10.5**	**41.4**	**0.7**

1 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Group as at 30 June 2020.

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

	Group 30 Jun 20				
	Stage 1 collectively assessed $M	Stage 2 [1] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Retail secured					
Credit grade					
Investment	346,983	28,658	–	–	**375,641**
Pass [2]	193,030	35,643	–	–	**228,673**
Weak [2]	1,626	4,589	3,197	815	**10,227**
Total retail secured	**541,639**	**68,890**	**3,197**	**815**	**614,541**
Impairment provision	**663**	**628**	**153**	**237**	**1,681**
Provisions to credit exposure, %	**0.1**	**0.9**	**4.8**	**29.1**	**0.3**
Retail unsecured					
Credit grade					
Investment	13,395	2,564	–	–	**15,959**
Pass	13,000	2,572	–	–	**15,572**
Weak	898	1,165	270	10	**2,343**
Total retail unsecured	**27,293**	**6,301**	**270**	**10**	**33,874**
Impairment provision	**592**	**937**	**216**	**3**	**1,748**
Provisions to credit exposure, %	**2.2**	**14.9**	**80.0**	**30.0**	**5.2**
Non-retail					
Credit grade					
Investment	116,013	26,278	–	–	**142,291**
Pass	50,005	91,633	–	–	**141,638**
Weak	327	5,441	1,131	1,512	**8,411**
Total non-retail	**166,345**	**123,352**	**1,131**	**1,512**	**292,340**
Impairment provision	**314**	**1,781**	**112**	**727**	**2,934**
Provisions to credit exposure, %	**0.2**	**1.4**	**9.9**	**48.1**	**1.0**
Total credit exposures					
Credit grade					
Investment	476,391	57,500	–	–	**533,891**
Pass	256,035	129,848	–	–	**385,883**
Weak	2,851	11,195	4,598	2,337	**20,981**
Total credit exposures	**735,277**	**198,543**	**4,598**	**2,337**	**940,755**
Impairment provision	**1,569**	**3,346**	**481**	**967**	**6,363**
Provisions to credit exposure, %	**0.2**	**1.7**	**10.5**	**41.4**	**0.7**

1 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Group as at 30 June 2020.

2 During the year ended 30 June 2020, the Group revised the Australian residential mortgage regulatory capital models which resulted in movements of credit exposures across PD bands. There was a reduction in weak grade and an increase in pass grade home loans exposures as a result of this change.

9.2 Credit risk (continued)

Loans, bills and discounted and other receivables	Group [1] 30 Jun 19 Stage 1 collectively assessed $M	Stage 2 [2] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Credit grade					
Investment	380,594	30,263	–	–	**410,857**
Pass	231,037	87,357	–	–	**318,394**
Weak	9,146	14,997	4,499	1,995	**30,637**
Gross carrying amount	**620,777**	**132,617**	**4,499**	**1,995**	**759,888**
Undrawn credit commitments					
Credit grade					
Investment	78,350	14,446	–	–	**92,796**
Pass	35,634	11,332	–	–	**46,966**
Weak	742	422	86	79	**1,329**
Total undrawn credit commitments	**114,726**	**26,200**	**86**	**79**	**141,091**
Total credit exposures	**735,503**	**158,817**	**4,585**	**2,074**	**900,979**
Impairment provision	**897**	**2,444**	**479**	**895**	**4,715**
Provisions to credit exposure, %	**0.1**	**1.5**	**10.4**	**43.2**	**0.5**
Financial guarantees and other off Balance Sheet instruments					
Credit grade					
Investment	8,865	1,553	–	–	**10,418**
Pass	3,356	3,686	–	–	**7,042**
Weak	45	236	19	19	**319**
Total financial guarantees and other off Balance Sheet instruments	**12,266**	**5,475**	**19**	**19**	**17,779**
Impairment provision	**8**	**75**	**1**	**–**	**84**
Provisions to credit exposure, %	**0.1**	**1.4**	**5.3**	**–**	**0.5**
Total credit exposures					
Credit grade					
Investment	467,809	46,262	–	–	**514,071**
Pass	270,027	102,375	–	–	**372,402**
Weak	9,933	15,655	4,604	2,093	**32,285**
Total credit exposures	**747,769**	**164,292**	**4,604**	**2,093**	**918,758**
Total impairment provision	**905**	**2,519**	**480**	**895**	**4,799**
Provisions to credit exposure, %	**0.1**	**1.5**	**10.4**	**42.8**	**0.5**

1 Comparative information has been restated to conform to presentation in the current year.

2 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Group as at 30 June 2019.

9.2 Credit risk (continued)

	Group 30 Jun 19 Stage 1 collectively assessed $M	Stage 2 [1] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Retail secured					
Credit grade					
Investment	329,299	27,685	–	–	**356,984**
Pass	183,379	32,949	–	–	**216,328**
Weak	7,628	8,840	3,276	794	**20,538**
Total retail secured	**520,306**	**69,474**	**3,276**	**794**	**593,850**
Impairment provision	**265**	**393**	**132**	**271**	**1,061**
Provisions to credit exposure, %	**0.1**	**0.6**	**4.0**	**34.1**	**0.2**
Retail unsecured					
Credit grade					
Investment	13,746	2,603	–	–	**16,349**
Pass	13,426	2,353	–	–	**15,779**
Weak	1,858	2,057	292	6	**4,213**
Total retail unsecured	**29,030**	**7,013**	**292**	**6**	**36,341**
Impairment provision	**475**	**934**	**217**	**3**	**1,629**
Provisions to credit exposure, %	**1.6**	**13.3**	**74.3**	**50.0**	**4.5**
Non–retail					
Credit grade					
Investment	124,764	15,974	–	–	**140,738**
Pass	73,222	67,073	–	–	**140,295**
Weak	447	4,758	1,036	1,293	**7,534**
Total non-retail	**198,433**	**87,805**	**1,036**	**1,293**	**288,567**
Impairment provision	**165**	**1,192**	**131**	**621**	**2,109**
Provisions to credit exposure, %	**0.1**	**1.4**	**12.6**	**48.0**	**0.7**
Total credit exposures					
Credit grade					
Investment	467,809	46,262	–	–	**514,071**
Pass	270,027	102,375	–	–	**372,402**
Weak	9,933	15,655	4,604	2,093	**32,285**
Total credit exposures	**747,769**	**164,292**	**4,604**	**2,093**	**918,758**
Impairment provision	**905**	**2,519**	**480**	**895**	**4,799**
Provisions to credit exposure, %	**0.1**	**1.5**	**10.4**	**42.8**	**0.5**

1 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Group as at 30 June 2019.

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

	Bank 30 Jun 20				
Loans, bills and discounted and other receivables	Stage 1 collectively assessed $M	Stage 2 [1] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Credit grade					
Investment	362,516	35,868	–	–	**398,384**
Pass	173,309	94,608	–	–	**267,917**
Weak	2,141	8,813	3,867	1,725	**16,546**
Gross carrying amount	**537,966**	**139,289**	**3,867**	**1,725**	**682,847**
Undrawn credit commitments					
Credit grade					
Investment	75,388	16,167	–	–	**91,555**
Pass	26,045	12,993	–	–	**39,038**
Weak	234	433	59	59	**785**
Total undrawn credit commitments	**101,667**	**29,593**	**59**	**59**	**131,378**
Total credit exposures	**639,633**	**168,882**	**3,926**	**1,784**	**814,225**
Impairment provision	**1,400**	**2,876**	**490**	**813**	**5,579**
Provisions to credit exposure, %	**0. 2**	**1. 7**	**12. 5**	**45. 6**	**0. 7**
Financial guarantees and other off Balance Sheet instruments					
Credit grade					
Investment	9,803	1,369	–	–	**11,172**
Pass	3,049	4,495	–	–	**7,544**
Weak	27	296	24	34	**381**
Total financial guarantees and other off Balance Sheet instruments	**12,879**	**6,160**	**24**	**34**	**19,097**
Impairment provision	**18**	**93**	**2**	**–**	**113**
Provisions to credit exposure, %	**0. 1**	**1. 5**	**8. 3**	**–**	**0. 6**
Total credit exposures					
Credit grade					
Investment	447,707	53,404	–	–	**501,111**
Pass	202,403	112,096	–	–	**314,499**
Weak	2,402	9,542	3,950	1,818	**17,712**
Total credit exposures	**652,512**	**175,042**	**3,950**	**1,818**	**833,322**
Total impairment provision	**1,418**	**2,969**	**492**	**813**	**5,692**
Provisions to credit exposure, %	**0. 2**	**1. 7**	**12. 5**	**44. 7**	**0. 7**

1 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 64% of Stage 2 credit exposures for the Bank as at 30 June 2020.

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

	Bank 30 Jun 20				
	Stage 1 collectively assessed $M	Stage 2 [1] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Retail secured					
Credit grade					
Investment	323,862	26,888	–	–	**350,750**
Pass [2]	154,412	30,913	–	–	**185,325**
Weak [2]	1,188	3,632	2,677	753	**8,250**
Total retail secured	**479,462**	**61,433**	**2,677**	**753**	**544,325**
Impairment provision	**616**	**475**	**203**	**225**	**1,519**
Provisions to credit exposure, %	**0. 1**	**0. 8**	**7. 6**	**29. 9**	**0. 3**
Retail unsecured					
Credit grade					
Investment	13,395	2,564	–	–	**15,959**
Pass	10,270	2,335	–	–	**12,605**
Weak	887	1,130	228	9	**2,254**
Total retail unsecured	**24,552**	**6,029**	**228**	**9**	**30,818**
Impairment provision	**547**	**891**	**184**	**3**	**1,625**
Provisions to credit exposure, %	**2. 2**	**14. 8**	**80. 7**	**33. 3**	**5. 3**
Non–retail					
Credit grade					
Investment	110,450	23,952	–	–	**134,402**
Pass	37,721	78,848	–	–	**116,569**
Weak	327	4,780	1,045	1,056	**7,208**
Total non-retail	**148,498**	**107,580**	**1,045**	**1,056**	**258,179**
Impairment provision	**255**	**1,603**	**105**	**585**	**2,548**
Provisions to credit exposure, %	**0. 2**	**1. 5**	**10. 0**	**55. 4**	**1. 0**
Total credit exposures					
Credit grade					
Investment	447,707	53,404	–	–	**501,111**
Pass	202,403	112,096	–	–	**314,499**
Weak	2,402	9,542	3,950	1,818	**17,712**
Total credit exposures	**652,512**	**175,042**	**3,950**	**1,818**	**833,322**
Impairment provision	**1,418**	**2,969**	**492**	**813**	**5,692**
Provisions to credit exposure, %	**0. 2**	**1. 7**	**12. 5**	**44. 7**	**0. 7**

1 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 64% of Stage 2 credit exposures for the Bank as at 30 June 2020.

2 During the year ended 30 June 2020, the Bank revised the Australian residential mortgage regulatory capital models which resulted in movements of credit exposures across PD bands. There was a reduction in weak grade and an increase in pass grade home loans exposures as a result of this change.

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

	Bank [1] 30 Jun 19				
Loans, bills and discounted and other receivables	**Stage 1 collectively assessed $M**	**Stage 2 [2] collectively assessed $M**	**Stage 3 collectively assessed $M**	**Stage 3 individually assessed $M**	**Total $M**
Credit grade					
Investment	354,071	28,159	–	–	**382,230**
Pass	182,520	72,182	–	–	**254,702**
Weak	8,669	13,502	4,080	1,580	**27,831**
Gross carrying amount	**545,260**	**113,843**	**4,080**	**1,580**	**664,763**
Undrawn credit commitments					
Credit grade					
Investment	75,004	14,371	–	–	**89,375**
Pass	28,803	10,130	–	–	**38,933**
Weak	722	380	70	60	**1,232**
Total undrawn credit commitments	**104,529**	**24,881**	**70**	**60**	**129,540**
Total credit exposures	**649,789**	**138,724**	**4,150**	**1,640**	**794,303**
Impairment provision	**793**	**2,220**	**442**	**801**	**4,256**
Provisions to credit exposure, %	**0. 1**	**1. 6**	**10. 7**	**48. 8**	**0. 5**
Financial guarantees and other off Balance Sheet instruments					
Credit grade					
Investment	8,761	1,553	–	–	**10,314**
Pass	3,061	3,508	–	–	**6,569**
Weak	45	230	18	19	**312**
Total financial guarantees and other off Balance Sheet instruments	**11,867**	**5,291**	**18**	**19**	**17,195**
Impairment provision	**8**	**73**	**1**	**–**	**82**
Provisions to credit exposure, %	**0. 1**	**1. 4**	**5. 6**	**–**	**0. 5**
Total credit exposures					
Credit grade					
Investment	437,836	44,083	–	–	**481,919**
Pass	214,384	85,820	–	–	**300,204**
Weak	9,436	14,112	4,168	1,659	**29,375**
Total credit exposures	**661,656**	**144,015**	**4,168**	**1,659**	**811,498**
Total impairment provision	**801**	**2,293**	**443**	**801**	**4,338**
Provisions to credit exposure, %	**0. 1**	**1. 6**	**10. 6**	**48. 3**	**0. 5**

1 Comparative information has been restated to conform to presentation in the current year.
2 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Bank as at 30 June 2019.

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

	Bank 30 Jun 19				
	Stage 1 collectively assessed $M	**Stage 2 [1] collectively assessed $M**	**Stage 3 collectively assessed $M**	**Stage 3 individually assessed $M**	**Total $M**
Retail secured					
Credit grade					
Investment	306,487	26,017	–	–	**332,504**
Pass	145,240	28,253	–	–	**173,493**
Weak	7,143	7,889	2,957	760	**18,749**
Total retail secured	**458,870**	**62,159**	**2,957**	**760**	**524,746**
Impairment provision	**233**	**353**	**122**	**262**	**970**
Provisions to credit exposure, %	**0. 1**	**0. 6**	**4. 1**	**34. 5**	**0. 2**
Retail unsecured					
Credit grade					
Investment	13,746	2,603	–	–	**16,349**
Pass	10,355	2,183	–	–	**12,538**
Weak	1,847	2,019	264	5	**4,135**
Total retail unsecured	**25,948**	**6,805**	**264**	**5**	**33,022**
Impairment provision	**434**	**906**	**200**	**3**	**1,543**
Provisions to credit exposure, %	**1. 7**	**13. 3**	**75. 8**	**60. 0**	**4. 7**
Non–retail					
Credit grade					
Investment	117,603	15,463	–	–	**133,066**
Pass	58,789	55,384	–	–	**114,173**
Weak	446	4,204	947	894	**6,491**
Total non-retail	**176,838**	**75,051**	**947**	**894**	**253,730**
Impairment provision	**134**	**1,034**	**121**	**536**	**1,825**
Provisions to credit exposure, %	**0. 1**	**1. 4**	**12. 8**	**60. 0**	**0. 7**
Total credit exposures					
Credit grade					
Investment	437,836	44,083	–	–	481,919
Pass	214,384	85,820	–	–	300,204
Weak	9,436	14,112	4,168	1,659	29,375
Total credit exposures	**661,656**	**144,015**	**4,168**	**1,659**	**811,498**
Impairment provision	**801**	**2,293**	**443**	**801**	**4,338**
Provisions to credit exposure, %	**0. 1**	**1. 6**	**10. 6**	**48. 3**	**0. 5**

1 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Bank as at 30 June 2019.

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

Impaired assets by classification

Assets in credit risk rated portfolios and retail managed portfolios are assessed for objective evidence that the financial asset is impaired.

Impaired assets are split into the following categories:

- non-performing facilities;
- restructured facilities; and
- unsecured retail managed facilities 90 days or more past due.

Non-performing facilities are facilities against which an individually assessed provision for impairment has been raised and facilities where loss of principal or interest is anticipated. Interest income on these facilities is reserved and taken to the Income Statement only if paid in cash or if a recovery is made.

Restructured facilities are facilities where the original contractual terms have been modified to non-commercial terms due to financial difficulties of the borrower. Interest on these facilities is taken to the Income Statement. Failure to comply fully with the modified terms will result in immediate reclassification to non-performing.

Unsecured retail products 90 days or more past due are credit cards, personal loans and other unsecured retail products which are 90 days or more past due. These loans are collectively provided for.

The Group does not manage credit risk based solely on arrears categorisation, but also uses credit risk rating principles as described earlier in this note.

	Group				
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	30 Jun 16 $M
Australia					
Non–performing assets:					
Gross balances	**1,845**	2,217	1,711	1,962	2,002
Less provisions for impairment	**(695)**	(826)	(694)	(817)	(807)
Net non-performing assets	**1,150**	1,391	1,017	1,145	1,195
Restructured assets:					
Gross balances	**363**	428	264	174	221
Less provisions for impairment	**(4)**	(13)	(4)	–	–
Net restructured assets	**359**	415	260	174	221
Unsecured retail products 90 days or more past due:					
Gross balances	**208**	245	254	251	252
Less provisions for impairment	**(185)**	(199)	(161)	(157)	(169)
Net unsecured retail products 90 days or more past due	**23**	46	93	94	83
Net Australia impaired assets	**1,532**	1,852	1,370	1,413	1,499
Overseas					
Non–performing assets:					
Gross balances	**824**	518	695	686	560
Less provisions for impairment	**(326)**	(126)	(176)	(163)	(138)
Net non-performing assets	**498**	392	519	523	422
Restructured assets:					
Gross balances	**278**	196	242	101	67
Less provisions for impairment	**(15)**	(6)	(20)	–	–
Net restructured assets	**263**	190	222	101	67
Unsecured retail products 90 days or more past due:					
Gross balances	**30**	18	13	13	14
Less provisions for impairment	**(30)**	(17)	(13)	(12)	(13)
Net unsecured retail products 90 days or more past due	**–**	1	–	1	1
Net overseas impaired assets	**761**	583	741	625	490
Total net impaired assets	**2,293**	2,435	2,111	2,038	1,989

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

Impaired assets by size

	Group					
	Australia	Overseas	Total	Australia	Overseas	Total
Impaired assets by size	30 Jun 20 $M	30 Jun 20 $M	30 Jun 20 $M	30 Jun 19 $M	30 Jun 19 $M	30 Jun 19 $M
Less than $1 million	**1,460**	**386**	**1,846**	1,698	266	1,964
$1 million to $10 million	**603**	**187**	**790**	628	147	775
Greater than $10 million	**353**	**559**	**912**	564	319	883
Total [1, 2]	**2,416**	**1,132**	**3,548**	2,890	732	3,622

Movement in impaired assets

	Group				
Movement in gross impaired assets	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	30 Jun 16 $M
Gross impaired assets – opening balance	**3,622**	3,179	3,187	3,116	2,855
New and increased	**2,631**	2,289	2,136	2,164	2,370
Balances written off	**(1,054)**	(1,245)	(1,196)	(1,225)	(1,328)
Returned to performing or repaid	**(2,221)**	(1,328)	(1,666)	(1,637)	(1,460)
Portfolio managed – new/increased/return to performing/repaid	**570**	727	718	769	679
Gross impaired assets – closing balance [1, 2]	**3,548**	3,622	3,179	3,187	3,116

1 As at 30 June 2020, impaired assets include those assets in Stage 3 that are considered impaired, as well as $77 million of restructured assets in Stage 2 (30 June 2019: $139 million). Stage 3 assets include impaired assets and those that are defaulted but not impaired as they are well secured.

2 Includes $3,382 million of loans and advances and $166 million of other financial assets (30 June 2019: $3,454 million of loans and advances and $168 million of other financial assets).

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

Impaired assets by industry and status

	Group 30 Jun 20						
Industry	Total balance $M	Gross impaired assets $M	Total provisions for impaired assets [1] $M	Net impaired assets $M	Write-offs [2] $M	Recoveries [2] $M	Net Write-offs [2] $M
Loans – Australia							
Sovereign	23,521	–	–	–	–	–	–
Agriculture	9,680	95	(54)	41	1	(4)	(3)
Bank and other financial	13,136	6	(4)	2	1	–	1
Home loans	485,795	1,362	(235)	1,127	117	(4)	113
Construction	3,600	52	(42)	10	35	(1)	34
Other personal	17,695	249	(188)	62	655	(152)	503
Asset financing	10,434	106	(35)	71	19	(2)	17
Other commercial and industrial	109,184	518	(326)	192	221	(9)	212
Total loans – Australia	673,045	2,388	(884)	1,505	1,049	(172)	877
Loans – Overseas							
Sovereign	69	–	–	–	–	–	–
Agriculture	9,601	152	(19)	133	36	–	36
Bank and other financial	6,382	–	–	–	4	–	4
Home loans	57,085	307	(32)	275	4	(1)	3
Construction	593	3	(1)	2	2	–	2
Other personal	1,876	28	(34)	(7)	61	(12)	49
Asset financing	779	15	(1)	14	–	–	–
Other commercial and industrial	29,245	489	(284)	205	51	–	51
Total loans – Overseas	105,630	994	(371)	622	158	(13)	145
Total loans	778,675	3,382	(1,255)	2,127	1,207	(185)	1,022
Other balances – Australia							
Credit commitments	154,521	64	–	64	–	–	–
Derivatives	28,820	3	–	3	–	–	–
Total other balances – Australia	183,341	67	–	67	–	–	–
Other balances – Overseas							
Credit commitments	27,822	50	–	50	–	–	–
Derivatives	1,465	49	–	49	–	–	–
Total other balances – Overseas	29,287	99	–	99	–	–	–
Total other balances	212,628	166	–	166	–	–	–
Total	991,303	3,548	(1,255)	2,293	1,207	(185)	1,022

1 Includes $967 million of individually assessed provisions and $288 million of collective provisions.
2 Write-off, recoveries and net write-offs are not recognised against credit commitments or derivatives as these exposures are closed out and converted to loans and receivables on impairment. Write-offs and recoveries take place subsequent to this conversion.

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

	Group 30 Jun 19						
Industry	Total balance [1] $M	Gross impaired assets $M	Total provision for impaired assets [2] $M	Net impaired assets $M	Write-offs [3] $M	Recoveries [3] $M	Net Write-offs [3] $M
Loans – Australia							
Sovereign	22,404	–	–	–	–	–	–
Agriculture	9,140	114	(52)	62	59	–	59
Bank and other financial	11,952	6	(15)	(9)	1	–	1
Home loans	467,361	1,596	(272)	1,324	134	(4)	130
Construction	3,194	82	(84)	(2)	44	(1)	43
Other personal	21,508	276	(202)	74	787	(169)	618
Asset financing	10,471	78	(10)	68	17	(2)	15
Other commercial and industrial	106,991	626	(403)	223	126	(14)	112
Total loans – Australia	653,021	2,778	(1,038)	1,740	1,168	(190)	978
Loans – Overseas							
Sovereign	82	–	–	–	–	–	–
Agriculture	10,612	298	(46)	252	2	–	2
Bank and other financial	5,774	10	–	10	5	–	5
Home loans	55,581	204	(10)	194	2	(1)	1
Construction	573	1	–	1	2	–	2
Other personal	1,924	16	(20)	(4)	70	(11)	59
Asset financing	722	2	–	2	–	–	–
Other commercial and industrial	32,724	145	(73)	72	152	(4)	148
Total loans – Overseas	107,992	676	(149)	527	233	(16)	217
Total loans	761,013	3,454	(1,187)	2,267	1,401	(206)	1,195
Other balances – Australia							
Credit commitments	146,992	111	–	111	–	–	–
Derivatives	21,182	1	–	1	–	–	–
Total other balances – Australia	168,174	112	–	112	–	–	–
Other balances – Overseas							
Credit commitments	28,814	9	–	9	–	–	–
Derivatives	4,033	47	–	47	–	–	–
Total other balances – Overseas	32,847	56	–	56	–	–	–
Total other balances	201,021	168	–	168	–	–	–
Total	962,034	3,622	(1,187)	2,435	1,401	(206)	1,195

1 Information has been restated to conform to presentation in the current year.
2 Includes $895 million of individually assessed provisions and $292 million of collective provisions. Provisions for impaired assets include $9 million for restructured assets in Stage 2.
3 Write-off, recoveries and net write-offs are not recognised against credit commitments or derivatives as these exposures are closed out and converted to loans and receivables on impairment. Write-offs and recoveries take place subsequent to this conversion.

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

Collateral held against loans, bills discounted and other receivables

	Group 30 Jun 20				
	Home loans	Other personal	Asset financing	Commercial and industrial	Total [1]
Maximum exposure ($M)	621,998	43,061	11,312	270,841	**947,212**
Collateral classification:					
Secured (%)	99. 2	5. 3	95. 3	51. 8	**81. 4**
Partially secured (%)	0. 8	–	4. 7	14. 7	**4. 8**
Unsecured (%)	–	94. 7	–	33. 5	**13. 8**

1 As at 30 June 2020, total exposures in ECL Stage 3 were $6,935 million. 57% of these exposures were secured, 27% partially secured and 16% unsecured.

	Group [1] 30 Jun 19				
	Home loans	Other personal	Asset financing	Commercial and industrial	Total [2]
Maximum exposure ($M)	598,691	46,737	11,241	266,546	923,215
Collateral classification:					
Secured (%)	99. 2	5. 7	96. 2	49. 8	80. 2
Partially secured (%)	0. 8	–	3. 8	15. 5	5. 1
Unsecured (%)	–	94. 3	–	34. 7	14. 7

1 Comparative information has been restated to conform to presentation in the current year.
2 As at 30 June 2019, total exposures in ECL Stage 3 were $6,697 million. 57% of these exposures were secured, 29% partially secured and 14% unsecured.

	Bank 30 Jun 20				
	Home loans	Other personal	Asset financing	Commercial and industrial	Total [1]
Maximum exposure ($M)	549,145	37,844	10,387	239,023	**836,399**
Collateral classification:					
Secured (%)	99. 2	5. 7	98. 6	52. 4	**81. 7**
Partially secured (%)	0. 8	–	1. 4	12. 6	**4. 1**
Unsecured (%)	–	94. 3	–	35. 0	**14. 2**

1 As at 30 June 2020, total exposures in ECL Stage 3 were $5,768 million. 64% of these exposures were secured, 20% partially secured and 16% unsecured.

	Bank [1] 30 Jun 19				
	Home loans	Other personal	Asset financing	Commercial and industrial	Total [2]
Maximum exposure ($M)	527,059	42,704	10,419	232,066	812,248
Collateral classification:					
Secured (%)	99. 1	6. 0	98. 6	50. 6	80. 5
Partially secured (%)	0. 9	–	1. 4	13. 0	4. 3
Unsecured (%)	–	94. 0	–	36. 4	15. 2

1 Comparative information has been restated to conform to presentation in the current year.
2 As at 30 June 2019, total exposures in ECL Stage 3 were $5,827 million. 63% of these exposures were secured, 23% partially secured and 14% unsecured.

For the purposes of the collateral classification above, home loans are classified as secured unless they are defaulted in which case they are classified as partially secured. For other types of credit exposures, a facility is determined to be secured where its ratio of exposure to the estimated value of collateral (adjusted for lending margins) is less than or equal to 100%. A facility is deemed to be partly secured when this ratio exceeds 100% but not more than 250%, and unsecured when either no security is held (e.g. can include credit cards, personal loans, small business loans, and exposures to highly rated corporate entities), or where the secured loan to estimated value of collateral exceeds 250%.

Notes to the financial statements
For the year ended 30 June 2020

9.2 Credit risk (continued)

Collateral held against loans, bills discounted and other receivables (continued)

Home loans

Home loans are generally secured by fixed charges over borrowers' residential properties. In limited circumstances, collateral in the form of cash or commercial property may be provided in addition to residential properties. Further, with the exception of some relatively small portfolios, for loans with a Loan to Valuation Ratio (LVR) of higher than 80% either a Low Deposit Premium or margin is levied, or Lenders Mortgage Insurance (LMI) is taken out to cover the difference between the principal plus interest owing and the net amount received from selling the collateral post default.

Personal lending

Personal lending (such as credit cards and personal loans) are predominantly unsecured, whilst margin lending is secured.

Asset finance

The Group leases assets to corporate and retail clients. When the title to the underlying assets is held by the Group as collateral, the balance is deemed fully secured. In other instances, a client's facilities may be secured by collateral valued at less than the carrying amount of the credit exposure. These facilities are deemed partly secured or unsecured.

Other commercial and industrial lending

The Group's main collateral types for other commercial and industrial lending consists of secured rights over specified assets of the borrower in the form of: commercial property; land rights; cash (usually in the form of a charge over a deposit); guarantees by company Directors; a charge over a company's assets (including debtors, inventory and work in progress); or a charge over shares. In other instances, a client's facilities may be secured by collateral with value less than the carrying amount of the credit exposure. These facilities are deemed partly secured or unsecured.

9.3 Market risk

Market risk measurement

The Group uses Value-at-Risk (VaR) as one of the measures of traded and non-traded market risk. VaR measures potential loss using historically observed market movements and correlation between different markets.

VaR is modelled at a 99.0% confidence level. This means that there is a 99.0% probability that the loss will not exceed the VaR estimate on any given day.

The VaR measured for traded market risk uses two years of daily movement in market rates. The VaR measure for non-traded banking book market risk uses six years of daily movement in market rates.

A 10-day holding period is used for trading book positions. A 20-day holding period is used for interest rate risk in the banking book.

VaR is driven by historical observations and is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, management also uses stress testing to measure the potential for economic loss at confidence levels significantly higher than 99.0%. Management then uses these results in decisions to manage the economic impact of market risk positions.

Total market risk VaR (10-day 99.0% confidence)	Average June 2020 [1] $M	As at June 2020 $M	Average June 2019 [1, 2] $M	As at June 2019 [2] $M
Traded market risk	48. 9	39. 3	40. 3	39. 0
Non-traded interest rate risk [3]	258. 4	479. 7	137. 9	136. 4

1 Average VaR calculated for each 12 month period.
2 Comparative information has been restated to conform to presentation in the current year. This includes a change in the confidence interval in the VaR from 97.5% to 99.0% and a change in the holding period from one day to ten days.
3 The risk of these exposures has been represented in this table using a ten day holding period. In practice however, these 'non-traded' exposures are managed to a longer holding period.

Traded market risk

Traded market risk is generated through the Group's participation in financial markets to service its customers. The Group trades and distributes interest rate, foreign exchange, debt, equity and commodity products, and provides treasury, capital markets and risk management services to its customers globally.

The Group maintains access to markets by quoting bid and offer prices with other market makers and carries an inventory of treasury, capital market and risk management instruments, including a broad range of securities and derivatives.

Traded market risk VaR (10-day 99.0% confidence)	Average June 2020 [1] $M	As at June 2020 $M	Average June 2019 [1, 2] $M	As at June 2019 [2] $M
Interest rate risk	23. 8	21. 1	27. 2	14. 5
Foreign exchange risk	21. 2	3. 0	5. 9	8. 7
Equities risk	0. 3	–	-	0. 1
Commodities risk	8. 5	10. 1	9. 8	9. 6
Credit spread risk	19. 4	35. 5	6. 8	5. 4
Other market risk [3]	41. 0	18. 0	11. 4	40. 8
Diversification benefit	(73. 1)	(53. 0)	(30. 4)	(48. 4)
Total general market risk	41. 1	34. 7	30. 7	30. 7
Undiversified risk	7. 1	4. 0	8. 2	8. 0
ASB Bank	0. 7	0. 6	1. 4	0. 3
Total	48. 9	39. 3	40. 3	39. 0

1 Average VaR calculated for each 12 month period.
2 Comparative information has been restated to conform to presentation in the current year. This includes a change in the confidence interval in the VaR from 97.5% to 99.0% and a change in the holding period from one day to ten days.
3 Includes volatility risk and basis risk.

9.3 Market risk (continued)

Non-traded market risk

Interest rate risk in the banking book

Interest rate risk is the current and prospective impact to the Group's financial condition due to adverse changes in interest rates to which the Group's Balance Sheet is exposed. The maturity transformation activities of the Group create mismatches in the repricing terms of asset and liability positions. These mismatches may have undesired earnings and value outcomes depending on the interest rate movements. The Group's objective is to manage interest rate risk to achieve stable and sustainable net interest income in the long-term.

The Group measures and manages the impact of interest rate risk in two ways:

(a) Next 12 months' earnings

Interest rate risk from an earnings perspective is the impact based on changes to the Net interest income over the next 12 months.

The risk to Net interest income over the next 12 months from changes in interest rates is measured on a monthly basis.

Earnings risk is measured through sensitivity analysis, which applies an instantaneous 100 basis point parallel shock in interest rates across the yield curve.

The prospective change to the Net interest income is measured by using an Asset and Liability Management simulation model which incorporates both existing and anticipated new business in its assessment. The change in the Balance Sheet product mix, growth, funding and pricing strategies is incorporated.

Assets and liabilities that reprice directly from observable market rates are measured based on the full extent of the rate shock that is applied.

Products that are priced based on Group administered or discretionary interest rates and that are impacted by customer behaviour are measured by taking into consideration the historic repricing strategy of the Group and repricing behaviours of customers. In addition to considering how the products have been repriced in the past the expected change in price based on both the current and anticipated competitive market forces are also considered in the sensitivity analysis.

The figures in the following table represent the potential unfavourable change to the Group's net interest earnings during the year based on a 100 basis point parallel rate shock. As the official cash rate in both Australia and New Zealand was 0.25% as at 30 June 2020, a downward rate shock of 100 basis points implies a 0.75% negative interest rate. The analysis does not take into account management actions that may be taken to mitigate the unfavourable impact of falling interest rates.

Net interest earnings at risk [1]		June 2020 $M	June 2019 $M
Average monthly exposure	AUD	1,008. 7	421. 9
	NZD	5. 5	8. 0
High monthly exposure	AUD	1,682. 0	558. 0
	NZD	19. 9	15. 5
Low monthly exposure	AUD	506. 7	217. 8
	NZD	0. 1	1. 1
As at balance date	AUD	1,682. 0	450. 3
	NZD	3. 5	8. 3

1 Exposures over a 12 month period. NZD exposures are presented in NZD.

Net interest earnings at risk increased during the period due to decreases in the official cash rate, which resulted in additional deposit balances becoming subject to interest rate floors.

(b) Economic value

Interest rate risk from the economic value perspective is based on a 20-day 99.0% VaR measure.

Measuring the change in the economic value of equity is an assessment of the long-term impact to the earnings potential of the Group present valued to the current date. The Group assesses the potential change in its economic value of equity through the application of the VaR methodology.

A 20-day 99.0% VaR measure is used to capture the net economic value impact over the long-term or total life of all Balance Sheet assets and liabilities to adverse changes in interest rates.

The impact of customer prepayments on the contractual cash flows for fixed rate products is included in the calculation. Cash flows for discretionary priced products are behaviourally adjusted and repriced at the resultant profile.

The figures in the following table represent the net present value of the expected change in the Group's future earnings in all future periods for the remaining term of all existing assets and liabilities.

Notes to the financial statements
For the year ended 30 June 2020

9.3 Market risk (continued)

Non-traded interest rate risk VaR (20-day 99.0% confidence)	June 2020 [1] $M	June 2019 [1, 2] $M
Average daily exposure	**365. 4**	194. 8
High daily exposure	**804. 2**	214. 3
Low daily exposure	**224. 1**	178. 6
As at balance date	**678. 4**	193. 4

1 Average VaR calculated for each 12 month period.
2 Comparative information has been restated to conform to presentation in the current year. This includes a change in the confidence interval in the VaR from 97.5% to 99.0%.

Non-traded equity risk

Non-traded equity includes all equity instruments outside the trading portfolio with the exception of the Group's structural and strategic holdings.

A 20-day, 97.5% confidence VaR is used to measure the economic impact of adverse changes in value.

Non-traded equity VaR (20-day 97.5% confidence)	As at June 2020 $M	As at June 2019 [1] $M
VaR	**13. 4**	22. 4

1 Non-traded equity VaR as at 30 June 2019 includes holdings in CFSGAM. The Group completed the sale and deconsolidated CFSGAM on 2 August 2019. Excluding CFSGAM, non-traded equity VaR as at 30 June 2019 was $9.8 million.

Market risk in insurance businesses

The Group deconsolidated and derecognised CommInsure Life (excluding BoCommLife) on 1 November 2019. The following is the information about the Group's exposure to market risk in insurance business as at 30 June 2019.

The Group had two main sources of market risk in the life insurance businesses: (i) market risk arising from guarantees made to policyholders; and (ii) market risk arising from the investment of shareholders' capital.

Guarantees (to policyholders)

All financial assets within the life Insurance Statutory Funds directly supported either the Group's life insurance or life investment contracts. Market risk arose for the Group on contracts where the liabilities to policyholders were guaranteed by the Group. The Group managed this risk by having an asset and liability management framework which included the use of hedging instruments. The Group also monitored the risk on a monthly basis.

Shareholders' capital

A portion of financial assets held within the insurance business, both within the statutory funds and in the shareholder funds of the life insurance company represented shareholder (Group) capital. Market risk also arose for the Group on the investment of this capital. Shareholders' funds in the Australian life insurance businesses were invested 99.0% in income assets (cash and fixed interest) and 1% in growth assets as at 30 June 2019.

A 20-day 97.5% VaR measure is used to capture the non-traded market risk exposures.

Non-traded VaR in Australian life insurance business (20-day 97.5% confidence)	Average June 2019 [1] $M
Shareholder funds [2]	1. 1
Guarantees (to policyholders) [3]	22. 8

1 Average VaR calculated for the 12 month period.
2 VaR in relation to the investment of shareholder funds.
3 VaR in relation to product portfolios where the Group has guaranteed liabilities to policyholders.

Structural foreign exchange risk

Structural foreign exchange risk is the risk that movements in foreign exchange rates may have an adverse effect on the Group's Australian dollar earnings and economic value when the Group's foreign currency denominated earnings and capital are translated into Australian dollars. The Group's only material exposure to this risk arises from its New Zealand, Asian and US operations.

Lease residual value risk

The Group takes lease residual value risk on assets such as industrial, mining, rail, aircraft, marine, technology, healthcare and other equipment. A lease residual value guarantee exposes the Group to a potential fall in prices of these assets below the guarantee level at lease expiry.

Commonwealth Bank Group Super Fund

The Commonwealth Bank Group Super Fund (the Fund) has a defined benefit portion that creates market risk for the Group.

Risk management and Human Resources provide oversight of the market risks of the Fund held and managed on behalf of the employees receiving defined benefit pension funds on behalf of the Group (refer to Note 10.2).

Notes to the financial statements
For the year ended 30 June 2020

9.4 Liquidity and funding risk

OVERVIEW

The Group's liquidity and funding policies are designed to ensure it will meet its obligations as and when they fall due by ensuring it is able to issue debt on an unsecured or secured basis, has sufficient liquid assets to borrow against under repurchase agreements or sell to raise immediate funds without adversely affecting the Group's net asset value.

The Group's liquidity policies are designed to ensure it maintains sufficient cash balances and liquid asset holdings to meet its obligations to customers, in both ordinary market conditions and during periods of extreme stress. These policies are intended to protect the value of the Group's operations during periods of unfavourable market conditions.

The Group's funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type, investor location, currency and concentration, on a cost effective basis. This objective applies to the Group's wholesale and retail funding activities.

Liquidity and funding risk management framework

The CBA Board is ultimately responsible for the sound and prudent management of liquidity risk across the Group. The Group's liquidity and funding policies, structured under a formal Group Liquidity and Funding Risk Management Framework, are approved by the Board and agreed with APRA. The Group Asset and Liability Committee (ALCO) charter includes reviewing the management of assets and liabilities, reviewing liquidity and funding policies and strategies, as well as regularly monitoring compliance with those policies across the Group. Group Treasury manages the Group's liquidity and funding positions in accordance with the Group's Liquidity Policy and supporting standards, and has ultimate authority to execute liquidity and funding decisions should the Group Contingency Funding Plan be activated. Risk Management provides oversight of the Group's liquidity and funding risks, compliance with Group policies and manages the Group's relationship with prudential regulators.

Subsidiaries within the Group apply their own liquidity and funding strategies to address their specific needs. The Group's New Zealand banking subsidiary, ASB, manages its own domestic liquidity and funding needs in accordance with its own liquidity policy and the policies of the Group. ASB's liquidity policy is also overseen by the RBNZ.

Liquidity and funding policies and management

The Group's liquidity and funding policies provide that:

- an excess of liquid assets over the minimum prescribed under APRA's LCR requirement is maintained. Australian ADIs are required to meet a 100% LCR, calculated as the ratio of high quality liquid assets to 30 day net cash outflows projected under a prescribed stress scenario;
- a surplus of stable funding from various sources, as measured by APRA's Net Stable Funding Ratio (NSFR), is maintained. The NSFR is calculated by applying factors prescribed by APRA to assets and liabilities to determine a ratio of required stable funding to available stable funding which must be greater than 100%;
- additional internal funding and liquidity metrics are calculated and stress tests additional to the LCR are run;
- short and long-term wholesale funding limits are established, monitored and reviewed regularly;
- the Group's wholesale funding market capacity is regularly assessed and used as a factor in funding strategies;
- Balance Sheet assets that cannot be liquidated quickly are funded with stable deposits or term borrowings that meet minimum maturity requirements with appropriate liquidity buffers;
- liquid assets are held in Australian dollar and foreign currency denominated securities in accordance with expected requirements;
- the Group has three categories of liquid assets within its domestic liquid assets portfolio. The first includes cash, government and Australian semi-government securities. The second includes Negotiable Certificates of Deposit, bank term securities, supranational bonds, Australian Residential Mortgage Backed Securities (RMBS) and other securities that meet RBA criteria for purchases under repurchase agreements. The final category is internal RMBS, being mortgages that have been securitised but retained by the Bank, that are repo-eligible with the RBA using the Committed Liquidity Facility (CLF) and Term Funding Facility (TFF); and
- offshore branches and subsidiaries adhere to liquidity policies and hold appropriate foreign currency liquid assets to meet required regulations.

The Group's key funding tools include:

- consumer retail funding base, which includes a wide range of retail transaction accounts, savings accounts and term deposits for individual consumers;
- small business customer and institutional deposit base;
- wholesale domestic and international funding programmes, which include Australian dollar Negotiable Certificates of Deposit, US and Euro Commercial Paper programmes, Australian dollar Domestic Debt Programme, US Extendible Notes programmes, US Medium-Term Note Programmes, Euro Medium-Term Note Programme, multi jurisdiction Covered Bond programme and Medallion securitisation programmes; and
- access to the RBA Term Funding Facility (TFF).

9.4 Liquidity and funding risk (continued)

The Group's key liquidity tools include:

- a regulatory liquidity management reporting system delivering granular customer and product type information to inform business decision making, product development and resulting in a greater awareness of the liquidity risk-adjusted value of banking products;
- a liquidity management model that allows forecasting of liquidity needs on a daily basis;
- an additional liquidity management model that implements the established prudential liquidity requirements. This model is calibrated with a series of 'stress' liquidity crisis scenarios, incorporating both systemic and idiosyncratic crisis assumptions, such that the Group will have sufficient liquid assets available to ensure it meets all of its obligations as and when they fall due;
- Central Bank repurchase agreement facilities including the RBA's CLF that provide the Group with the ability to borrow funds on a secured basis, even when normal funding markets are unavailable; and
- a robust Contingency Funding Plan that is regularly tested so that it can be quickly activated when required.

9.4 Liquidity and funding risk (continued)

Maturity analysis of monetary liabilities

Amounts shown in the tables below are based on contractual undiscounted cash flows for the remaining contractual maturities.

	Group Maturity period as at 30 June 2020					
	0 to 3 months $M	3 to 12 months $M	1 to 5 years $M	Over 5 years $M	Not specified $M	Total $M
Monetary liabilities						
Deposits and other public borrowings [1]	605,174	91,162	5,944	1,057	–	703,337
Payables to financial institutions	11,820	3,105	1,548	–	–	16,473
Liabilities at fair value through Income Statement	769	178	746	2,906	–	4,599
Derivative financial instruments:						
Held for trading	25,280	–	–	–	–	25,280
Held for hedging purposes (net-settled)	115	244	718	91	–	1,168
Held for hedging purposes (gross-settled):						
Outflows	6,535	9,380	44,008	24,410	–	84,333
Inflows	(3,521)	(8,816)	(41,966)	(23,036)	–	(77,339)
Debt issues and loan capital	13,255	25,978	83,871	60,408	–	183,512
Lease liabilities	132	411	1,807	1,155	–	3,505
Other monetary liabilities	6,580	370	80	59	–	7,089
Liabilities held for sale	414	–	–	–	–	414
Total monetary liabilities	666,553	122,012	96,756	67,050	–	952,371
Guarantees [2]	6,448	–	–	–	–	6,448
Loan commitments [2]	168,624	–	–	–	–	168,624
Other commitments [2]	7,358	–	–	–	–	7,358
Total off Balance Sheet items	182,430	–	–	–	–	182,430
Total monetary liabilities and off Balance Sheet items	848,983	122,012	96,756	67,050	–	1,134,801

	Group [3] Maturity period as at 30 June 2019					
	0 to 3 months $M	3 to 12 months $M	1 to 5 years $M	Over 5 years $M	Not specified $M	Total $M
Monetary liabilities						
Deposits and other public borrowings [1]	525,933	106,037	7,065	91	–	639,126
Payables to financial institutions	19,511	3,919	42	–	–	23,472
Liabilities at fair value through Income Statement	4,612	2,334	736	1,244	–	8,926
Derivative financial instruments:						
Held for trading	17,925	–	–	–	–	17,925
Held for hedging purposes (net-settled)	120	385	1,025	163	–	1,693
Held for hedging purposes (gross-settled):						
Outflows	3,548	16,619	40,211	29,726	–	90,104
Inflows	(2,990)	(15,418)	(37,846)	(27,686)	–	(83,940)
Debt issues and loan capital	18,592	37,817	94,619	53,488	–	204,516
Other monetary liabilities	5,657	374	495	58	–	6,584
Liabilities held for sale	561	169	956	491	13,052	15,229
Total monetary liabilities	593,469	152,236	107,303	57,575	13,052	923,635
Guarantees [2]	6,506	–	–	–	–	6,506
Loan commitments [2]	162,202	–	–	–	–	162,202
Other commitments [2]	7,098	–	–	–	–	7,098
Total off Balance Sheet items	175,806	–	–	–	–	175,806
Total monetary liabilities and off Balance Sheet items	769,275	152,236	107,303	57,575	13,052	1,099,441

1 Includes deposits that are contractually at call, customer savings and cheque accounts. These accounts provide a stable source of long-term funding.
2 All off Balance Sheet items are included in the 0 to 3 months maturity band to reflect their earliest possible maturity.
3 Comparative information has been restated to conform to presentation in the current year.

Notes to the financial statements
For the year ended 30 June 2020

9.4 Liquidity and funding risk (continued)

	Bank – Maturity period as at 30 June 2020					
	0 to 3 months $M	3 to 12 months $M	1 to 5 years $M	Over 5 years $M	Not specified $M	Total $M
Monetary liabilities						
Deposits and other public borrowings [1]	552,273	75,120	3,917	991	–	632,301
Payables to financial institutions	10,741	3,105	1,548	–	–	15,394
Liabilities at fair value through Income Statement	260	178	746	2,906	–	4,090
Derivative financial instruments:						
Held for trading	28,381	–	–	–	–	28,381
Held for hedging purposes (net-settled)	114	267	767	95	–	1,243
Held for hedging purposes (gross-settled):						
Outflows	6,584	10,689	47,648	29,394	–	94,315
Inflows	(3,716)	(10,404)	(46,124)	(28,410)	–	(88,654)
Debt issues and loan capital	11,978	21,493	65,223	53,865	–	152,559
Due to controlled entities	6,687	6,400	26,315	13,670	–	53,072
Lease liabilities	121	381	1,680	1,051	–	3,233
Other monetary liabilities	6,496	238	106	32	–	6,872
Total monetary liabilities	619,919	107,467	101,826	73,594	–	902,806
Guarantees [2]	5,974	–	–	–	–	5,974
Loan commitments [2]	152,812	–	–	–	–	152,812
Other commitments [2]	7,225	–	–	–	–	7,225
Total off Balance Sheet items	166,011	–	–	–	–	166,011
Total monetary liabilities and off Balance Sheet items	785,930	107,467	101,826	73,594	–	1,068,817

	Bank [3] – Maturity period as at 30 June 2019					
	0 to 3 months $M	3 to 12 months $M	1 to 5 years $M	Over 5 years $M	Not specified $M	Total $M
Monetary liabilities						
Deposits and other public borrowings [1]	484,499	86,805	4,833	9	–	576,146
Payables to financial institutions	18,758	3,919	42	–	–	22,719
Liabilities at fair value through Income Statement	4,608	1,768	736	1,244	–	8,356
Derivative financial instruments:						
Held for trading	20,732	–	–	–	–	20,732
Held for hedging purposes (net-settled)	117	401	1,071	168	–	1,757
Held for hedging purposes (gross-settled):						
Outflows	2,724	15,013	44,943	34,320	–	97,000
Inflows	(2,293)	(14,275)	(43,176)	(33,234)	–	(92,978)
Debt issues and loan capital	17,187	31,450	74,832	45,362	–	168,831
Due to controlled entities	5,195	6,311	24,499	13,605	–	49,610
Other monetary liabilities	5,404	335	458	55	–	6,252
Total monetary liabilities	556,931	131,727	108,238	61,529	–	858,425
Guarantees [2]	6,026	–	–	–	–	6,026
Loan commitments [2]	146,483	–	–	–	–	146,483
Other commitments [2]	6,944	–	–	–	–	6,944
Total off Balance Sheet items	159,453	–	–	–	–	159,453
Total monetary liabilities and off Balance Sheet items	716,384	131,727	108,238	61,529	–	1,017,878

1 Includes deposits that are contractually at call, customer savings and cheque accounts. These accounts provide a stable source of long-term funding.
2 All off Balance Sheet items are included in the 0 to 3 months maturity band to reflect their earliest possible maturity.
3 Comparative information has been restated to conform to presentation in the current year.

Notes to the financial statements
For the year ended 30 June 2020

9.5 Disclosures about fair values

Fair value hierarchy for financial assets and liabilities measured at fair value

The classification in the fair value hierarchy of the Group's and the Bank's financial assets and liabilities measured at fair value is presented in the tables below. An explanation of how fair values are calculated and the levels in the fair value hierarchy, is included in the accounting policy within this note.

	Group – Fair value as at 30 June 2020				Group – Fair value as at 30 June 2019 [1]			
	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets measured at fair value on a recurring basis								
Assets at fair value through Income Statement:								
Trading	33,001	5,422	–	**38,423**	24,599	1,053	–	25,652
Other	77	7,992	53	**8,122**	319	7,706	–	8,025
Derivative assets	192	29,966	127	**30,285**	59	25,072	84	25,215
Investment securities at fair value through Other Comprehensive Income	60,336	18,648	565	**79,549**	77,193	1,666	53	78,912
Assets held for sale [2]	–	260	–	**260**	934	7,631	2,339	10,904
Total financial assets measured at fair value	93,606	62,288	745	**156,639**	103,104	43,128	2,476	148,708
Financial liabilities measured at fair value on a recurring basis								
Liabilities at fair value through Income Statement	3,615	782	–	**4,397**	1,583	6,937	–	8,520
Derivative liabilities	69	31,248	30	**31,347**	132	22,579	66	22,777
Liabilities held for sale [2]	–	–	–	**–**	3	6,325	496	6,824
Total financial liabilities measured at fair value	3,684	32,030	30	**35,744**	1,718	35,841	562	38,121

1 Comparative information has been restated to conform to presentation in the current year and to reflect changes in accounting policy detailed in Note 1.1.
2 For details of the Group's assets and liabilities held for sale refer to Note 11.3.

Notes to the financial statements
For the year ended 30 June 2020

9.5 Disclosures about fair values (continued)

Bank	Fair value as at 30 June 2020				Fair value as at 30 June 2019 [1]			
	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets measured at fair value on a recurring basis								
Assets at fair value through Income Statement:								
Trading	32,991	5,422	–	**38,413**	24,569	1,053	–	25,622
Other	–	7,818	53	**7,871**	–	7,506	–	7,506
Derivative assets	192	29,003	127	**29,322**	56	24,171	84	24,311
Investment securities at fair value through Other Comprehensive Income	54,472	17,298	565	**72,335**	72,479	680	53	73,212
Total financial assets measured at fair value	87,655	59,541	745	**147,941**	97,104	33,410	137	130,651
Financial liabilities measured at fair value on a recurring basis								
Liabilities at fair value through Income Statement	3,485	403	–	**3,888**	1,583	6,378	–	7,961
Derivative liabilities	68	36,150	30	**36,248**	132	26,456	66	26,654
Total financial liabilities measured at fair value	3,553	36,553	30	**40,136**	1,715	32,834	66	34,615

1 Comparative information has been restated to conform to presentation in the current year and to reflect changes in accounting policy detailed in Note 1.1.

Notes to the financial statements
For the year ended 30 June 2020

9.5 Disclosures about fair values (continued)

Analysis of movements between fair value hierarchy levels

During the year ended 30 June 2020, $16,777 million of Investment securities at fair value through other comprehensive income and $4,979 million of trading securities were reclassified from Level 1 to Level 2 due to changes in the observability of inputs. The tables below summarise movements in Level 3 balance during the year. Transfers have been reflected as if they had taken place at the end of the reporting periods. Transfers in and out of Level 3 were due to changes in the observability of inputs.

Level 3 movement analysis for the year ended 30 June 2020

Group	Financial Assets					Financial Liabilities	
	Derivative assets $M	Investment securities at fair value through OCI $M	Available for sale investments $M	Assets at fair value through Income Statement $M	Assets held for sale [1] $M	Derivative liabilities $M	Liabilities held for sale [1] $M
As at 1 July 2018	93	–	65	–	1,818	(340)	(353)
Change on adoption of AASB 9	–	65	(65)	–	–	–	–
Purchases	15	–	–	–	499	–	–
Sales/settlements	–	(8)	–	–	–	–	–
Gains/(losses) in the year:				–			
Recognised in the Income Statement	(5)	–	–	–	22	198	–
Recognised in the Statement of Comprehensive Income	–	(4)	–	–	–	–	–
Transfers in	–	–	–	–	–	–	(143)
Transfers out	(19)	–	–	–	–	76	–
As at 30 June 2019	84	53	–	–	2,339	(66)	(496)
Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2019	22	–	–	–	22	175	–
As at 1 July 2019	84	53	–	–	2,339	(66)	(496)
Purchases	–	453	–	54	15	–	–
Sales/settlements	(23)	(4)	–	–	–	–	–
Gains/(losses) in the year:							
Recognised in the Income Statement	51	–	–	(1)	(4)	1	–
Recognised in the Statement of Comprehensive Income	–	60	–	–	–	(24)	–
Transfers in	34	3	–	–	–	–	(21)
Transfers out	(19)	–	–	–	–	59	–
Derecognised on deconsolidation of controlled entities	–	–	–	–	(2,350)	–	517
As at 30 June 2020	127	565	–	53	–	(30)	–
Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2020	48	–	–	(1)	–	1	–

1 For details of the Group's assets and liabilities held for sale refer to Note 11.3.

9.5 Disclosures about fair values (continued)

	Bank				
	Financial assets				Financial liabilities
	Derivative assets $M	Investment securities at fair value through OCI $M	Assets at fair value through Income Statement $M	Available for sale investments $M	Derivative liabilities $M
As at 1 July 2018	93	–	–	65	(340)
Change on adoption of AASB 9	–	65	–	(65)	–
Purchases	15	–	–	–	–
Sales/settlements	–	(8)	–	–	–
Gains/(losses) in the period:			–		
Recognised in the Income Statement	(5)	–	–	–	198
Recognised in the Statement of Comprehensive Income	–	(4)	–	–	–
Transfers in	–	–	–	–	–
Transfers out	(19)	–	–	–	76
As at 30 June 2019	84	53	–	–	(66)
Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2019	22	–	–	–	175
As at 1 July 2019	84	53	–	–	(66)
Purchases	–	453	54	–	–
Sales/settlements	(23)	(4)	–	–	–
Gains/(losses) in the period:					
Recognised in the Income Statement	51	–	(1)	–	1
Recognised in the Statement of Comprehensive Income	–	60		–	(24)
Transfers in	34	3	–	–	–
Transfers out	(19)	–	–	–	59
As at 30 June 2020	127	565	53	–	(30)
Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2020	48	–	(1)	–	1

9.5 Disclosures about fair values (continued)

Fair value information for financial instruments not measured at fair value

The estimated fair values and fair value hierarchy of the Group's and the Bank's financial instruments not measured at fair value are presented below:

	30 Jun 20					30 Jun 19 [1]				
	Carrying value	Fair value				Carrying value	Fair value			
Group	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets										
Investment securities at amortised cost	**5,173**	**–**	**5,145**	**15**	**5,160**	7,355	–	7,330	15	7,345
Loans, bills discounted and other receivables	**771,547**	**–**	**–**	**771,763**	**771,763**	755,173	–	–	755,547	755,547
Financial liabilities										
Deposits and other public borrowings	**701,999**	**–**	**702,438**	**–**	**702,438**	636,040	–	636,465	18	636,483
Debt issues	**142,503**	**–**	**142,466**	**–**	**142,466**	164,022	–	164,327	–	164,327
Loan capital	**27,357**	**10,811**	**15,900**	**–**	**26,711**	22,966	9,477	13,641	–	23,118
Bank										
Financial assets										
Investment securities at amortised cost	**5,167**	**–**	**5,145**	**9**	**5,154**	7,349	–	7,340	9	7,349
Loans, bills discounted and other receivables	**677,268**	**–**	**–**	**677,012**	**677,012**	660,508	–	–	660,692	660,692
Shares in and loans to controlled entities	**66,792**	**–**	**–**	**65,259**	**65,259**	63,943	–	–	56,779	56,779
Financial liabilities										
Deposits and other public borrowings	**631,301**	**–**	**631,551**	**–**	**631,551**	573,851	–	574,164	18	574,182
Debt issues	**113,323**	**–**	**114,081**	**–**	**114,081**	131,094	–	132,103	–	132,103
Loan capital	**26,964**	**10,820**	**15,512**	**–**	**26,332**	22,569	9,483	13,237	–	22,720

1 Comparative information has been restated to conform to presentation in the current year.

Notes to the financial statements
For the year ended 30 June 2020

9.5 Disclosures about fair values (continued)

ACCOUNTING POLICIES

Valuation

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. On initial recognition, the transaction price generally represents the fair value of the financial instrument, unless there is observable information from an active market that provides a more appropriate fair value.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. Assets and long positions are measured at a quoted bid price; liabilities and short positions are measured at a quoted asking price. Where the Group has positions with offsetting market risks, mid-market prices are used to measure the offsetting risk positions and a quoted bid or asking price adjustment is applied only to the net open position as appropriate.

Non-market quoted financial instruments are mostly valued using valuation techniques based on observable inputs except where observable market data is unavailable. Where market data is unavailable the financial instrument is initially recognised at the transaction price, which is generally the best indicator of fair value. This may differ from the value obtained from the valuation model. The timing of the recognition in the Income Statement of this initial difference in fair value depends on the individual facts and circumstances of each transaction, but is never later than when the market data becomes observable. The difference may be either amortised over the life of the transaction, recognised when the inputs become observable or on derecognition of the instrument, as appropriate.

The fair value of Over-the-Counter (OTC) derivatives includes credit valuation adjustments (CVA) for derivative assets to reflect the credit worthiness of the counterparty. Fair value of uncollateralised derivative assets and uncollateralised derivative liabilities incorporate funding valuation adjustments (FVA) to reflect funding costs and benefits to the Group. These adjustments are applied after considering any relevant collateral or master netting arrangements.

Fair value hierarchy

The Group utilises various valuation techniques and applies a hierarchy for valuation inputs that maximise the use of observable market data, if available.

Under AASB 13 *Fair Value Measurement* all financial and non-financial assets and liabilities measured or disclosed at fair value are categorised into one of the following three fair value hierarchy levels:

Quoted prices in active markets – Level 1

This category includes assets and liabilities for which the valuation is determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Financial instruments included in this category are liquid government bonds, financial institution and corporate bonds, certificates of deposit, bank bills, listed equities and exchange traded derivatives.

Valuation technique using observable inputs – Level 2

This category includes assets and liabilities that have been valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset or liability, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.

Financial instruments included in this category are commercial papers, mortgage-backed securities and OTC derivatives including interest rate swaps, cross currency swaps and FX options.

Valuation technique using significant unobservable inputs – Level 3

This category includes assets and liabilities where the valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally derived and extrapolated from observable inputs to match the risk profile of the financial instrument, and are calibrated against current market assumptions, historic transactions and economic models, where available. These inputs may include the timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility. Financial instruments included in this category for the Group and Bank are certain exotic OTC derivatives and unlisted equity instruments.

As at 30 June 2020, Level 3 Investment securities at fair value through other comprehensive income include unlisted equity instruments of $506 million. The valuation of this investment is based on a methodology that leverages significant unobservable inputs including revenue multiples of market listed comparable entities. The range of revenue multiples applied by the Group as at 30 June 2020 was 9x-10x. The effect of adjusting these inputs to a range of reasonably possible alternatives would be to increase the fair value by up to $75 million or to decrease the fair value by up to $75 million with all of the potential effect impacting Investment securities revaluation reserve.

Critical accounting judgements and estimates

Valuation techniques are used to estimate the fair value of securities. When using valuation techniques the Group makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that the Group believes market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Data inputs that the Group relies upon when valuing financial instruments relate to counterparty credit risk, volatility, correlation and extrapolation.

Periodically, the Group calibrates its valuation techniques and tests them for validity using prices from any observable current market transaction in the same instruments (i.e. without modification or repackaging) and any other available observable market data.

Notes to the financial statements
For the year ended 30 June 2020

9.6 Collateral arrangements

Collateral accepted as security for assets

The Group takes collateral where it is considered necessary to support both on and off Balance Sheet financial instruments. The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, is based on management's credit evaluation of the counterparty. The Group has the right to sell, re-pledge, or otherwise use some of the collateral received. At Balance Sheet date the carrying value of cash accepted as collateral (and recognised on the Group's and the Bank's Balance Sheets) and the fair value of securities accepted as collateral (but not recognised on the Group's or the Bank's Balance Sheets) were as follows:

	Group [1]		Bank [1]	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Cash	**5,419**	6,147	**4,274**	5,568
Securities	**16,858**	12,732	**16,290**	11,379
Collateral held	**22,277**	18,879	**20,564**	16,947
Collateral held which is re-pledged or sold	**4,390**	2,513	**4,390**	2,520

1 Comparative information has been restated to conform to presentation in the current year.

Assets pledged

As part of standard terms of transactions with other banks, the Group has provided collateral to secure liabilities. At Balance Sheet date, the carrying value of assets pledged as collateral to secure liabilities were as follows:

	Group [1]		Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Cash	**8,581**	6,819	**7,363**	5,781
Securities [2]	**19,138**	21,022	**19,345**	21,138
Assets pledged	**27,719**	27,841	**26,708**	26,919
Asset pledged which can be re-pledged or re-sold by counterparty	**19,138**	21,022	**19,345**	21,138

1 Comparative information has been restated to conform to presentation in the current year.

2 These balances include assets sold under repurchase agreements. The liabilities related to these repurchase agreements are disclosed in Note 4.1.

The Group and the Bank have pledged collateral as part of entering into repurchase and derivative agreements. These transactions are governed by standard industry agreements.

9.7 Offsetting financial assets and financial liabilities

The table below identifies amounts that have been offset on the Balance Sheet and amounts covered by enforceable netting arrangements or similar agreements that do not qualify for set off. Cash settled derivatives that trade on an exchange are deemed to be economically settled and therefore outside the scope of these disclosures.

Group 30 Jun 20

	Subject to enforceable master netting or similar agreements							
	Amounts offset on the Balance Sheet			Amounts not offset on the Balance Sheet				
Financial instruments	Gross Balance Sheet amount $M	Amount offset [1] $M	Reported on the Balance Sheet $M	Financial instruments [2] $M	Financial collateral (received)/ pledged [2] $M	Net amount $M	Not subject to netting agreements $M	Total Balance Sheet amount $M
Derivative assets	55,684	(27,646)	28,038	(18,618)	(4,900)	4,520	2,247	**30,285**
Securities purchased under agreements to resell	16,858	–	16,858	(1,313)	(15,539)	6	–	**16,858**
Equity securities sold not delivered [3]	1,031	(536)	495	–	–	495	–	**495**
Total financial assets	73,573	(28,182)	45,391	(19,931)	(20,439)	5,021	2,247	**47,638**
Derivative liabilities	(57,184)	26,718	(30,466)	18,618	6,269	(5,579)	(883)	**(31,349)**
Securities sold under agreements to repurchase	(16,877)	–	(16,877)	1,313	15,564	–	–	**(16,877)**
Equity securities purchased not delivered [3]	(1,245)	536	(709)	–	–	(709)	–	**(709)**
Total financial liabilities	(75,306)	27,254	(48,052)	19,931	21,833	(6,288)	(883)	**(48,935)**

1 The net offset balance of $928 million relates to variation margin netting reflected on other Balance Sheet lines.
2 For the purpose of this disclosure, the related amounts of financial instruments and financial collateral not set off on the Balance Sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/(liabilities) reported on the Balance Sheet, i.e. over collateralisation, where it exists, is not reflected in the tables. As a result, the above collateral balances will not correspond to the tables in Note 9.6.
3 Includes $105 million of receivables and $172 million of payables of AUSIEX presented within assets and liabilities held for sale as at 30 June 2020.

Bank 30 Jun 20

	Subject to enforceable master netting or similar agreements							
	Amounts offset on the Balance Sheet			Amounts not offset on the Balance Sheet				
Financial instruments	Gross Balance Sheet amount $M	Amount offset [1] $M	Reported on the Balance Sheet $M	Financial instruments [2] $M	Financial collateral (received)/ pledged [2] $M	Net amount $M	Not subject to netting agreements $M	Total Balance Sheet amount $M
Derivative assets	54,732	(27,647)	27,085	(18,588)	(3,792)	4,705	2,238	**29,323**
Securities purchased under agreements to resell	16,290	–	16,290	(1,313)	(14,971)	6	–	**16,290**
Total financial assets	71,022	(27,647)	43,375	(19,901)	(18,763)	4,711	2,238	**45,613**
Derivative liabilities	(62,127)	26,718	(35,409)	18,588	6,627	(10,194)	(840)	**(36,249)**
Securities sold under agreements to repurchase	(17,084)	–	(17,084)	1,313	15,771	–	–	**(17,084)**
Total financial liabilities	(79,211)	26,718	(52,493)	19,901	22,398	(10,194)	(840)	**(53,333)**

1 The net offset balance of $929 million relates to variation margin netting reflected on other Balance Sheet lines.
2 For the purpose of this disclosure, the related amounts of financial instruments and financial collateral not set off on the Balance Sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/(liabilities) reported on the Balance Sheet, i.e. over collateralisation, where it exists, is not reflected in the tables. As a result the above collateral balances will not correspond to the tables in Note 9.6.

9.7 Offsetting financial assets and financial liabilities (continued)

Group 30 Jun 19

	Subject to enforceable master netting or similar agreements							
	Amounts offset on the Balance Sheet			Amounts not offset on the Balance Sheet				
Financial instruments	Gross Balance Sheet amount $M	Amount offset [1] $M	Reported on the Balance Sheet $M	Financial instruments [2] $M	Financial collateral (received)/ pledged [2] $M	Net amount $M	Not subject to netting agreements $M	Total Balance Sheet amount $M
Derivative assets	40,913	(17,801)	23,112	(14,318)	(5,095)	3,699	2,103	25,215
Securities purchased under agreements to resell	12,732	–	12,732	(565)	(12,146)	21	–	12,732
Equity securities sold not delivered	661	(313)	348	–	–	348	–	348
Total financial assets	54,306	(18,114)	36,192	(14,883)	(17,241)	4,068	2,103	38,295
Derivative liabilities	(42,756)	20,727	(22,029)	14,318	4,086	(3,625)	(748)	(22,777)
Securities sold under agreements to repurchase	(19,099)	–	(19,099)	565	18,534	–	–	(19,099)
Equity securities purchased not delivered	(821)	313	(508)	–	–	(508)	–	(508)
Total financial liabilities	(62,676)	21,040	(41,636)	14,883	22,620	(4,133)	(748)	(42,384)

1 The net offset balance of $2,926 million relates to variation margin netting reflected on other Balance Sheet lines.
2 For the purpose of this disclosure, the related amounts of financial instruments and financial collateral not set off on the Balance Sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/(liabilities) reported on the Balance Sheet, i.e. over collateralisation, where it exists, is not reflected in the tables. As a result the above collateral balances will not correspond to the tables in Note 9.6.

Bank 30 Jun 19

	Subject to enforceable master netting or similar agreements							
	Amounts offset on the Balance Sheet			Amounts not offset on the Balance Sheet				
Financial instruments	Gross Balance Sheet amount $M	Amount offset [1] $M	Reported on the Balance Sheet $M	Financial instruments [2] $M	Financial collateral (received)/ pledged [2] $M	Net amount $M	Not subject to netting agreements $M	Total Balance Sheet amount $M
Derivative assets	39,487	(17,273)	22,214	(14,065)	(4,697)	3,452	2,097	24,311
Securities purchased under agreements to resell	11,378	–	11,378	(573)	(10,784)	21	–	11,378
Total financial assets	50,865	(17,273)	33,592	(14,638)	(15,481)	3,473	2,097	35,689
Derivative liabilities	(45,839)	19,944	(25,895)	14,065	4,039	(7,791)	(759)	(26,654)
Securities sold under agreements to repurchase	(19,215)	–	(19,215)	573	18,642	–	–	(19,215)
Total financial liabilities	(65,054)	19,944	(45,110)	14,638	22,681	(7,791)	(759)	(45,869)

1 The net offset balance of $2,671 million relates to variation margin netting reflected on other Balance Sheet lines.
2 For the purpose of this disclosure, the related amounts of financial instruments and financial collateral not set off on the Balance Sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/(liabilities) reported on the Balance Sheet, i.e. over collateralisation, where it exists, is not reflected in the tables. As a result the above collateral balances will not correspond to the tables in Note 9.6.

9.7 Offsetting financial assets and financial liabilities (continued)

Related amounts not set off on the Balance Sheet

Derivative assets and liabilities

The "Financial Instruments" column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement. All outstanding transactions with the same counterparty can be offset and close-out netting applied if an event of default or other predetermined events occur. Financial collateral refers to cash and non-cash collateral obtained to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

Repurchase and reverse repurchase agreements and security lending agreements

The "Financial Instruments" column identifies financial assets and liabilities that are subject to set off under netting agreements, such as global master repurchase agreements and global master securities lending agreements. Under these netting agreements, all outstanding transactions with the same counterparty can be offset and close-out netting applied if an event of default or other predetermined events occur. Financial collateral typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

ACCOUNTING POLICIES

Financial assets and liabilities are offset and the net amount is presented in the Balance Sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

10. Employee benefits

OVERVIEW

The Group employs over 48,000 people across multiple jurisdictions and remunerates its employees through both fixed and variable arrangements. This section outlines details of the share-based payment and superannuation components of employee remuneration and provides an overview of key management personnel arrangements.

10.1 Share-based payments

The Group operates a number of cash and equity settled share plans as detailed below.

Long Term Variable Remuneration (LTVR)

From the 2019 financial year, the Group's LTVR award to the CEO, Group Executives and the CEO of ASB (from the 2020 financial year) is made under the Employee Equity Plan (EEP). LTVR awards up to and including the 2018 financial year were made under the Group's Leadership Reward Plan (GLRP). LTVR focuses efforts on achieving superior performance for key stakeholders – being customers, community, employees and shareholders – in order to create sustainable long-term shareholder value and drive positive culture and behaviours in the Group.

Participants are awarded a maximum number of rights, which may convert into CBA shares on a one-for-one basis. The Board has discretion to apply a cash equivalent.

The Rights may vest at the end of a performance period of four years subject to the satisfaction of performance measures as follows:

For the 2017 financial year award made to the CEO and Group Executives:

- 25% of the award is assessed against Customer Satisfaction compared to ANZ, NAB, Westpac and other key competitors for our wealth management business by reference to independent external surveys; and
- 75% of the award is assessed against Total Shareholder Return (TSR) compared to the 20 largest companies listed on the ASX (by market capitalisation) at the beginning of each respective performance period, excluding resource companies and CBA.

For awards made from the 2018 financial year to the CEO and Group Executives:

- 75% of the award is assessed against TSR compared to the 20 largest companies listed on the ASX (by market capitalisation) at the beginning of each respective performance period, excluding resource companies and CBA.
- 12.5% of the award is assessed against a Relative Trust and Reputation measure; and
- 12.5% of the award is assessed against an Absolute Employee Engagement measure.

For the 2020 financial year award made to the CEO of ASB:

- 50% of the award is assessed against TSR compared to the 20 largest companies listed on the ASX (by market capitalisation) at the beginning of each respective performance period, excluding resource companies and CBA.
- 25% of the award is assessed against an ASB Relative Trust and Reputation measure; and
- 25% of the award is assessed against an ASB Absolute Employee Engagement measure.

A positive TSR gateway applies to the Trust and Reputation and Employee Engagement measures. Refer to the Remuneration Report for further details on LTVR.

The following table provides details of outstanding awards of Rights granted under LTVR awards.

Period	Outstanding 1 July	Granted	Vested	Forfeited	Outstanding 30 June	Expense ($'000)
30 Jun 20	**808,519**	**322,283**	**(33,009)**	**(146,380)**	**951,413**	**7,566**
30 Jun 19	678,801	294,619	(34,099)	(130,802)	808,519	7,186

The weighted average fair value at the grant date for TSR was $34.07 and $57.86 for both Trust and Reputation and Employee Engagement Rights issued during the year (2019: $33.57 for TSR and $49.87 for both Trust and Reputation and Employee Engagement). The fair value of the Rights granted during the period has been independently calculated at grant date using a Monte Carlo pricing model based on market information and excluding the impact of non-market performance conditions. The assumptions included in the valuation of the 2020 financial year award include a share price of $80.34 and $90.26, a risk-free interest rate of 0.85% and 0.76%, a 5.23% and 4.66% dividend yield on the Bank's ordinary shares and a volatility in the Bank share price of 15% and 25%.

Notes to the financial statements
For the year ended 30 June 2020

10.1 Share-based payments (continued)

Group Rights Plan (GRP) and Employee Equity Plan (EEP)

The GRP and EEP facilitate mandatory short-term variable remuneration deferral, sign-on and retention awards. Participants are awarded rights or restricted shares that vest provided the participant remains in employment of the Group until vesting and subject to risk and malus review. The following table provides details of outstanding awards of rights and restricted shares granted under the GRP and EEP.

Period	Outstanding 1 July	Granted	Vested	Forfeited	Outstanding 30 June	Expense ($'000)
30 Jun 20	**2,152,467**	**819,276**	**(1,031,588)**	**(104,535)**	**1,835,620**	**61,332**
30 Jun 19	2,246,204	1,086,280	(993,435)	(186,582)	2,152,467	77,136

The weighted average fair value at grant date of the awards issued during the year was $79.62 (2019: $71.08).

Employee Share Acquisition Plan (ESAP)

Under the ESAP, eligible employees have the opportunity to receive up to $1,000 worth of shares each year if the Group meets the required performance hurdle.

The number of shares a participant receives is calculated by dividing the award amount by the average price paid for CBA shares purchased during the purchase period preceding the grant date. Shares granted are restricted from sale until the earlier of three years or until such time as the participant ceases employment with the Group. Participants receive full dividend entitlements and voting rights attached to those shares.

While the Group did not achieve the ESAP performance hurdle for the 2019 financial year, the Board exercised its discretion and approved an award of $1,000 during the financial year ended 30 June 2020 to each eligible employee to recognise their contribution throughout the year.

The following table provides details of shares granted under the ESAP:

Period	Allocation date	Participants	Number of shares allocated per participant	Total number of shares allocated	Issue price $	Total fair value ($'000)
30 Jun 20	4 Nov 19	**30,653**	**12**	**367,836**	**80.29**	**29,534**
30 Jun 19	16 Nov 18	30,960	7	216,720	70.86	15,357

It is estimated that approximately $34 million of CBA shares will be awarded under the 2020 grant.

Other employee awards

A number of other plans are operated by the Group, including:

- The Employee Share (Performance Unit) Plan and EEP Cash Settled Rights are cash-based equity awards;
- EEP rights for certain employees based overseas; and
- The International Employee Share Acquisition Plan, which is the cash-based version of the ESAP.

The following table provides a summary of the movement in awards during the year:

Period	Outstanding 1 July	Granted	Vested/exercised	Forfeited	Outstanding 30 June	Expense ($'000)
30 Jun 20	**381,424**	**192,643**	**(203,833)**	**(27,930)**	**342,304**	**9,449**
30 Jun 19	509,927	162,180	(242,026)	(48,657)	381,424	15,805

The weighted average fair value at grant date of the awards issued during the year was $79.62 (2019: $71.35).

Notes to the financial statements
For the year ended 30 June 2020

10.1 Share-based payments (continued)

Salary sacrifice arrangements

The Group facilitates the purchase of CBA shares via salary sacrifice as follows:

Type	Arrangements
Salary sacrifice	• Australian based employees and Non-Executive Directors can elect to sacrifice between $2,000 and $5,000 p.a. of their fixed remuneration and/or annual STVR or fees (in the case of Non-Executive Directors). • Restricted from sale for a minimum of two years and a maximum of seven years or earlier, if the employee ceases employment with the Group (or retires from the Group in the case of Non-Executive Directors).
Non-Executive Directors	• Non-Executive Directors can elect to apply a percentage of after-tax fees towards the acquisition of CBA shares. From 1 July 2019, Non-Executive Directors are required to hold CBA shares equivalent to 100% of their Board member base fees, or Board Chairman fees (as applicable). This shareholding is to be accumulated over five years commencing on the later of 1 July 2019 or their respective date of appointment, valued with reference to the prevailing CBA share price at the date of appointment.

Shares are purchased on market at the prevailing market price at that time and receive full dividend entitlements and voting rights. The following table provides details of shares granted under the ESSSP and NEDSP (voluntary fee sacrifice).

Period	Participants	Number of shares purchased	Average purchase price $	Total purchase consideration ($'000)
30 Jun 20	**1,043**	**44,586**	**81.05**	**3,614**
30 Jun 19	952	47,205	71.57	3,378

During the year four (2019: four) Non-Executive Directors applied $123,766.70 in fees (2019: $103,151.14) to purchase 1,633 shares (2019: 1,424 shares).

10.2 Retirement benefit obligations

Name of Plan	Type	Form of Benefit	Date of Last Actuarial Assessment of the Fund
Commonwealth Bank Group Super	Defined benefits and accumulation[1]	Indexed pension and lump sum	30 June 2018
Commonwealth Bank of Australia (UK) Staff Benefits Scheme (CBA (UK) SBS)	Defined benefits and accumulation[1]	Indexed pension and lump sum	30 June 2019

1 The defined benefit formulae are generally comprised of final salary, or final average salary, and service.

Regulatory framework

Both plans operate under trust law with the assets of the plans held separately in trust. The trustee of Commonwealth Bank Group Super is Commonwealth Bank Officers Superannuation Corporation Pty Limited. The trustee of CBA (UK) SBS is Commonwealth Bank of Australia (UK) Staff Benefits Scheme Trustee Company Limited. Both trustees are wholly owned subsidiaries of the Group. The trustees do not conduct any business other than trusteeship of the plans. The plans are managed and administered on behalf of the members in accordance with the terms of each trust deed and relevant legislation. The funding of the plans complies with regulations in Australia and the UK respectively.

Funding and contributions

An actuarial assessment as at 30 June 2018 showed Commonwealth Bank Group Super remained in funding surplus. The Bank agreed to continue contributions of $20 million per month to the plan. In the second half of the year ended 30 June 2020, the Bank made an additional lump sum contribution of $60 million to ensure the Fund remained in funding surplus amid financial market volatility caused by COVID-19. Employer contributions paid to the plan are subject to tax at the rate of 15% in the plan.

The Bank made a lump sum payment of GBP24 million ($43 million) in August 2019 to cover the potential future funding deficit in CBA (UK) SBS. An actuarial assessment of CBA (UK) SBS as at 30 June 2019 was completed in July 2020. It confirmed a funding deficit (before the lump sum payment in August 2019) of GBP21.2 million ($38.0 million).

The Group's expected contributions to Commonwealth Bank Group Super and CBA (UK) SBS for the year ended 30 June 2021 are $240 million and GBP12 million ($21.5 million) respectively.

Notes to the financial statements
For the year ended 30 June 2020

10.2 Retirement benefit obligations (continued)

Defined benefit superannuation plan

		Commonwealth Bank Group Super		CBA (UK) SBS		Total	
		30 Jun 20	30 Jun 19	30 Jun 20	30 Jun 19	30 Jun 20	30 Jun 19
	Note	$M	$M	$M	$M	$M	$M
Present value of funded obligations		(2,870)	(3,004)	(677)	(711)	(3,547)	(3,715)
Fair value of plan assets		3,344	3,438	884	739	4,228	4,177
Net pension assets/(liabilities) as at 30 June		474	434	207	28	681	462
Amounts in the Balance Sheet:							
Assets	6.3	474	434	207	28	681	462
Net assets/(liabilities)		474	434	207	28	681	462
The amounts recognised in the Income Statement are as follows:							
Current service cost		(41)	(36)	(3)	(6)	(44)	(42)
Net interest income/(expense)		10	16	2	2	12	18
Gain on curtailment		–	–	7	–	7	–
Employer financed benefits within accumulation division [1]		(278)	(279)	–	–	(278)	(279)
Total included in superannuation plan expense		(309)	(299)	6	(4)	(303)	(303)
Changes in the present value of the defined benefit obligation are as follows:							
Opening defined benefit obligation		(3,004)	(2,826)	(711)	(645)	(3,715)	(3,471)
Current service cost		(41)	(36)	(3)	(6)	(44)	(42)
Interest cost		(96)	(119)	(16)	(17)	(112)	(136)
Member contributions		(6)	(6)	–	–	(6)	(6)
Actuarial (losses) from changes in demographic assumptions		–	(18)	(2)	–	(2)	(18)
Actuarial gains/(losses) from changes in financial assumptions		112	(228)	(47)	(69)	65	(297)
Actuarial gains/(losses) due to experience		(31)	45	48	–	17	45
Payments from the plan		196	184	40	39	236	223
Gain on curtailment		–	–	7	–	7	–
Exchange differences on foreign plans		–	–	5	(13)	5	(13)
Closing defined benefit obligation		(2,870)	(3,004)	(679)	(711)	(3,549)	(3,715)
Changes in the fair value of plan assets are as follows:							
Opening fair value of plan assets		3,438	3,355	739	697	4,177	4,052
Interest income		106	135	18	19	124	154
Return on plan assets (excluding interest income)		(32)	165	112	34	80	199
Member contributions		6	6	–	–	6	6
Employer contributions		300	240	70	15	370	255
Employer financed benefits within accumulation division		(278)	(279)	–	–	(278)	(279)
Payments from the plan		(196)	(184)	(40)	(39)	(236)	(223)
Exchange differences on foreign plans		–	–	(15)	13	(15)	13
Closing fair value of plan assets		3,344	3,438	884	739	4,228	4,177

1 Represents superannuation contributions required by the Bank to meet its obligations to members of the defined contribution division of Commonwealth Bank Group Super.

Notes to the financial statements
For the year ended 30 June 2020

10.2 Retirement benefit obligations (continued)

Economic assumptions

	Commonwealth Bank Group Super		CBA (UK) SBS	
	30 Jun 20	30 Jun 19	30 Jun 20	30 Jun 19
Economic assumptions	%	%	%	%
The above calculations were based on the following assumptions:				
Discount rate	3. 20	3. 20	1. 60	2. 30
Inflation rate	1. 30	1. 60	3. 10	3. 50
Rate of increases in salary	2. 10	2. 40	4. 10	4. 50

In addition to financial assumptions, the mortality assumptions for pensioners can materially impact the defined benefit obligations. These assumptions are age related and allowances are made for future improvement in mortality. The expected life expectancies (longevity) for pensioners are set out below:

	Commonwealth Bank Group Super		CBA (UK) SBS	
	30 Jun 20	30 Jun 19	30 Jun 20	30 Jun 19
Expected life expectancies for pensioners	Years	Years	Years	Years
Male pensioners currently aged 60	28. 9	28. 8	28. 3	28. 0
Male pensioners currently aged 65	23. 9	23. 9	23. 5	23. 2
Female pensioners currently aged 60	31. 2	31. 2	30. 1	29. 9
Female pensioners currently aged 65	26. 2	26. 1	25. 2	25. 1

Sensitivity to changes in assumptions

The table below sets out the sensitivities of the present value of defined benefit obligations at 30 June to a change in the principal actuarial assumptions:

	Commonwealth Bank Group Super	CBA (UK) SBS
	30 Jun 20	30 Jun 20
Impact of change in assumptions on liabilities	%	%
0.25% decrease in discount rate	3. 59	4. 70
0.25% increase in inflation rate	2. 89	4. 40
0.25% increase to the rate of increases in salary	0. 45	0. 10
Longevity increase of 1 year	4. 95	4. 20

Average duration

The average duration of defined benefit obligation at 30 June is as follows:

	Commonwealth Bank Group Super	CBA (UK) SBS
	30 Jun 20	30 Jun 20
	Years	Years
Average duration at balance date	12.3	19.0

Notes to the financial statements
For the year ended 30 June 2020

10.2 Retirement benefit obligations (continued)

Risk management

The pension plans expose the Group to longevity risk, currency risk, interest rate risk, inflation risk and market risk. The trustees perform Asset-Liability Matching (ALM) exercises to ensure the plan assets are well matched to the nature and maturities of the defined benefit obligations.

The Commonwealth Bank Group Super's investment strategy comprises 35% growth and 65% defensive assets. Inflation and interest rate risks are partly mitigated by investing in long dated fixed interest securities which better match the average duration of liabilities and entering into inflation and interest rate swaps.

The allocation of assets backing the defined benefit portion of the Commonwealth Bank Group Super is as follows:

	Commonwealth Bank Group Super			
	30 Jun 20		30 Jun 19	
Asset allocations	Fair value $M	% of plan asset	Fair value $M	% of plan asset
Cash	**197**	**5.9**	83	2.4
Equities – Australian [1]	**222**	**6.7**	193	5.6
Equities – Overseas [1]	**458**	**13.7**	591	17.2
Bonds – Commonwealth Government [1]	**1,167**	**34.9**	967	28.1
Bonds – Semi-Government [1]	**803**	**24.0**	956	27.8
Bonds – Corporate and other [1]	**58**	**1.7**	71	2.1
Real Estate and Infrastructure [2]	**310**	**9.3**	346	10.1
Derivatives	**(43)**	**(1.3)**	(33)	(1.0)
Other [3]	**172**	**5.1**	264	7.7
Total fair value of plan assets	**3,344**	**100.0**	3,438	100.0

1 Values based on prices or yields quoted in an active market.
2 This includes listed and unlisted property and infrastructure investments.
3 These are alternative investments which are not included in the traditional asset classes of equities, fixed interest securities, real estate and cash. They include multi-asset investments, liquid alternative investments and hedge funds.

The Australian equities fair value includes $10.3 million of Commonwealth Bank shares. The real estate fair value includes $1.2 million of property assets leased to the Bank. The bonds – corporate and other fair value includes $14.4 million of Commonwealth Bank debt securities.

10.3 Key management personnel

Detailed remuneration disclosures by Key Management Personnel (KMP) are provided in the Remuneration Report of the Directors' Report on pages 78 to 102.

	Group		Bank	
	30 Jun 20	30 Jun 19	30 Jun 20	30 Jun 19
Key management personnel compensation	$'000	$'000	$'000	$'000
Short-term benefits [1]	**22,612**	23,326	**21,249**	21,413
Post-employment benefits	**417**	457	**370**	400
Long-term benefits	**506**	864	**476**	836
Share-based payments	**13,340**	14,715	**12,949**	14,405
Total	**36,875**	39,362	**35,044**	37,054

1 Short-term benefits includes termination benefits of $767,733 (2019: $1,294,969).

Notes to the financial statements
For the year ended 30 June 2020

10.3 Key management personnel (continued)

Security holdings

Details of the aggregate security holdings of KMP are set out below.

	Class [1]	Balance 1 July 19 [2]	Acquired/ Granted as remuneration	Previous years awards vested [3]	Net change other [4]	Balance 30 June 20 [5]
Non-Executive Directors	Ordinary [6]	50,361	5,471	–	(10,878)	**44,954**
	PERLS	2,770	–	–	(150)	**2,620**
Executives	Ordinary	174,003	–	62,595	(39,440)	**197,158**
	LTVR rights	527,133	265,917	(18,749)	(128,041)	**646,260**
	Deferred shares	20,435	49,247	(7,938)	(4,084)	**57,660**
	Deferred rights	19,930	–	(11,071)	–	**8,859**
	Sign-on equity	92,355	21,262	(27,417)	–	**86,200**

1 LTVR rights are subject to performance hurdles. Deferred shares represent the deferred STVR awarded in the 2020 financial year. Deferred rights represent the deferred STVR awarded under Executive General Manager arrangements received as rights in prior years, as well as the CEO ASB's 2018 financial year STVR award. Sign-on equity includes sign-on awards received as deferred shares. PERLS include cumulative holdings of all PERLS securities issued by the Group.
2 Due to the changes in KMP during the 2020 financial year, aggregate security holdings balance at 1 July 2019 does not align to the balance disclosed for 30 June 2019.
3 LTVR rights, deferred shares and deferred rights become ordinary shares or are cash settled upon vesting.
4 Net change other incorporates changes resulting from purchases, sales, forfeitures and appointment or departure of KMP during the year.
5 30 June 2020 balances represent aggregate shareholdings of all KMP at balance date.
6 From 1 July 2019, Non-Executive Directors are required to hold CBA shares equivalent to 100% of Board Chairman fees for the Chairman and 100% of Board member fees for Non-Executive Directors.

Loans to KMP

All loans to KMP (including close family members or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of those family members or entities held significant voting power) have been made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees and customers, including the term of the loan, security required and the interest rate (which may be fixed or variable). There has been no write down of loans during the period.

Details of aggregate loans to KMP are set out below:

	30 Jun 20 $'000	30 Jun 19 $'000
Loans	**7,942**	12,337
Interest charged	**308**	480

Other transactions of KMP

Financial instrument transactions

Financial instrument transactions (other than loans and shares disclosed within this report) of KMP occur in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees and customers.

Disclosure of financial instrument transactions regularly made as part of normal banking operations is limited to disclosure of such transactions with KMP and entities controlled or significantly influenced by them.

All such financial instrument transactions that have occurred between entities within the Group and their KMP have been trivial or domestic in nature and were in the nature of normal personal banking and deposit transactions.

Transactions other than financial instrument transactions of banks

All other transactions with KMP and their related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services by entities not controlled by the Group.

Services agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Chief Executive Officer and other Group KMP at 30 June 2020 was $1,756,739 (2019: $2,254,283).

11. Group Structure

OVERVIEW

The Group structure includes the Bank legal entity and its interests in operating and special purpose subsidiaries, joint ventures and associates. These entities were either acquired or established and their classification is driven by the Bank's level of control or influence.

The operating activities of these entities include banking, advice, funds management, specialised customer financing and asset backed financing across multiple jurisdictions.

11.1 Investments in subsidiaries and other entities

Subsidiaries

The key subsidiaries of the Bank are:

Entity name	Entity name
Australia	
(a) Banking	
CBA Covered Bond Trust	Medallion Trust Series 2015-2
Commonwealth Securities Limited	Medallion Trust Series 2016-1
Medallion Trust Series 2008-1R	Medallion Trust Series 2016-2
Medallion Trust Series 2011-1	Medallion Trust Series 2017-1
Medallion Trust Series 2012-1	Medallion Trust Series 2017-1P
Medallion Trust Series 2013-1	Medallion Trust Series 2017-2
Medallion Trust Series 2013-2	Medallion Trust Series 2018-1
Medallion Trust Series 2014-1	Medallion Trust Series 2018-1P
Medallion Trust Series 2014-1P	Medallion Trust Series 2019-1
Medallion Trust Series 2014-2	Residential Mortgage Group Pty Ltd
Medallion Trust Series 2015-1	
(b) Insurance and funds management	
Capital 121 Pty Limited	
Colonial Holding Company Limited	
Commonwealth Insurance Holdings Limited	
Commonwealth Insurance Limited	

All the above subsidiaries are 100% owned and incorporated in Australia.

Entity name	Extent of beneficial interest if not 100%	Incorporated in
New Zealand and other overseas		
Banking		
ASB Bank Limited		New Zealand
ASB Covered Bond Trust		New Zealand
ASB Finance Limited		New Zealand
ASB Holdings Limited		New Zealand
ASB Term Fund		New Zealand
Medallion NZ Series Trust 2009-1R		New Zealand
PT Bank Commonwealth	99%	Indonesia

11.1 Investments in subsidiaries and other entities (continued)

Critical accounting judgements and estimates

Control and voting rights

Determining whether the Group has control is generally straightforward based on ownership of the majority of the voting rights. Holding more than 50% of an entity's voting rights typically indicates that the Group has control over the entity. Significant judgement is involved where either the Group is deemed to control an entity despite holding less than 50% of the voting rights, or where the Group does not control an entity despite holding more than 50% of the voting rights. On 1 November 2019, the Group announced the implementation of a joint cooperation agreement (JCA) which resulted in the full economic interests associated with CommInsure Life being transferred to AIA and AIA obtaining direct management and control of the business (excluding in relation to the Group's 37.5% equity interest in BoCommLife). As a result, CommInsure Life (excluding BoCommLife) was deconsolidated and derecognised on 1 November 2019, even though the Group remains the sole shareholder.

Agent or principal

The Group is deemed to have power over an investment fund when it holds either the responsible entity (RE) and/or the manager function of that fund. Whether that power translates to control depends on whether the Group is deemed to act as an agent or a principal of that fund. Management have determined that the Group acts as a principal and controls a fund when it cannot be easily removed as a manager or RE by investors and when its economic interest in that fund is substantial compared to the economic interest of other investors. In all other cases the Group acts as agent and does not control the fund.

Significant restrictions

On 2 April 2020, the Reserve Bank of New Zealand announced a freeze on the distribution of dividends by banks in New Zealand due to COVID-19. As a result there is currently a restriction on payment of dividends by ASB Bank Limited, the Group's New Zealand subsidiary. There were no other significant restrictions on the ability to transfer cash or other assets, pay dividends or other capital distributions, provide or repay loans and advances between the entities within the Group. There were also no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group resulting from protective rights of non-controlling interests.

Associates and joint ventures

There were no individually significant investments in associates or joint ventures held by the Group as at 30 June 2020 and 30 June 2019. In addition, there were no significant restrictions on the ability of associates or joint ventures to transfer funds to the Bank or its subsidiaries in the form of cash dividends or to repay loans or advances made.

The Group's investments in associates and joint ventures are shown in the table below.

	Group [1]						
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 Ownership interest %	30 Jun 19 Ownership interest %	Principal activities	Country of incorporation	Balance date
Bank of Hangzhou Co., Ltd	**1,812**	1,816	**16**	18	Commercial banking	China	31-Dec
Qilu Bank Co., Ltd	**760**	771	**18**	18	Commercial banking	China	31-Dec
Vietnam International Commercial Joint Stock Bank	**294**	242	**20**	20	Commercial banking	Vietnam	31-Dec
Other	**168**	172	**Various**	Various	Various	Various	Various
Carrying amount of investments in associates and joint ventures	**3,034**	3,001					

Share of associates' and joint ventures profits [1]	Group 30 Jun 20 $M	Group 30 Jun 19 $M
Operating profits before income tax	**437**	315
Income tax expense	**(55)**	(27)
Operating profits after income tax [2]	**382**	288

1 Excludes information concerning associates and joint ventures classified as held for sale.
2 This amount is recognised net of impairment in the share of profits of associates and joint ventures within Other banking income.

11.1 Investments in subsidiaries and other entities (continued)

Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. Depending on the Group's power over the activities of the entity and its exposure to and ability to influence its own returns, it may consolidate the entity. In other cases it may sponsor or have exposure to such an entity but not consolidate it.

Consolidated structured entities

The Group has the following contractual arrangements which require it to provide financial support to its structured entities.

Securitisation structured entities

The Group provides liquidity facilities to Medallion, Medallion NZ and Swan structured entities. The liquidity facilities can only be drawn to cover cash flow shortages relating to mismatches in timing of cash inflows due from securitised asset pools and cash outflows due to note holders. These 'timing mismatch' facilities rank pari passu with other senior secured creditors. The facilities limit is $1,647 million (2019: $877 million). This includes $1,350 million (30 June 2019: $570 million) in relation to the structured entity where the Bank holds all of the issued instruments.

The Group has no contractual obligations to purchase assets from its securitisation structured entities.

Covered bonds trust

The Group provides funding and support facilities to CBA Covered Bond Trust and ASB Covered Bond Trust (the 'Trusts'). The Trusts are bankruptcy remote SPVs that guarantee any debt obligations owing under the US$30 billion CBA Covered Bond Programme and the EUR7 billion ASB Covered Bond Programme, respectively. The funding facilities allow the Trusts to hold sufficient residential mortgage loans to support the guarantees provided to the Covered Bonds. The Group also provides various swaps to the Trusts to hedge any interest rate and currency mismatches. The Group, either directly or via its wholly owned subsidiaries, Securitisation Advisory Services Pty Limited and Securitisation Management Services Limited, provides various services to the Trusts including servicing and monitoring of the residential mortgages.

Structured asset finance structured entities

The Group has no contractual obligation to provide financial support to any of its structured asset finance structured entities.

During the year ended 30 June 2020, the Bank entered into a debt forgiveness arrangement with two wholly owned structured entities for a total of $4 million (2019: $7 million). The financial impact of the debt forgiveness was fully eliminated on consolidation.

Unconsolidated structured entities

The Group has exposure to various securitisation vehicles via Residential Mortgage-backed Securities (RMBS) and Asset-backed Securities (ABS). The Group may also provide derivatives and other commitments to these vehicles. The Group also has exposure to investment funds and other financing vehicles.

Securitisations

Securitisations involve transferring assets into an entity that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor.

The Group may trade or invest in RMBS and ABS, which are backed by Commercial Properties, Consumer Receivables, Equipment and Auto Finance. The Group may also provide lending, derivatives, liquidity and commitments to these securitisation entities.

Other financing

Asset-backed entities are used to provide tailored lending for the purchase or lease of assets transferred by the Group or its clients. The assets are normally pledged as collateral to the lenders. The Group engages in raising finance for assets such as aircraft, trains, vessels and other infrastructure. The Group may also provide lending, derivatives, liquidity and commitments to these entities.

Investment funds

The Group conducts investment management and other fiduciary activities as responsible entity, trustee, custodian, advisor or manager for investment funds and trusts, including superannuation and approved deposit funds, wholesale and retail trusts. The Group's exposure to investment funds includes holding units in the investment funds and trusts, providing lending facilities, derivatives and receiving fees for services.

The nature and extent of the Group's interests in these entities are summarised below. Interests do not include derivatives and other positions where the Group creates rather than absorbs variability of the structured entity, for example deposits. These have been excluded from the tables on pages 255-256.

11.1 Investments in subsidiaries and other entities (continued)

	30 Jun 20				
Exposures to unconsolidated structured entities	**RMBS $M**	**ABS $M**	**Other financing $M**	**Investment funds $M**	**Total $M**
Investment securities	5,752	287	–	–	**6,039**
Loans, bills discounted and other receivables	5,346	1,494	4,857	6,082	**17,779**
Assets held for sale	–	–	–	354	**354**
Total on Balance Sheet exposures	**11,098**	**1,781**	**4,857**	**6,436**	**24,172**
Total notional amounts of off Balance Sheet exposures [1]	1,721	1,331	490	6,191	**9,733**
Total maximum exposure to loss	**12,819**	**3,112**	**5,347**	**12,627**	**33,905**
Total assets of the entities [2]	**56,406**	**8,585**	**15,660**	**161,658**	**242,309**

1 Relates to undrawn facilities.
2 Size of the entities is generally the total assets of the entities, except for Real Estate Investment Trusts where the size is based on the Group's credit exposure of $10,414 million.

	30 Jun 19				
Exposures to unconsolidated structured entities	**RMBS $M**	**ABS $M**	**Other financing $M**	**Investment funds $M**	**Total $M**
Assets at fair value through Income Statement – trading	–	–	–	242	**242**
Available-for-sale investments	7,619	476	–	–	**8,095**
Loans, bills discounted and other receivables	1,977	1,602	5,454	7,367	**16,400**
Assets held for sale	–	–	–	1,108	**1,108**
Total on Balance Sheet exposures	**9,596**	**2,078**	**5,454**	**8,717**	**25,845**
Total notional amounts of off Balance Sheet exposures [1]	2,761	729	539	4,302	**8,331**
Total maximum exposure to loss	**12,357**	**2,807**	**5,993**	**13,019**	**34,176**
Total assets of the entities [2]	**55,508**	**9,523**	**17,542**	**329,237**	**411,810**

1 Relates to undrawn facilities.
2 Size of the entities is generally the total assets of the entities, except for Real Estate Investment Trusts where the size is based on the Group's credit exposure of $9,073 million.

The Group's exposure to loss depends on the level of subordination of the interest, which indicates the extent to which other parties are obliged to absorb credit losses before the Group. An overview of the Group's interests, relative ranking and external credit rating, for vehicles that have credit subordination in place, is summarised in the table below, and include securitisation vehicles and other financing.

	30 Jun 20			
Ranking and credit rating of exposures to unconsolidated structured entities	**RMBS $M**	**ABS $M**	**Other financing $M**	**Total $M**
Senior [1]	12,720	3,112	5,347	**21,179**
Mezzanine [2]	99	–	–	**99**
Total maximum exposure to loss	12,819	3,112	5,347	**21,278**

1 All ABS and RMBS exposures and $2,911 million of other financing exposures are rated investment grade. $2,436 million of other financing exposures are sub-investment grade.
2 All RMBS exposures are rated investment grade.

Notes to the financial statements

For the year ended 30 June 2020

11.1 Investments in subsidiaries and other entities (continued)

Ranking and credit rating of exposures to unconsolidated structured entities	30 Jun 19 RMBS $M	ABS $M	Other financing $M	Total $M
Senior [1]	12,269	2,807	5,993	**21,069**
Mezzanine [2]	88	–	–	**88**
Total maximum exposure to loss	12,357	2,807	5,993	**21,157**

1 All ABS and RMBS exposures and $3,901 million of other financing exposures are rated investment grade. $2,092 million of other financing exposures are sub-investment grade.

2 All RMBS exposures are rated investment grade.

Sponsored unconsolidated structured entities

For the purposes of this disclosure, the Group sponsors an entity when it manages or advises the entity's program, places securities into the market on behalf of the entity, provides liquidity and/or credit enhancements to the entity, or the Group's name appears in the Structured Entity.

As at 30 June 2020, the Group has not sponsored any unconsolidated structured entities.

ACCOUNTING POLICIES

Subsidiaries

The consolidated financial report comprises the financial report of the Bank and its subsidiaries. Subsidiaries are entities (including structured entities) over which the Bank has control. The Bank controls an entity when it has:

- power over the relevant activities of the entity, for example through voting or other rights;
- exposure to, or rights to, variable returns from the Bank's involvement with the entity; and
- the ability to use its power over the entity to affect the Bank's returns from the entity.

Consolidation of structured entities

The Group exercises judgement at inception and periodically thereafter, to assess whether that structured entity should be consolidated based on the Bank's power over the relevant activities of the entity and the significance of its exposure to variable returns of the structured entity. Such assessments are predominately required for the Group's securitisation program, structured transactions and involvement with investment funds.

Transactions between subsidiaries in the Group are eliminated. Non-controlling interests and the related share of profits in subsidiaries are shown separately in the consolidated Income Statement, Statement of Comprehensive Income, Statement of Cash Flows, and Balance Sheet. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated when control ceases. Subsidiaries are accounted for at cost less accumulated impairments at the Bank level.

Business combinations

Business combinations are accounted for using the acquisition method. At the acquisition date, the cost of the business is the fair value of the purchase consideration, measured as the aggregate of the fair values of assets transferred, equity instruments issued, or liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. Goodwill represents the excess of the fair value of the purchase consideration over the fair value of the Group's share of assets acquired and liabilities and contingent liabilities assumed on the date of acquisition. If there is a deficit instead, this discount on acquisition is recognised directly in the consolidated Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Investments in associates and joint ventures

Associates and joint ventures are entities over which the Group has significant influence or joint control, but not control. In the consolidated financial report, they are equity accounted. They are initially recorded at cost and adjusted for the Group's share of the associates' and joint ventures' post-acquisition profits or losses and Other Comprehensive Income (OCI), less any dividends received. At the Bank level, they are accounted for at cost less accumulated impairments.

The Group assesses, at each Balance Sheet date, whether there is any objective evidence of impairment. If there is an indication that an investment may be impaired, then the entire carrying amount of the investment in associate or joint venture is tested for impairment by comparing the recoverable amount (higher of value in use and fair value less disposal costs) with the carrying amount. Impairment losses recognised in the Income Statement are subsequently reversed through the Income Statement if there has been a change in the estimates used to determine recoverable amount since the impairment loss was recognised.

Notes to the financial statements

For the year ended 30 June 2020

11.2 Related party disclosures

Banking transactions are entered into with related parties in the normal course of business on an arm's length basis. These include loans, deposits and foreign currency transactions, upon which some fees and commissions may be earned. Details of amounts paid or received from related parties, in the form of interest or dividends, are set out in Notes 2.1 and 2.3.

The Bank's aggregate investments in, and loans to controlled entities are disclosed in the table below. Amounts due to controlled entities are disclosed in the Balance Sheet of the Bank.

	Bank [1] 30 Jun 20 $M	30 Jun 19 $M
Shares in controlled entities	**9,212**	10,728
Loans to controlled entities at amortised cost	**56,485**	52,385
Loans to controlled entities at fair value through Income Statement	**1,095**	830
Total shares in and loans to controlled entities	**66,792**	63,943

1 Comparative information has been restated to conform to presentation in the current year.

As at 30 June 2020, loans to controlled entities in the table above are presented net of $1 million provisions for impairment (30 June 2019: $21 million).

During the year ended 30 June 2020, the Group received fees on an arm's length basis of $5 million from funds that were included in Assets held for sale (30 June 2019: $61 million).

The Bank provides letters of comfort to other entities within the Group on standard terms. Guarantees include a $175 million (30 June 2019: $175 million) guarantee to AFS license holders in respect of excess compensation claims.

As at 30 June 2020, the Bank entered into reimbursement arrangements, presently totalling $488 million (30 June 2019: $252 million), with its subsidiaries, Avanteos Investments Limited, Financial Wisdom Limited and Commonwealth Financial Planning Limited (for the Pathways business (CFP-Pathways)), to cover potential remediation of ongoing service failures to customers, deceased estates, and inappropriate advice and other matters. This amount includes $464 million for Aligned Advice remediation and $24 million for other wealth remediation programs (30 June 2019: $234 million for Aligned Advice remediation and $18 million for other wealth remediation programs). The Group and the Bank have provided for these costs. As at 30 June 2019, the Bank also had a reimbursement arrangement with Count Financial, totalling $144 million, to cover potential remediation of ongoing service failures to customers, deceased estates, and inappropriate advice and other matters. The sale of Count completed on 1 October 2019, and therefore the reimbursement arrangement ceased at that time, and was replaced with an Indemnity Deed between the Bank, Count Financial and CountPlus with a $200 million limit effective from the time of the sale. This limit was increased to $300 million on 29 July 2020.

The Bank is the head entity of the tax consolidated group and has entered into tax funding and tax sharing agreements with its eligible Australian resident subsidiaries. The details of these agreements are set out in Note 2.5. The amount receivable by the Bank under the tax funding agreement with the tax consolidated entities is $209 million as at 30 June 2020 (30 June 2019: $320 million receivable). This balance is included in 'Other assets' in the Bank's separate Balance Sheet.

All transactions between Group entities are eliminated on consolidation.

ACCOUNTING POLICIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or a separate party controls both. The definition includes subsidiaries, associates, joint ventures, pension plans as well as other persons.

Notes to the financial statements

For the year ended 30 June 2020

11.3 Discontinued operations

Completed transactions

Life insurance business in New Zealand

On 21 September 2017, the Group announced the sale of 100% of its New Zealand life insurance business (Sovereign) to AIA Group Limited (AIA) for $1.3 billion. The sale agreement includes a long-term partnership with AIA for the provision of life insurance products to customers in New Zealand. The sale of Sovereign completed on 2 July 2018, resulting in a total post-tax gain of $117 million (net of transaction and separation costs). This includes $135 million post-tax gain net of transaction and separation costs recognised during the year ended 30 June 2019, and $18 million post-tax transaction and separation costs recognised during the year ended 30 June 2018.

TymeDigital SA

On 1 November 2018, the Group completed the sale of Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital SA) to the minority shareholder, African Rainbow Capital, resulting in a total post-tax loss of $113 million.

Colonial First State Global Asset Management

On 31 October 2018, the Group announced the sale of Colonial First State Global Asset Management (CFSGAM) to Mitsubishi UFJ Trust and Banking Corporation (MUTB). The sale of CFSGAM completed on 2 August 2019, resulting in a total post-tax gain of $1,617 million (net of transaction and separation costs). This includes a $1,688 million post-tax gain net of transaction and separation costs recognised during the half year ended 31 December 2019, and $71 million post-tax transaction and separation costs recognised during the year ended 30 June 2019.

Count Financial

On 13 June 2019, the Group announced the sale of its 100% interest in Count Financial Limited (Count Financial) to CountPlus Limited (CountPlus) for $2.5 million. The sale completed on 1 October 2019, resulting in a post-tax gain of $19 million (net of transaction and separation costs). This includes a post-tax gain of $52 million (net of transaction and separation costs) recognised during the half year ended 31 December 2019, and post-tax impairment losses of $26 million and post-tax transaction and separation costs of $7 million recognised during the half year ended 30 June 2019. Upon completion, the Group provided an indemnity to CountPlus capped at $200 million, which was increased to $300m on 29 July 2020. Refer to Note 7.1 for further information. As Count Financial did not constitute a major line of the Group's business, it was not classified as a discontinued operation.

PT Commonwealth Life

On 23 October 2018, the Group announced the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL), to FWD Group (FWD). The sale of PTCL completed on 4 June 2020, resulting in a total post-tax gain of $109 million (net of transaction costs). As part of the sale, CBA's Indonesian banking subsidiary, PT Bank Commonwealth (PTBC), has entered into a 15 year life insurance distribution partnership with FWD.

Aligned Advice

On 7 August 2019, CBA confirmed it would commence the assisted closure of Financial Wisdom Limited (Financial Wisdom) and allow Commonwealth Financial Planning Limited-Pathways (CFP-Pathways) advisers to transition to a self-licensing arrangement or move to another licensee. The Group ceased providing licensee services through CFP-Pathways in March 2020 and through Financial Wisdom in June 2020. As Financial Wisdom and CFP-Pathways did not constitute a major line of the Group's business, they were not classified as discontinued operations.

Notes to the financial statements

For the year ended 30 June 2020

11.3 Discontinued operations (continued)

Ongoing transactions

Australian Investment Exchange

On 28 April 2020, the Group announced the sale of its subsidiary, Australian Investment Exchange Limited (AUSIEX), to Nomura Research Institute (NRI). AUSIEX trades under the brand name CommSec Advisor Services. On completion, the Group is expected to receive proceeds of approximately $85 million, subject to completion adjustments. The sale is subject to Australian regulatory approvals and other conditions, and is expected to complete in the first half of calendar year 2021. As AUSIEX did not constitute a major line of the Group's business, it was not classified as a discontinued operation.

Colonial First State

On 13 May 2020, the Group entered into an agreement to sell a 55% interest in Colonial First State (CFS) to KKR. On completion, the Group is expected to receive proceeds of approximately $1.7 billion, subject to completion adjustments. The sale is subject to Australian regulatory approvals, and is expected to complete in the first half of calendar year 2021.

Life insurance business in Australia and BoCommLife

On 21 September 2017, the Group entered into an agreement to sell 100% of its life insurance businesses in Australia (CommInsure Life) and New Zealand (Sovereign) to AIA Group Limited (AIA). On 23 May 2018, the Group announced the sale of its 37.5% equity interest in BoCommLife Insurance Company Limited (BoCommLife) to MS&AD Insurance Group Holdings (MS&AD) [1], which is subject to Chinese regulatory approvals. The sale is expected to be completed in the second half of calendar year 2020.

On 1 November 2019, the Group announced the implementation of a joint cooperation agreement (JCA) which resulted in the full economic interests associated with CommInsure Life being transferred to AIA and AIA obtaining direct management and control of the business (excluding the Group's 37.5% equity interest in BoCommLife). As a result, CommInsure Life (excluding BoCommLife) was deconsolidated and derecognised on 1 November 2019.

The Group and AIA remain fully committed to completing the divestment of CommInsure Life through either a share sale or a statutory asset transfer. In the event of a share sale, the divestment is expected to complete shortly following the completion of the sale of the Group's 37.5% equity interest in BoCommLife. In the event of a statutory asset transfer, the divestment is expected to complete in the first half of calendar year 2021.

The aggregate proceeds, which will be received in instalments under the JCA, are $2,375 million, before completion account adjustments, and includes four partnership milestone payments of $50 million each. The Group recognised a total post-tax loss of $316 million on the deconsolidation and planned divestment of CommInsure Life. This includes a $116 million post-tax loss on deconsolidation, net of transaction and separation costs recognised during the half year ended 31 December 2019. Post-tax transaction and separation costs of $82 million and $118 million were recognised during the years ended 30 June 2019 and 30 June 2018, respectively. As at 30 June 2020, the Group has received total proceeds of $1,608 million, including partnership milestone payments of $100 million.

1 MS&AD Insurance Group Holdings is the ultimate parent company of Mitsui Sumitomo Insurance Co. Ltd.

Notes to the financial statements
For the year ended 30 June 2020

11.3 Discontinued operations (continued)

Financial impact of discontinued operations on the Group

The performance and net cash flows of the Group's interests in CFS, CommInsure Life, BoCommLife, PTCL and CFSGAM are set out in the tables below. Comparative periods also include the performance and net cash flows of Sovereign and TymeDigital SA.

	Full year ended [1]		
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M
Net interest income	**6**	6	–
Other banking income	**41**	20	21
Net banking operating income	**47**	26	21
Funds management income	**999**	2,056	2,124
Investment revenue	**141**	391	503
Claims, policyholder liability and commission expense	**(265)**	(670)	(723)
Net funds management operating income	**875**	1,777	1,904
Premiums from insurance contracts	**459**	1,256	2,066
Investment revenue	**81**	539	367
Claims, policyholder liability and commission expense from insurance contracts	**(451)**	(1,503)	(1,702)
Net insurance operating income	**89**	292	731
Total net operating income before operating expenses	**1,011**	2,095	2,656
Operating expenses	**(774)**	(1,383)	(1,452)
Net profit before income tax	**237**	712	1,204
Income tax expense	**(67)**	(164)	(313)
Policyholder tax	**(14)**	(50)	(58)
Net profit after income tax and before transaction and separation costs	**156**	498	833
Gains/(losses) on disposals of businesses net of transaction and separation costs [2]	**2,022**	(9)	(227)
Non-controlling interests	**(3)**	(7)	(6)
Net profit after income tax from discontinued operations attributable to equity holders of the Bank	**2,175**	482	600

1 Comparative information has been restated to conform to presentation in the current year.
2 This includes post-completion and tax adjustments, interest earned on transaction proceeds, and additional transaction and separation costs.

Notes to the financial statements
For the year ended 30 June 2020

11.3 Discontinued operations (continued)

Earnings per share for profit from discontinued operations attributable to equity holders of the parent:

	Full year ended [1]		
	30 Jun 20	30 Jun 19	30 Jun 18
	Cents per Share		
Earnings per share from discontinued operations:			
Basic	**123. 0**	27. 3	34. 3
Diluted	**114. 7**	25. 4	32. 2

1 Comparative information has been restated to reflect the reclassification of CFS as a discontinued operation.

Cash flow statement

	Full year ended [1, 2]		
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M
Net cash used in operating activities	**(553)**	(224)	(181)
Net cash from investing activities	**942**	841	1,019
Net cash used in financing activities	**(236)**	(519)	(924)
Net cash inflows/(outflows) from discontinued operations	**153**	98	(86)

1 Comparative information has been restated to conform to presentation in the current year.
2 Represents cash flows from the underlying businesses classified as discontinued operations and excludes proceeds from disposals.

Balance Sheet

The Balance Sheet of the Group's interest in CFS, BoCommLife and Ausiex are set out in the table below. Comparative period includes assets and liabilities of CFSGAM, CommInsure Life, PTCL, Count Financial and the Group's interest in BoCommLife. Count Financial met the held for sale criteria as at 30 June 2019 but has not been reclassified as a discontinued operation.

	As at	
Assets held for sale	30 Jun 20 $M	30 Jun 19 $M
Cash and liquid assets	**44**	354
Assets at fair value through Income Statement	**260**	10,417
Investment securities at fair value through Other Comprehensive Income	**–**	260
Intangible assets	**705**	2,049
Property, plant and equipment	**1**	1,510
Investment in associates and joint ventures	**403**	607
Deferred tax assets	**41**	145
Other assets	**313**	1,207
Total assets	**1,767**	16,549
Liabilities held for sale		
Insurance policy liabilities	**–**	10,854
Deferred tax liabilities	**–**	404
Deposits and other public borrowings	**–**	1,268
Managed funds units on issue	**11**	2,197
Other liabilities	**583**	1,073
Total liabilities	**594**	15,796

As at 30 June 2020, the Foreign currency translation reserve relating to discontinued operations was a $2 million gain (30 June 2019: $50 million gain); the Investment securities revaluation reserve relating to discontinued operations was a $35 million loss (30 June 2019: $27 million loss).

12. Other

OVERVIEW

This section includes other information about the Group's operations that is disclosed to provide a more complete view of our business. It includes customer related commitments and contingent liabilities that arise in the ordinary course of business through certain lending arrangements. In addition, it covers the impact of adopting new accounting standards, notes to the Statement of Cash Flows and remuneration of auditors. Finally, details of events that have taken place subsequent to the Balance Sheet date are provided.

12.1 Contingent liabilities, contingent assets and commitments arising from the banking business

Details of contingent liabilities and off Balance Sheet instruments are presented below and in Note 7.1, in relation to litigation, investigations and reviews. The face (contract) value, as disclosed below, represents the maximum amount that could be lost if the counterparty fails to meet its financial obligations. The credit equivalent amounts are a measure of potential loss to the Group in the event of non-performance by the counterparty. The credit commitments shown in the table below also constitute contingent assets. These commitments would be classified as loans and other assets in the Balance Sheet should they be drawn upon by the customer.

	Group			
	Face value		Credit equivalent	
Credit risk related instruments	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Guarantees	**6,448**	6,506	**5,034**	5,387
Documentary letters of credit	**272**	326	**210**	322
Performance related contingents	**5,071**	4,722	**2,535**	2,362
Commitments to provide credit	**168,537**	162,202	**159,761**	154,408
Other commitments	**2,015**	2,050	**2,005**	2,040
Total credit risk related instruments	**182,343**	175,806	**169,545**	164,519

	Bank			
	Face value		Credit equivalent	
Credit risk related instruments	30 Jun 20 $M	30 Jun 19 $M	30 Jun 20 $M	30 Jun 19 $M
Guarantees	**5,974**	6,026	**4,560**	4,907
Documentary letters of credit	**214**	249	**154**	248
Performance related contingents	**5,071**	4,722	**2,535**	2,362
Commitments to provide credit	**152,725**	146,483	**145,247**	140,035
Other commitments	**1,940**	1,973	**1,929**	1,963
Total credit risk related instruments	**165,924**	159,453	**154,425**	149,515

ACCOUNTING POLICIES

Credit default financial guarantees are unconditional undertakings given to support the obligations of a customer to third parties. Other forms of financial guarantees include documentary letters of credit which are undertakings by the Group to pay or accept drafts drawn by a supplier of goods against presentation of documents in the event of payment default by a customer. Financial guarantees are recognised within other liabilities and are initially measured at their fair value, equal to the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Income Statement, and the expected credit loss recognised under AASB 9. Any increase in the liability relating to financial guarantees is recorded in the Income Statement. The premium received is recognised in the Income Statement in other operating income on a straight-line basis over the life of the guarantee.

Performance related contingencies are undertakings that oblige the Group to pay third parties should a customer fail to fulfil a contractual non-monetary obligation. Performance related contingencies are performance guarantees and do not meet the definition of a financial guarantee, because they do not transfer credit risk. Performance guarantees are recognised when it is probable that an obligation has arisen. The amount of any provision is the best estimate of the amount required to fulfil the obligation.

Commitments to provide credit include all obligations on the part of the Group to provide credit facilities (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Group subject to notice conditions. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Under AASB 9 loan commitments must be measured with reference to the quantum of expected credit losses required to be recognised. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Group together with the drawn component as a single credit exposure. The exposure at default on the entire facility is therefore used to calculate the cumulative expected credit losses. Upon a loan drawdown by the counterparty, the amount of the loan is accounted for in accordance with accounting policies for loans and receivables.

Other commitments to provide credit include commitments with certain drawdowns, standby letters of credit and bill endorsements. The details of the Group's accounting policies and critical judgements and estimates involved in calculating the AASB 9 impairment provisions for the year ended 30 June 2020 are provided in Note 3.2.

12.2 Notes for the Statements of Cash Flows

(a) Reconciliation of net profit after income tax to net cash provided by/(used in) operating activities

	Group			Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Net profit after income tax [1]	**9,637**	8,590	9,348	**10,168**	7,783
Decrease/(increase) in interest receivable	**523**	(36)	(62)	**548**	537
(Decrease)/increase in interest payable	**(984)**	(69)	112	**(872)**	(104)
Net (increase)/decrease in assets at fair value through Income Statement (excluding life insurance)	**(13,687)**	(4,935)	1,536	**(13,551)**	(3,089)
Net (gain)/loss on sale of controlled entities and associates	**(2,092)**	61	184	**(24)**	236
Net movement in derivative assets/liabilities	**6,672**	6,606	3,381	**8,453**	8,873
Net (gain)/loss on sale of property, plant and equipment	**(32)**	9	17	**(11)**	11
Equity accounting (profit)/loss	**(142)**	(231)	(287)	**(49)**	63
Loan impairment expense	**2,518**	1,201	1,079	**2,155**	1,058
Depreciation and amortisation (including asset write downs)	**1,861**	1,011	968	**1,748**	912
(Decrease)/increase in liabilities at fair value through Income Statement (excluding life insurance)	**(4,123)**	(603)	(258)	**(4,072)**	(1,013)
Increase in other provisions	**522**	783	156	**359**	722
Increase/(decrease) in income taxes payable	**679**	(1,082)	(461)	**202**	(1,573)
Increase/(decrease) in deferred tax liabilities	**374**	(457)	400	**30**	(27)
(Increase)/decrease in deferred tax assets	**(280)**	67	(538)	**(398)**	(140)
Decrease/(Increase) in accrued fees/reimbursements receivable	**276**	(111)	20	**42**	(53)
(Decrease)/increase in accrued fees and other items payable	**(711)**	(340)	631	**(254)**	(775)
Decrease in life insurance contract policy liabilities	**(905)**	(787)	(836)	**–**	–
Cash flow hedge ineffectiveness	**9**	(4)	(4)	**11**	(6)
Loss/(gain) on changes in fair value of hedged items	**14**	558	(765)	**82**	(624)
Dividend received – controlled entities and associates	**–**	–	–	**(4,809)**	(1,473)
Changes in operating assets and liabilities arising from cash flow movements	**36,630**	6,577	(15,461)	**31,179**	7,157
Other	**2,101**	1,278	1,949	**2,143**	635
Net cash provided by operating activities	**38,860**	18,086	1,109	**33,080**	19,110

1 Includes non-controlling interest.

(b) Reconciliation of cash

For the purposes of the Statements of Cash Flows, cash includes cash and money at short call.

	Group			Bank	
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M	30 Jun 20 $M	30 Jun 19 $M
Notes, coins and cash at banks	**27,350**	16,930	17,110	**24,195**	15,633
Other short-term liquid assets	**1**	80	5,895	**(185)**	(99)
Cash and cash equivalents at end of year	**27,351**	17,010	23,005	**24,010**	15,534

(c) Non-cash financing and investing activities

	Group		
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M
Shares issued under the Dividend Reinvestment Plan	**–**	748	2,105

(d) Disposal of controlled entities

	Group		
	30 Jun 20 $M	30 Jun 19 $M	30 Jun 18 $M
Net assets	**3,686**	1,128	–
Cash consideration received	**5,946**	1,304	–
Cash and cash equivalents held in disposed entities	**935**	45	–

12.3 Remuneration of auditors

During the financial year, the following fees were paid or payable for services provided by the auditor of the Group and the Bank, and its network firms:

	Group [1]		Bank [1]	
	30 Jun 20 $'000	30 Jun 19 $'000	30 Jun 20 $'000	30 Jun 19 $'000
Audit and review services				
Audit and review of financial statements – Group	**20,499**	17,089	**20,454**	12,294
Audit and review of financial statements – controlled entities	**4,182**	6,782	**2,029**	1,768
Total remuneration for audit and review services	**24,681**	23,871	**22,483**	14,062
Other statutory assurance services	**3,323**	2,771	**3,138**	2,252
Other assurance services	**6,530**	8,056	**4,924**	4,330
Total remuneration for assurance services	**9,853**	10,827	**8,062**	6,582
Total remuneration for audit, review and assurance services	**34,534**	34,698	**30,545**	20,644
Other non-audit services				
Taxation advice and tax compliance services	**424**	1,395	**167**	494
Other services	**5,351**	7,915	**5,103**	7,318
Total remuneration for other non-audit services	**5,775**	9,310	**5,270**	7,812
Total remuneration for audit, review, assurance and other services [2]	**40,309**	44,008	**35,815**	28,456

1 Comparative information has been restated to conform to presentation in the current year.
2 An additional amount of $8,132,121 (2019: $10,497,464) was paid to PricewaterhouseCoopers by way of fees for entities not consolidated into the financial statements. Of this amount, $7,067,650 (2019: $7,521,734) relates to audit, review and assurance services.

The Audit Committee has considered the non-audit services provided by PricewaterhouseCoopers and is satisfied that the services and the level of fees are compatible with maintaining auditors' independence. All such services were approved by the Audit Committee in accordance with pre-approved policies and procedures.

Other statutory assurance services relate to engagements required under prudential standards and other legislative or regulatory requirements. Other assurance services principally include assurance and attestation relating to sustainability reporting and comfort letters over financing programmes as well as reviews of internal control systems.

Taxation services include assistance with tax software configuration as well as advice regarding tax returns and submissions, and Australia/foreign tax legislation.

Other services include benchmarking and process reviews on the Bank's enterprise-wide risk assessment process and response to findings from the Royal Commission, and IT security assessments.

12.4 Future accounting developments

Adoption of new accounting standards and future accounting developments

Interest rate benchmark reform

Background

Interbank Offered Rates (IBORs), such as the London Interbank Offered Rate (LIBOR), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments. The Financial Stability Board's (FSB) Official Sector Steering Group (OSSG) coordinates international efforts on benchmark reform and the transition from LIBOR, whose future cannot be guaranteed past 1 January 2022. Market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates (RFRs), which are gradually being adopted.

Existing LIBOR-linked contracts for derivatives, loans, investment and trading securities, debt issues and deposits and other public borrowings that mature beyond the end of 2021 are generally expected to transition to RFRs. Industry working groups are currently working with authorities and consulting with market participants to develop market practices that can be used to transition contracts. However, there are fundamental differences between LIBORs and RFRs. RFRs are overnight rates, while LIBORs are available in multiple tenors. Additionally, LIBORs incorporate a bank credit risk premium while RFRs do not. As a result of these differences, both term and spread adjustments to the applicable fall-back RFRs are required to ensure that contracts referencing LIBOR will continue to function as closely as possible to the original agreement, once the reference rate is changed.

Accounting amendments and the impact on financial reporting

In response to the uncertainty about the long-term viability of these benchmark rates, and LIBOR in particular, the IASB announced in 2018 that it would establish a project to consider the financial reporting implications of the reform. The transition from LIBOR is expected to have an impact on various elements of financial instrument accounting, including hedge accounting, loan modifications, as well as fair value methodologies and disclosures.

In October 2019, the AASB issued AASB 2019–3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, which amends some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the interest rate benchmark reform. These amendments address the accounting effects of uncertainty in the period leading up to the reform and are effective for annual periods beginning on or after 1 January 2020. The Group elected to early adopt the amendments, which did not have a significant impact on the Group.

In April 2020, the IASB published an exposure draft on proposed amendments to various accounting standards, including IFRS 9 *Financial Instruments*, to address the accounting issues that will arise once the existing rate is replaced with alternative RFRs. The proposed amendments contain guidance on a number of matters including:

- the accounting for the modification of financial assets and financial liabilities required for transition;
- hedge accounting post-transition;
- additional quantitative and qualitative disclosure requirements.

The final amendments are expected to be published during the second half of calendar year 2020. The Group is monitoring these developments and continues to assess the expected impact.

Note 5.4 provides further information about hedging relationships which are impacted by IBOR reform.

IBOR reform program

In October 2018, the Group formed the Interest Rate Benchmark Reform Program (the Program). The Program includes a formal governance structure to ensure clear accountability for all decisions, and incorporates the requisite risk, treasury, finance, legal, business, and support functions. The Program will ensure that customer outcomes are appropriate and will seek to minimise any disruption to business, and mitigate operational and conduct risks. The Group expects that transition will require the implementation of changes to systems, processes, and valuation models, as well as the management of tax and accounting outcomes. The Group will continue to monitor the impact on its capital position but expects the impact to be limited.

Future accounting developments

AASB 17 *Insurance Contracts*, amends the accounting for insurance contracts and will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 17 will apply to the Group from 1 July 2023. The impact of AASB 17 is dependent on the Group's composition at the time of adoption. The Group is still assessing the impact of AASB 17.

AASB 3 *Business Combinations* has been amended to assist entities in determining whether a transaction in which activities and assets are acquired should be accounted for as a business combination or as an asset acquisition. The amendments will be applicable to business combinations for which the acquisition date is on or after 1 July 2020.

AASB 101 *Presentation of financial statements* has been amended to clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period, and such right has substance. The amendments also clarify that settlement of a liability refers to a transfer to the counterparty that results in the extinguishment of the liability. The amendments are effective for the Group from 1 July 2022.

Other amendments that are not yet effective are not expected to result in significant changes to the Group's accounting policies.

12.5 Accounting policies applicable for comparative periods

The Group adopted AASB 16 *Leases* on 1 July 2019, replacing AASB 117 *Leases*. The Group's current accounting policies for the recognition and measurement of lessee accounting are detailed in Notes 2.1, 2.4, 6.1, 7.1 and 7.2. Lessor accounting remains largely unchanged from the previous standard. A summary of accounting policies that applied to lessee accounting under AASB 117 *Leases* for the comparative periods is provided below.

Operating leases

Operating leases are those where substantially all of the risks and rewards of the lease asset remain with the lessor. Operating lease rental is recognised on a straight-line basis over the lease term within Operating expenses in the Income Statement.

Finance leases

Finance leases are those where substantially all of the risks and rewards of the lease asset have been transferred to the lessee. A lease asset and a finance lease liability is recognised on the Balance Sheet, representing the minimum lease payments discounted at the rate of interest implicit in the lease. Finance lease expense reflects a constant periodic return and is recognised within Interest expense in the Income Statement.

The Group does not enter into material finance lease transactions as a lessee.

The following lease commitments information was included in the Financial Report for the year ended 30 June 2019 and does not reflect the adoption of AASB 16 *Leases* on 1 July 2019.

	Group	Bank
	30 Jun 19	30 Jun 19
	$M	$M
Lease commitments – property, plant and equipment		
Due within one year	673	626
Due after one year but not later than five years	1,805	1,668
Due after five years	1,600	1,466
Total lease commitments – property, plant and equipment	**4,078**	**3,760**

Lease arrangements

Operating leases are entered into to meet the business needs of entities in the Group. Leases are primarily over commercial and retail premises and plant and equipment.

Lease rentals are determined in accordance with market conditions when leases are entered into or on rental review dates. The total expected future sublease payments to be received are $77 million as at 30 June 2019.

12.6 Subsequent events

Dividend Reinvestment Plan (DRP)

The Bank expects the DRP for the final dividend for the year ended 30 June 2020 will be satisfied by the issuance of shares of approximately $260 million.

Directors' declaration

The Directors of the Commonwealth Bank of Australia declare that in their opinion:

a) the consolidated financial statements and notes for the year ended 30 June 2020, as set out on pages 106 to 267, are in accordance with the *Corporations Act 2001* (Cth), including:

   (i) complying with the Australian Accounting Standards and any further requirements in the *Corporations Regulations 2001*; and

   (ii) giving a true and fair view of the Group's financial position as at 30 June 2020 and its performance for the year ended 30 June 2020;

b) there are reasonable grounds to believe that the Commonwealth Bank of Australia will be able to pay its debts as and when they become due and payable.

Note 1.1 of the consolidated financial statements includes a statement of compliance with the International Financial Reporting Standards.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* (Cth) for the year ended 30 June 2020.

This declaration is made in accordance with a resolution of the Directors.

C.B. Livingstone

Catherine Livingstone AO
Chairman
12 August 2020

Matt Comyn
Managing Director and Chief Executive Officer
12 August 2020

Independent auditor's report

To the members of the Commonwealth Bank of Australia

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of the Commonwealth Bank of Australia (the Bank) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Bank's and Group's financial positions as at 30 June 2020 and of their financial performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Bank and Group financial report comprises:

- the Bank and the Group balance sheets as at 30 June 2020;
- the Bank and the Group income statements for the year then ended;
- the Bank and the Group statements of comprehensive income for the year then ended;
- the Bank and the Group statements of changes in equity for the year then ended;
- the Bank and the Group statements of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies; and
- the Directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank and the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (including Independence Standards) (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

Bank and Group audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Bank and the Group, their accounting processes and controls and the industries in which they operate. We also ensured that the audit team had the appropriate skills and competencies needed for the audit of a complex financial services group. This included industry expertise in retail, business and institutional banking, and insurance and wealth management financial services, as well as specialists and experts in IT, actuarial, tax, treasury and valuation.

The Group is structured into 5 business segments being Retail Banking Services (RBS), Business and Private Banking (B&PB), Institutional Banking and Markets (IB&M), New Zealand (NZ), and International Financial Services and Corporate Centre (IFS and Corporate Centre).

Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY, NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

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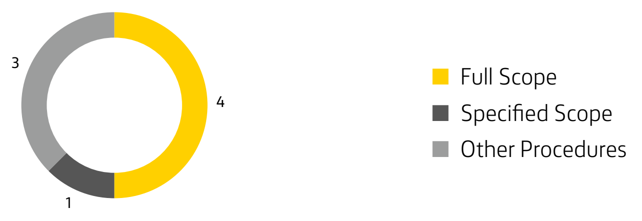
In designing the scope of our audit, we considered the structure of the Bank and the Group and further identified those entities or business activities within each business segment for which the Bank and the Group prepares financial information for inclusion in the financial report (referred to as components).

The nature, timing and extent of audit work performed for each component was determined by the components' risk characteristics and financial significance to the Bank and the Group and consideration of whether sufficient evidence had been obtained for our opinion on the financial report as a whole. This involved either:

- an audit of the complete financial information of a component (full scope);
- an audit of one or more of the component's account balances, classes of transactions or disclosures (specified scope);
- analytical procedures performed at the Group level and/or audit procedures at a Group level, including over the consolidation of the Group's components and the preparation of the financial report (other procedures).

Number of Components by Scope



Set out in the following diagram is a high-level overview of how our audit scope aligns to the identified components and our audit report.

Scoping and Performance of Procedures		Reporting	
Component	**Audit Scope**	**Key Audit Matters**	**Audit opinion**
RBS	Full scope	*Areas in our professional judgement which were of most significance in our audit*	*Opinion on the financial report as a whole*
B&PB	Full scope		
IB&M	Full scope		
NZ – ASB[1]	Full scope		
WM – Colonial First State	Specified scope		
WM – Global Asset Management[2]	Other procedures		
WM – Colonial Mutual Life Assurance[2]	Other procedures		
IFS – Continuing operations	Other procedures		

1 Full scope audit was also performed for the purposes of standalone legal entity statutory financial report for this entity.
2 These entities were disposed of during the year ended 30 June 2020.

Bank and Group materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. Misstatements are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users of the financial report in which those misstatements occur.

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Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank and Group materiality for the financial report, which we have set out in the table below:

Overall Bank and Group materiality	$490 million (2019: $510 million)
How we determined it	Approximately 5% of 2020 financial year profit before tax (PBT) for the Group (2019: approximately 5% of 2019 financial year PBT for the Bank). As the Group has a lower PBT in the year ended 30 June 2020, we calculated materiality based on the Group PBT and applied this during the audit of both the Bank and the Group.
Rationale for the materiality benchmark applied	We chose net profit before income tax because, in our view, it is the metric against which the performance of the Bank and the Group is most commonly measured and is a generally accepted benchmark in the financial services industry. We performed our audit over both the Bank and the Group financial information concurrently. We apply the lower of materiality calculated based on the Bank or the Group PBT in order to avoid duplication of work. We utilised a 5% threshold based on our professional judgement, noting that it is within the range of commonly acceptable thresholds.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current year. We describe each key audit matter and include a summary of the principal audit procedures we performed to address those matters in the table below.

The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters and any commentary on the outcomes of a particular audit procedure is made in that context. We have communicated the key audit matters to the Audit and Risk Committee. The key audit matters identified below relate to both the Bank and the Group audit.

Key audit matter	How our audit addressed the key audit matter
Loan impairment provisions *(Relevant components: RBS, B&PB, IB&M, NZ – ASB)*	
Insofar as it applies to loan impairment provisions, AASB 9 requires an expected credit loss (ECL) impairment model which takes into account forward-looking information reflecting potential future economic events. The Bank and the Group utilise models which are reliant on internal and external data as well as a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk. We considered this a key audit matter due to the inherent estimation uncertainty in this area, namely due to the subjectivity in judgements made by the Bank and the Group in determining when to recognise impairment provisions including: • Models used to calculate ECL (ECL models) are inherently complex and judgement is applied in determining the appropriate construct of each model; and • A number of assumptions are made by the Bank and Group concerning the values of inputs to the ECL models and how inputs correlate with one another.	We developed an understanding of the controls relevant to our audit over the following areas and assessed whether they were appropriately designed and were operating effectively throughout the year on a sample basis: • Review and approval of forward-looking information used in ECL models; • Reliability and accuracy of critical data elements used in ECL models; and • Review and approval of ECL model adjustments and the ECL loan impairment provisions by the Bank's and the Group's Loan Loss Provisioning Committee (LLPC). In addition to controls testing, we along with PwC credit modelling experts and PwC economics experts, performed the following audit procedures, amongst others, on a sample basis: • Assessed the ECL model methodology applied against accepted theory and the results of model monitoring performed, including back-testing of actual losses against predicted losses. This included inspection of key model components and reperformance of certain tests within the Bank's and the Group's model monitoring;

Independent auditor's report

Key audit matter	How our audit addressed the key audit matter

Loan impairment provisions *(Relevant components: RBS, B&PB, IB&M, NZ – ASB)*

Further, the rapidly developing COVID-19 pandemic has meant assumptions regarding economic outlook and the consequent impact on the Bank and Group's customers is uncertain, increasing the degree of judgement required to be exercised in calculating ECL.

Specifically, this includes judgements regarding the impact of COVID-19 on forward looking information, including variables used in macroeconomic scenarios and their associated weightings.

Provisions for impairment of loans that exceed specific monetary thresholds are individually assessed by the Bank and the Group. These provisions are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank and the Group in respect of those loans under multiple weighted scenario outcomes. During the financial year ended 30 June 2020, the majority of the Bank's and the Group's individually assessed provisions for specific lending assets related primarily to business and corporate loans.

Relevant references in the financial report

Refer note 1.1 and 3.2 for further information.

- Considered the Bank's and the Group's key judgements including the reasonableness of forward-looking information incorporated into the ECL models by assessing the forecasts, assumptions and probability weightings with a particular focus on the impact of COVID-19;
- Agreed a sample of data used as inputs to the ECL models to relevant source documentation;
- Compared the modelled outputs to our own calculated expectations as determined by applying the model methodology to the underlying data;
- Assessed the appropriateness of model adjustments identified by the Bank and the Group against internal and external supporting information; and
- Considered the impacts of events occurring subsequent to balance date on the ECL.

For a selection of individually assessed provisions for specific lending assets, we performed the following audit procedures, amongst others:

- Evaluated cashflow forecasts supporting the ECL provision by assessing key judgements (in particular the amount and timing of recoveries and the probability of different scenarios) made by the Bank and the Group in the context of the borrowers' circumstances based on the detailed loan and counterparty information known by the Bank and the Group; and
- Compared critical inputs in the Bank's and the Group's estimates (such as valuation of collateral held) to external information where available.

We also assessed the appropriateness of the Group's disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter

Judgemental valuation of financial instruments *(Relevant components: RBS, IB&M, NZ – ASB)*

At 30 June 2020, the value of Level 2 financial instruments (i.e. where key inputs to the valuation are based on observable prices in the market) held by the Group at fair value is $62,288m assets and $32,030m liabilities. The value of Level 2 fair value financial instruments held by the Bank is $59,541m assets and $36,553m liabilities.

The Level 2 financial instruments held at fair value include:

- Derivative assets and liabilities;
- Investment securities at fair value though other comprehensive income;
- Trading assets and liabilities at fair value through the Income Statement; and
- Other assets at fair value through the Income Statement.

In relation to the judgemental valuation of financial instruments, we developed an understanding of the controls relevant to our audit over the following areas and assessed whether they were appropriately designed and were operating effectively throughout the year on a sample basis:

- Assessment of valuation model at inception and periodically;
- Reliability and accuracy of key market data used in the Bank's and the Group's valuation model;
- Review and approval of significant assumptions by the Bank's and the Group's Valuation Committee; and
- Evaluation of key position and settlement reconciliations.

Independent auditor's report

Key audit matter	How our audit addressed the key audit matter

Judgemental valuation of financial instruments *(Relevant components: RBS, IB&M, NZ – ASB)*

We considered Level 2 financial instruments to be a key audit matter due to their financial significance to the Bank and the Group. In addition, Level 2 financial instruments require judgement in relation to the application of appropriate models, assumptions and inputs including fair value adjustments.

The Bank and the Group also hold $565m of assets classified as 'Level 3' which includes a material asset in an investment security measured at fair value through other comprehensive income. Level 3 is where key inputs to the valuation require additional judgement as observable inputs are not available in the market due to market illiquidity or the complexity of the product. We considered this to be a key audit matter because of the additional judgement (discussed above) involved in determining its value.

Relevant references in the financial report

Refer notes 1.1, 4.2, 5.3, 5.4, 5.5 and 9.5 for further information.

Together with PwC valuation experts, we compared the Bank's and the Group's calculations of fair value to our own calculations across a sample of financial instruments. This involved sourcing inputs from market data providers or external sources and using our own valuation models. We considered the results to assess whether there was evidence of systemic bias or error in the Bank's and the Group's calculations of fair value by investigating the root cause for material variances.

In relation to the judgemental valuation of the Level 3 financial asset, with the assistance of PwC valuation experts, we performed the following audit procedures, amongst others:

- Assessed the reasonableness of the methodology and key inputs in the Bank's and the Group's estimates used to calculate the fair value against market practices;
- Further compared the key inputs to external information where available; and
- Recalculated the fair value to assess the accuracy of the model output.

Key audit matter	How our audit addressed the key audit matter

Provisions for customer remediation and project and other costs associated with regulatory compliance matters and ongoing legal proceedings *(Relevant components: All)*

The Bank and the Group have assessed the need to raise provisions in relation to customer remediation payments and associated project costs, project costs related to ongoing legal proceedings, and project costs associated with compliance matters and investigations and reviews from its regulators including APRA's Enforceable Undertaking, amongst others.

We considered this a key audit matter due to the subjective judgements made by the Bank and the Group in determining:

- The probability of future uncertain outcomes based on available information;
- The estimate of customer remediation payment amounts resulting from remediation programs whereby the Bank and the Group extrapolate the results of their sample testing; and
- The project costs associated with the remediation activities, and regulatory proceedings, investigations and reviews.

Relevant references in the financial report

Refer note 7.1 for further information.

We developed an understanding of the Bank's and the Group's processes for identifying and assessing the impact of the Bank's and the Group's regulatory and customer-related remediation obligations.

We read the minutes of the Bank's main governance meetings (i.e. Audit Committee, Risk Committee and Board of Directors meetings), attended the Bank's Audit Committee and Risk Committee meetings; attended some of the underlying remediation committee meetings; and considered correspondence with relevant regulatory bodies.

We discussed ongoing legal matters with the directors and management. We obtained written representations from the Group Chief Executive Officer, Chief Financial Officer and Group General Counsel and obtained access to relevant documents in order to develop our understanding of the matters.

For those matters which resulted in a material provision at year end, we developed an understanding of and evaluated the reasonableness of the key assumptions used to estimate those provisions. This included consideration of comparable remediation programs; results from sample testing performed up until the date of signing the audit report; the subsequent adjustments made to the output of the sample test results; and the status of each remediation program and costs incurred to date.

Where the Bank and the Group determined that they were unable to reliably estimate the possible financial impact of a remediation activity or investigation, we considered relevant information available in relation to the activities and investigations to assess the appropriateness of this conclusion. We also assessed the adequacy and appropriateness of related disclosures against the requirements of Australian Accounting Standards.

Independent auditor's report

pwc

Key audit matter	How our audit addressed the key audit matter

Business disposals *(Relevant components: WM – Global Asset Management, WM – Colonial Mutual Life Assurance, WM – Colonial First State)*

During the year, the Bank and Group announced completion of its divestments in the Colonial First State Global Asset Management (CFSGAM) business, and the Colonial Mutual Life Assurance Society (CMLA) business. The divestment in CMLA occurred through the Bank and Group entering into a Joint Cooperation Agreement (JCA) with AIA Group Limited (AIA). Both businesses were part of the Wealth Management operating segment. The assets and liabilities associated with these businesses have been derecognised as at the financial report date.

The accounting for these disposals is considered to be a key audit matter due to:

- CFSGAM: the financial significance of the gain on disposal (including tax) of the business to the Bank and Group; and
- CMLA: the judgement required in determining whether the JCA meets the criteria to deconsolidate and derecognise the Bank's and the Group's interest in CMLA in the absence of regulatory approval for the sale of the investment in BoCommLife in line with Australian Accounting Standards.

The Bank and the Group also announced during the year an agreement to sell a 55% equity stake in Colonial First State (CFS) to KKR. CFS has been classified as held for sale and a discontinued operation as at the financial report date.

We considered this to be a key audit matter due to the judgements made by the Bank and the Group in:

- estimating the transaction and separation costs to complete the divestment; and
- allocating goodwill to disposal groups in accordance with the requirements of Australian Accounting Standards.

Relevant references in the financial report

Refer notes 1.1, 2.6, 2.7 and 11.3 for further information.

We performed the following audit procedures, amongst others, in relation to the disposal of CFSGAM and CMLA:

- Inspected the underlying sale agreements, including the JCA with AIA to develop an understanding of the terms and conditions related to the divestments;
- Assessed the appropriateness of the derecognition and deconsolidation of each divested business on the financial report to determine whether they were performed in accordance with Australian Accounting Standards;
- Reperformed the Bank's and the Group's calculation of the gain or loss on the sale of each divestment;
- Together with PwC tax experts, we evaluated the tax calculations related to the gain or loss tax from the divestments against the requirements of the relevant tax legislation; and
- Assessed the disclosure in the financial report relating to the divestments against the requirements of Australian Accounting Standards.

In relation to the sale of CFS, we performed the following audit procedures, amongst others:

- Assessed whether the requirements of Australian Accounting Standards were met regarding classification and presentation of the sale as held for sale and discontinued operations;
- Compared the key inputs used to estimate the transaction and separation costs to complete the divestment from the Bank and the Group to similar transactions undertaken by the Bank and the Group;
- Assessed, on a sample basis, whether the carrying values of disposal groups (including goodwill), were equal to their estimated fair value less cost to sell; and
- Assessed the adequacy and appropriateness of related disclosures against the requirements of Australian Accounting Standards.

Independent auditor's report

pwc

Key audit matter	How our audit addressed the key audit matter

Operation of financial reporting Information Technology (IT) systems and controls *(Relevant components: All)*

We considered this a key audit matter because the Bank's and the Group's operations and financial reporting processes are heavily dependent on IT systems for the processing and recording of a significant volume of transactions.

In particular, in common with all banks, access rights to technology are important because they are intended to ensure that changes to applications and data are appropriately authorised. Ensuring staff have appropriate access to IT systems, and that access is monitored, are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data.

The Bank's and the Group's controls over IT systems include:

- The framework of governance over IT systems;
- Program development and changes;
- Access to process, data and IT operations; and
- Governance over generic and privileged user accounts.

For material financial statement balances we developed an understanding of the business processes, key IT systems used to generate and support those balances and associated IT application controls and IT dependencies in manual controls. Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. This involved assessing:

- The technology control environment: the governance processes and controls used to monitor and enforce control consciousness throughout the Group's technology teams;
- Change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems;
- System development: the project disciplines which ensure that new systems are developed to meet a defined business need, are appropriately tested before implementation and that data is converted and transferred completely and accurately;
- Security: the access controls designed to enforce segregation of duties, govern the use of generic and privileged accounts or ensure that data is only changed through authorised means; and
- IT operations: the controls over key operations are used to ensure that any issues that arise are managed appropriately.

For IT operations within the scope of our audit where technology services are provided by a third party, we considered:

- Assurance reports from the third party's auditor on the design and operating effectiveness of controls; and
- Managements monitoring control over the third party.

We also carried out tests, on a sample basis, of associated IT application controls and IT dependencies in manual controls that were key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.

Where we noted design or operating effectiveness matters relating to IT systems and applications controls relevant to our audit, we performed alternative or additional audit procedures.

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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of our limited assurance report over the Non-Financial Performance Metrics as detailed in pages 47 to 52 of the annual report.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Bank and the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Our opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 78 to 102 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Commonwealth Bank of Australia for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001.*

Responsibilities

The directors of the Bank are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

M Lunn

Matthew Lunn
Partner
Sydney
12 August 2020

Additional information contents

Additional information

Additional information

Security holder information

Top 20 holders of fully paid ordinary shares as at 20 July 2020

Rank	Name of holder	Number of shares	%
1	HSBC Custody Nominees	398,411,636	22.51%
2	J P Morgan Nominees Australia Limited	242,160,962	13.68%
3	Citicorp Nominees Pty Limited	99,817,390	5.64%
4	BNP Paribas Noms Pty Ltd	50,441,624	2.85%
5	National Nominees Limited	48,817,928	2.76%
6	Australian Foundation Investment	7,900,000	0.45%
7	Bond Street Custodians Limited	7,640,244	0.43%
8	Netwealth Investments Limited	4,672,163	0.26%
9	Milton Corporation Limited	3,140,470	0.18%
10	Argo Investments Limited	3,103,731	0.18%
11	Australian Executor Trustees Limited	3,040,780	0.17%
12	Navigator Australia	2,881,118	0.16%
13	Nulis Nominees (Australia)	1,872,713	0.11%
14	Mr Barry Martin Lambert	1,643,613	0.09%
15	McCusker Holdings Pty Ltd	1,370,000	0.08%
16	Invia Custodian Pty Limited	1,275,216	0.07%
17	Joy Wilma Lambert	1,068,250	0.06%
18	BNP Paribas Noms (NZ) Ltd <DRP>	1,067,687	0.06%
19	CS Third Nominees Pty Limited	1,050,513	0.06%
20	BKI Investment Company Limited	1,030,023	0.06%

The top 20 shareholders hold 882,406,061 shares which is equal to 49.85% of the total shares on issue.

Substantial shareholding

The following organisations have disclosed a substantial shareholding notice to ASX. As at 20 July 2020, the Bank has received no further update in relation to these substantial shareholdings.

Name	Number of shares	Percentage of voting power
BlackRock Group [1]	106,300,321	6
The Vanguard Group, Inc. [2]	88,022,378	5

1 Substantial shareholding as at 6 March 2020, as per notice lodged on 10 March 2020.
2 Substantial shareholding as at 20 July 2018, as per notice lodged on 25 July 2018.

Stock exchange listing

The shares of the Commonwealth Bank of Australia (Bank) are listed on the Australian Securities Exchange (ASX) under the trade symbol of CBA. The Bank is not currently in the market conducting an on market buy-back of its shares.

Range of shares (fully paid ordinary shares and employee shares) as at 20 July 2020

Range	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of issued capital	Number of rights holders [1]
1 – 1,000	669,797	75.74	187,489,360	10.59	148
1,001 – 5,000	186,155	21.05	388,582,359	21.95	68
5,001 – 10,000	19,881	2.25	135,125,306	7.63	9
10,001 – 100,000	8,352	0.94	156,741,683	8.86	37
100,001 and over	161	0.02	902,300,799	50.97	0
Total	884,346	100.00	1,770,239,507	100. 00	262
Less than marketable parcel of $500	14,728	1. 67	43,557	0. 00	–

1 The total number of rights on issue is 965,095 rights which carry no entitlement to vote.

Voting rights

Under the Bank's Constitution, shareholders entitled to vote at a general meeting may vote in person, directly or by proxy, attorney or representative, depending on whether the shareholder is an individual or a company.

Subject to any rights or restrictions attaching to shares, each ordinary shareholder present at a general meeting has:

- On a show of hands - one vote; and
- On a poll - one vote for each fully paid share held. If shares are not fully paid, on a poll the number of votes attaching to the shares is pro-rated accordingly.

Additional information (continued)

Security holder information (continued)

If a person at a general meeting represents personally or by proxy, attorney or official representative more than one shareholder, on a show of hands the person is entitled to one vote only even though he or she represents more than one shareholder.

Where a shareholder appoints two proxies or attorneys to vote at the same general meeting:

- If the appointment does not specify the proportion or number of the shareholder's votes each proxy or attorney may exercise, each proxy or attorney may exercise half the shareholder's votes;
- On a show of hands, neither proxy or attorney may vote if more than one proxy or attorney attends; and
- On a poll, each proxy or attorney may only exercise votes in respect of those shares or voting rights the proxy or attorney represents.

Top 20 holders of CommBank PERLS VII Capital Notes ("PERLS VII") as at 20 July 2020

Rank	Name of holder	Number of securities	%
1	HSBC Custody Nominees	3,010,104	10.03%
2	BNP Paribas Noms Pty Ltd	1,195,841	3.99%
3	J P Morgan Nominees Australia Limited	844,602	2.82%
4	Netwealth Investments Limited	841,942	2.81%
5	Australian Executor Trustees Limited	382,295	1.27%
6	National Nominees Limited	277,276	0.92%
7	Bond Street Custodians Limited	262,224	0.87%
8	Navigator Australia	234,077	0.78%
9	Citicorp Nominees Pty Limited	204,881	0.68%
10	Nulis Nominees (Australia)	198,651	0.66%
11	Berne No 132 Nominees Pty Ltd	167,386	0.56%
12	Mutual Trust Pty Ltd	164,988	0.55%
13	Invia Custodian Pty Limited	92,249	0.31%
14	Marrosan Investments Pty Ltd	84,286	0.28%
15	Tsco Pty Ltd	80,000	0.27%
16	Alwood Pty Ltd	79,730	0.27%
17	Seymour Group Pty Ltd	73,700	0.25%
18	Willimbury Pty Ltd	70,673	0.24%
19	Limeburner Investments Pty Ltd	67,245	0.22%
20	Eastcote Pty Limited	59,300	0.20%

The top 20 PERLS VII security holders hold 8,391,450 securities which is equal to 27.97% of the total securities on issue.

Stock exchange listing

PERLS VII are subordinated unsecured notes issued by the Bank. They are listed on the ASX under the trade symbol CBAPD.

Range of securities (PERLS VII) as at 20 July 2020

Range	Number of security holders	Percentage of security holders	Number of securities	Percentage of issued capital
1 – 1,000	26,888	86.63	9,191,476	30.64
1,001 – 5,000	3,687	11.88	7,395,606	24.65
5,001 – 10,000	258	0.83	1,813,407	6.04
10,001 – 100,000	190	0.61	4,363,585	14.55
100,001 and over	15	0.05	7,235,926	24.12
Total	31,038	100. 00	30,000,000	100. 00
Less than marketable parcel of $500	19	0. 06	52	0. 00

Voting rights

PERLS VII do not confer any voting rights in the Bank but if they are exchanged for ordinary shares of the Bank in accordance with their terms of issue, then the voting rights of the ordinary shares will be as set out on pages 278 and 279 for the Bank's ordinary shares.

Additional information (continued)

Security holder information (continued)

Top 20 holders of CommBank PERLS VIII Capital Notes ("PERLS VIII") as at 20 July 2020

Rank	Name of holder	Number of securities	%
1	BNP Paribas Noms Pty Ltd	3,150,171	21.73%
2	HSBC Custody Nominees	1,334,386	9.20%
3	J P Morgan Nominees Australia Limited	238,862	1.65%
4	Netwealth Investments Limited	120,358	0.83%
5	Piek Holdings Pty Ltd	93,000	0.64%
6	Snowside Pty Ltd	83,983	0.58%
7	Navigator Australia	83,134	0.57%
8	Nulis Nominees (Australia)	73,636	0.51%
9	Australian Executor Trustees Limited	70,073	0.48%
10	Bond Street Custodians Limited	63,740	0.44%
11	Dimbulu Pty Ltd	50,000	0.34%
12	Marrosan Investments Pty Ltd	50,000	0.34%
13	Mifare Pty Ltd	50,000	0.34%
14	V S Access Pty Ltd	48,084	0.33%
15	Adirel Holdings Pty Ltd	47,000	0.32%
16	Resthaven Incorporated	45,500	0.31%
17	Federation University Australia	45,000	0.31%
18	Mutual Trust Pty Ltd	44,049	0.30%
19	Citicorp Nominees Pty Limited	39,263	0.27%
20	Mr Vincent David Smart + Mrs Susan May Smart	36,160	0.25%

The top 20 PERLS VIII security holders hold 5,766,399 securities which is equal to 39.77% of the total securities on issue.

Stock exchange listing

PERLS VIII are subordinated unsecured notes issued by the Bank. They are listed on the ASX under the trade symbol CBAPE.

Range of securities (PERLS VIII) as at 20 July 2020

Range	Number of security holders	Percentage of security holders	Number of securities	Percentage of issued capital
1 – 1,000	13,314	89.40	4,168,836	28.75
1,001 – 5,000	1,383	9.29	2,865,944	19.76
5,001 – 10,000	119	0.80	878,443	6.06
10,001 – 100,000	72	0.48	2,014,856	13.90
100,001 and over	4	0.03	4,571,921	31.53
Total	14,892	100. 00	14,500,000	100.00
Less than marketable parcel of $500	4	0. 03	10	0.00

Voting rights

PERLS VIII do not confer any voting rights in the Bank but if they are exchanged for ordinary shares of the Bank in accordance with their terms of issue, then the voting rights of the ordinary shares will be as set out on pages 278 and 279 for the Bank's ordinary shares.

Additional information (continued)

Security holder information (continued)

Top 20 holders of CommBank PERLS IX Capital Notes ("PERLS IX") as at 20 July 2020

Rank	Name of holder	Number of securities	%
1	BNP Paribas Noms Pty Ltd	2,343,186	14.29%
2	HSBC Custody Nominees	1,553,860	9.47%
3	J P Morgan Nominees Australia Limited	643,242	3.92%
4	Navigator Australia	207,840	1.27%
5	Australian Executor Trustees Limited	189,662	1.16%
6	Bond Street Custodians Limited	164,623	1.00%
7	Dimbulu Pty Ltd	147,700	0.90%
8	National Nominees Limited	138,700	0.85%
9	Mutual Trust Pty Ltd	129,315	0.79%
10	Netwealth Investments Limited	117,924	0.72%
11	Nulis Nominees (Australia)	98,273	0.60%
12	Citicorp Nominees Pty Limited	72,577	0.44%
13	Fibora Pty Ltd	64,740	0.39%
14	Invia Custodian Pty Limited	57,623	0.35%
15	Ernron Pty Ltd	34,530	0.21%
16	Sir Moses Montefiore Jewish Home	30,660	0.19%
17	Pendant Realty Pty Ltd	30,000	0.18%
18	Port Stephens Veterans and Aged Care Ltd	30,000	0.18%
19	J C Family Investments Pty Limited	27,218	0.17%
20	888 Corporation Pty Ltd	25,000	0.15%

The top 20 PERLS IX security holders hold 6,106,673 securities which is equal to 37.24% of the total securities on issue.

Stock exchange listing

PERLS IX are subordinated unsecured notes issued by the Bank. They are listed on the ASX under the trade symbol CBAPF.

Range of securities (PERLS IX) as at 20 July 2020

Range	Number of security holders	Percentage of security holders	Number of securities	Percentage of issued capital
1 – 1,000	17,473	90.23	5,562,105	33.92
1,001 – 5,000	1,706	8.81	3,428,049	20.90
5,001 – 10,000	110	0.57	815,120	4.97
10,001 – 100,000	64	0.33	1,428,025	8.71
100,001 and over	11	0.06	5,166,701	31.50
Total	19,364	100.00	16,400,000	100.00
Less than marketable parcel of $500	3	0.02	5	0.00

Voting rights

PERLS IX do not confer any voting rights in the Bank but if they are exchanged for ordinary shares of the Bank in accordance with their terms of issue, then the voting rights of the ordinary shares will be as set out on pages 278 and 279 for the Bank's ordinary shares.

Additional information (continued)

Security holder information (continued)

Top 20 holders of CommBank PERLS X Capital Notes ("PERLS X") as at 20 July 2020

Rank	Name of holder	Number of securities	%
1	HSBC Custody Nominees	1,480,864	10.85%
2	BNP Paribas Noms Pty Ltd	1,224,850	8.97%
3	Netwealth Investments Limited	167,057	1.22%
4	Citicorp Nominees Pty Limited	157,675	1.16%
5	J P Morgan Nominees Australia Limited	129,916	0.95%
6	Navigator Australia	122,714	0.90%
7	Dimbulu Pty Ltd	100,000	0.73%
8	Bond Street Custodians Limited	85,667	0.63%
9	Australian Executor Trustees Limited	84,385	0.62%
10	Marrosan Investments Pty Ltd	80,000	0.59%
11	Rakio Pty Ltd	77,000	0.56%
12	Eastcote Pty Ltd	50,000	0.37%
13	Federation University Australia	50,000	0.37%
14	Harriette & Co Pty Ltd	50,000	0.37%
15	National Nominees Limited	41,468	0.30%
16	Mutual Trust Pty Ltd	40,786	0.30%
17	Mr Roni G Sikh	40,492	0.30%
18	Mr Wei Cai	38,960	0.29%
19	Taverners No 11 Pty Ltd	38,710	0.28%
20	Nulis Nominees (Australia)	38,481	0.28%

The top 20 PERLS X security holders hold 4,099,025 securities which is equal to 30.03% of the total securities on issue.

Stock exchange listing

PERLS X are subordinated unsecured notes issued by the Bank. They are listed on the ASX under the trade symbol CBAPG.

Range of securities (PERLS X) as at 20 July 2020

Range	Number of security holders	Percentage of security holders	Number of securities	Percentage of issued capital
1 – 1,000	12,924	88.09	4,524,257	33.14
1,001 – 5,000	1,555	10.60	3,360,115	24.62
5,001 – 10,000	110	0.75	833,523	6.11
10,001 – 100,000	77	0.52	2,059,174	15.08
100,001 and over	6	0.04	2,872,931	21.05
Total	14,672	100.00	13,650,000	100.00
Less than marketable parcel of $500	8	0.05	20	0.00

Voting rights

PERLS X do not confer any voting rights in the Bank but if they are exchanged for ordinary shares of the Bank in accordance with their terms of issue, then the voting rights of the ordinary shares will be as set out on pages 278 and 279 for the Bank's ordinary shares.

Additional information (continued)

Security holder information (continued)

Top 20 holders of CommBank PERLS XI Capital Notes ("PERLS XI") as at 20 July 2020

Rank	Name of holder	Number of securities	%
1	HSBC Custody Nominees	1,734,713	10.91%
2	BNP Paribas Noms Pty Ltd	374,960	2.36%
3	J P Morgan Nominees Australia Limited	309,073	1.94%
4	Netwealth Investments Limited	253,550	1.59%
5	Australian Executor Trustees Limited	230,913	1.45%
6	Dimbulu Pty Ltd	150,000	0.94%
7	Bond Street Custodians Limited	136,794	0.86%
8	National Nominees Limited	128,835	0.81%
9	Navigator Australia	111,802	0.70%
10	Eastcote Pty Limited	100,000	0.63%
11	G Harvey Investments Pty Ltd	100,000	0.63%
12	Pamdale Investments Pty Ltd	89,578	0.56%
13	Citicorp Nominees Pty Limited	87,192	0.55%
14	Nulis Nominees (Australia)	84,104	0.53%
15	V S Access Pty Ltd	80,000	0.50%
16	Mutual Trust Pty Ltd	62,562	0.39%
17	Edgelake Proprietary Limited	49,267	0.31%
18	J Santini Development Pty Ltd	46,000	0.29%
19	Margen Biggs Pty Limited	36,000	0.23%
20	Invia Custodian Pty Limited	34,275	0.22%

The top 20 PERLS XI security holders hold 4,199,618 securities which is equal to 26.41% of the total securities on issue.

Stock exchange listing

PERLS XI are subordinated unsecured notes issued by the Bank. They are listed on the ASX under the trade symbol CBAPH.

Range of securities (PERLS XI) as at 20 July 2020

Range	Number of security holders	Percentage of security holders	Number of securities	Percentage of issued capital
1 – 1,000	16,689	88.49	5,782,006	36.36
1,001 – 5,000	1,933	10.25	4,002,455	25.17
5,001 – 10,000	154	0.82	1,130,004	7.12
10,001 – 100,000	74	0.39	1,884,752	11.85
100,001 and over	10	0.05	3,100,783	19.50
Total	18,860	100.00	15,900,000	100.00
Less than marketable parcel of $500	9	0.05	13	0.00

Voting rights

PERLS XI do not confer any voting rights in the Bank but if they are exchanged for ordinary shares of the Bank in accordance with their terms of issue, then the voting rights of the ordinary shares will be as set out on pages 278 and 279 for the Bank's ordinary shares.

Additional information (continued)

Security holder information (continued)

Top 20 holders of CommBank PERLS XII Capital Notes ("PERLS XII") as at 20 July 2020

Rank	Name of holder	Number of securities	%
1	HSBC Custody Nominees	1,912,212	11.59%
2	BNP Paribas Noms Pty Ltd	305,822	1.85%
3	Netwealth Investments Limited	228,852	1.39%
4	Royal Freemasons Benevolent Institution	202,500	1.23%
5	J P Morgan Nominees Australia Limited	200,114	1.21%
6	Dimbulu Pty Ltd	200,000	1.21%
7	Citicorp Nominees Pty Limited	124,540	0.75%
8	Australian Executor Trustees Limited	121,927	0.74%
9	Tandom Pty Ltd	120,000	0.73%
10	Diocese Development Fund - Catholic Diocese of Paramatta	101,472	0.61%
11	Bond Street Custodians Limited	98,417	0.60%
12	National Nominees Limited	89,427	0.54%
13	Navigator Australia	74,161	0.45%
14	UBS Nominees Pty Ltd	55,799	0.34%
15	Tsco Pty Ltd	48,650	0.29%
16	Invia Custodian Pty Limited	46,360	0.28%
17	Nulis Nominees (Australia)	46,117	0.28%
18	Mr Bruce Hampel	45,000	0.27%
19	Lightningedge Pty Ltd	40,000	0.24%
20	Taverners No 11 Pty Ltd	39,264	0.24%

The top 20 PERLS XII security holders hold 4,100,634 securities which is equal to 24.85% of the total securities on issue.

Stock exchange listing

PERLS XII are subordinated unsecured notes issued by the Bank. They are listed on the ASX under the trade symbol CBAPI.

Range of securities (PERLS XII) as at 20 July 2020

Range	Number of security holders	Percentage of security holders	Number of securities	Percentage of issued capital
1 – 1,000	16,112	87.63	5,836,220	35.37
1,001 – 5,000	2,018	10.97	4,213,197	25.54
5,001 – 10,000	166	0.90	1,241,074	7.52
10,001 – 100,000	82	0.45	2,191,113	13.28
100,001 and over	9	0.05	3,018,396	18.29
Total	18,387	100.00	16,500,000	100.00
Less than marketable parcel of $500	4	0.02	15	0.00

Voting rights

PERLS XII do not confer any voting rights in the Bank but if they are exchanged for ordinary shares of the Bank in accordance with their terms of issue, then the voting rights of the ordinary shares will be as set out on pages 278 and 279 for the Bank's ordinary shares.

Relevant exchanges

In addition to the ASX, the Bank has securities quoted on the London Stock Exchange (LSE), Swiss Exchange (SIX) and the New Zealand Exchange (NZX).

Five-year financial summary

	30 Jun 20 $M	30 Jun 19 [1] $M	30 Jun 18 [1] $M	30 Jun 17 $M	30 Jun 16 $M
Net interest income	18,610	18,224	18,465	17,546	16,858
Other operating income [2]	5,151	5,355	5,646	6,831	7,043
Total operating income	23,761	23,579	24,111	24,377	23,901
Operating expenses	(10,895)	(10,824)	(10,653)	(10,129)	(9,957)
Loan impairment expense	(2,518)	(1,201)	(1,079)	(1,095)	(1,256)
Net profit before tax	10,348	11,554	12,379	13,153	12,688
Income tax expense	(3,052)	(3,321)	(3,779)	(3,752)	(3,497)
Non-controlling interests	–	(12)	(13)	(13)	(20)
Net profit after tax from continuing operations ("cash basis")	7,296	8,221	8,587	9,388	9,171
Net profit after tax from discontinued operations	153	485	825	493	274
Net profit after tax ("cash basis")	7,449	8,706	9,412	9,881	9,445
Treasury shares valuation adjustment	–	6	2	(23)	4
Hedging and IFRS volatility	93	(79)	101	73	(199)
(Loss)/gain on disposal of controlled entities/investments	2,092	(61)	(183)	–	–
Bankwest non-cash items	–	(1)	(3)	(3)	(27)
Net profit after income tax attributable to equity holders of the Bank "statutory basis"	9,634	8,571	9,329	9,928	9,223
Contributions to profit (after tax)					
Retail Banking Services	3,997	3,907	4,465	4,423	4,540
Business and Private Banking	2,654	2,931	3,134	2,736	1,522
Institutional Banking and Markets	655	1,117	1,226	1,360	1,190
Wealth Management	–	–	–	201	400
New Zealand	811	1,059	975	871	785
Bankwest	–	–	–	–	778
IFS & other	(821)	(793)	(1,213)	(203)	(44)
Net profit after tax from continuing operations ("cash basis")	7,296	8,221	8,587	9,388	9,171
Investment experience after tax	(4)	(3)	(2)	(7)	(24)
Net profit after tax "underlying basis"	7,292	8,218	8,585	9,381	9,147
Balance Sheet					
Loans, bills discounted and other receivables	771,547	755,173	743,744	731,762	695,398
Total assets	1,014,060	976,502	975,165	976,318	932,945
Deposits and other public borrowings	701,999	636,040	622,234	626,655	588,045
Total liabilities	942,047	906,853	907,305	912,658	872,437
Shareholders' Equity	72,013	69,649	67,860	63,660	60,508
Net tangible assets (including discontinued operations)	64,359	59,580	56,844	53,090	49,630
Risk weighted assets – Basel III (APRA)	454,948	452,762	458,612	437,063	394,667
Average interest earning assets	897,409	871,418	861,884	834,741	790,596
Average interest bearing liabilities	771,982	761,115	759,583	755,612	733,754
Assets (on Balance Sheet) – Australia	855,219	824,651	811,491	817,519	783,114
Assets (on Balance Sheet) – New Zealand	103,531	99,661	94,622	89,997	83,832
Assets (on Balance Sheet) – Other	55,310	52,190	69,052	68,802	65,999

1 Comparative information for 2019 and 2018 has been restated and presented on a continuing operations basis, and to reflect the change in accounting policy detailed in Note 1.1 as well as refinements to the allocation of customer balances.
2 Includes investment experience.

Five-year financial summary (continued)

		30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Shareholder summary from continuing operations [1]						
Earnings per share (cents)						
Basic						
Statutory	(cents)	**421. 8**	458. 3	500. 0	549. 9	525. 6
Cash basis	(cents)	**412. 5**	465. 5	491. 5	545. 4	538. 3
Fully diluted						
Statutory	(cents)	**408. 5**	443. 2	485. 5	532. 9	513. 3
Cash basis	(cents)	**399. 9**	449. 9	477. 5	528. 7	525. 4
Shareholder summary including discontinued operations						
Earnings per share						
Basic						
Statutory	(cents)	**544. 8**	485. 6	534. 3	577. 3	542. 0
Cash basis	(cents)	**421. 1**	493. 0	538. 8	574. 1	554. 5
Fully diluted						
Statutory	(cents)	**523. 2**	468. 6	517. 7	558. 8	529. 0
Cash basis	(cents)	**407. 9**	475. 4	522. 0	555. 8	540. 9
Dividends per share – fully franked	(cents)	**298**	431	431	429	420
Dividend cover – statutory	(times)	**1. 8**	1. 1	1. 2	1. 3	1. 3
Dividend cover – cash	(times)	**1. 4**	1. 1	1. 2	1. 3	1. 3
Dividend payout ratio						
Statutory	(%)	**54. 76**	89. 02	81. 15	74. 62	78. 37
Cash basis	(%)	**70. 82**	87. 64	80. 44	74. 97	76. 51
Net tangible assets per share including discontinued operations	($)	**36. 4**	33. 7	32. 3	30. 7	28. 9
Weighted average number of shares (statutory basis)	(M)	**1,768**	1,765	1,746	1,720	1,692
Weighted average number of shares (statutory fully diluted)	(M)	**1,895**	1,897	1,852	1,816	1,771
Weighted average number of shares (cash basis)	(M)	**1,769**	1,766	1,747	1,721	1,694
Weighted average number of shares (cash fully diluted)	(M)	**1,896**	1,898	1,853	1,817	1,773
Number of shareholders [1, 2]		**888,214**	831,655	851,539	844,527	857,052
Share prices for the year						
Trading high	($)	**91. 05**	83. 99	85. 12	87. 74	88. 88
Trading low	($)	**53. 44**	65. 23	67. 22	69. 22	69. 79
End (closing price)	($)	**69. 42**	82. 78	72. 87	82. 81	74. 37

1 Comparative information for 2019 and 2018 has been restated and presented on a continuing operations basis, and to reflect the change in accounting policy detailed in Note 1.1.
2 This includes employees.

Five-year financial summary (continued)

		30 Jun 20	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Performance ratios from continuing operations [1]						
Return on average Shareholders' Equity						
Statutory	(%)	**10. 5**	11. 9	13. 4	15. 4	15. 8
Cash basis	(%)	**10. 3**	12. 1	13. 1	15. 3	16. 1
Return on average total assets						
Statutory	(%)	**0. 7**	0. 8	0. 9	1. 0	1. 0
Cash basis	(%)	**0. 7**	0. 8	0. 9	1. 0	1. 0
Net interest margin	(%)	**2. 07**	2. 09	2.14	2. 10	2. 13
Performance ratios including discontinued operations						
Return on average Shareholders' Equity						
Statutory	(%)	**13. 6**	12. 6	14. 3	16. 2	16. 3
Cash basis	(%)	**10. 5**	12. 8	14. 4	16. 0	16. 6
Return on average total assets						
Statutory	(%)	**1. 0**	0. 9	1. 0	1. 0	1. 0
Cash basis	(%)	**0. 7**	0. 9	1. 0	1. 0	1. 0
Capital adequacy – Common Equity Tier 1 – Basel III (APRA)	(%)	**11. 6**	10. 7	10. 1	10. 1	10. 6
Capital adequacy – Tier 1 – Basel III (APRA)	(%)	**13. 9**	12. 7	12. 3	12. 1	12. 3
Capital adequacy – Tier 2 – Basel III (APRA)	(%)	**3. 6**	2. 8	2. 7	2. 1	2. 0
Capital adequacy – Total – Basel III (APRA)	(%)	**17. 5**	15. 5	15. 0	14. 2	14. 3
Leverage Ratio Basel III (APRA)	(%)	**5. 9**	5. 6	5. 5	5. 1	5. 0
Liquidity Coverage Ratio – "Spot Basis"	(%)	**145**	129	131	129	120
Net interest margin	(%)	**2. 08**	2. 10	2. 15	2. 11	2. 14
Other information						
Full-time equivalent employees from continuing operations [1]		**41,778**	41,458	41,024	42,359	43,178
Full-time equivalent employees including discontinued operations		**43,585**	45,165	45,753	45,614	45,129
Branches/services centres (Australia)		**967**	1,014	1,082	1,121	1,131
Agencies (Australia)		**3,547**	3,560	3,589	3,664	3,654
ATMs		**3,542**	3,963	4,253	4,398	4,381
EFTPOS terminals (active)		**190,118**	217,608	219,245	217,098	217,981
Productivity from continuing operations [1, 2]						
Total operating income per full-time equivalent employee	($)	**568,744**	568,744	587,729	579,023	552,805
Employee expense/total operating income	(%)	**24. 3**	24. 2	21. 8	22. 4	24. 1
Total operating expenses/total operating income	(%)	**45. 9**	45. 9	44. 2	41. 6	41. 7
Productivity including discontinued operations [1, 2]						
Total operating income per full-time equivalent employee	($)	**568,361**	568,449	585,033	568,685	545,237
Employee expense/total operating income	(%)	**24. 6**	25. 3	23. 0	24. 0	24. 4
Total operating expenses/total operating income	(%)	**47. 1**	47. 5	45. 2	41. 7	42. 4

1 Comparative information for 2019 and 2018 has been restated and presented on a continuing operations basis, and to reflect the change in accounting policy detailed in Note 1.1.
2 The productivity metrics have been calculated on a cash basis.

Profit reconciliation

Profit reconciliation	Net profit after tax "cash basis" $M	(Loss)/gain on disposal and acquisition of controlled entities [1] $M	Hedging and IFRS volatility $M	Bankwest non-cash items $M	Treasury shares valuation adjustment $M	Investment experience $M	Net profit after tax "statutory basis" $M
	Full year ended 30 June 2020						
Group							
Interest income [2]	**30,162**	–	–	–	–	–	**30,162**
Interest expense	**(11,552)**	–	–	–	–	–	**(11,552)**
Net interest income	**18,610**	–	–	–	–	–	**18,610**
Other banking income	**4,837**	29	136	–	–	–	**5,002**
Total banking income	**23,447**	29	136	–	–	–	**23,612**
Funds management income	**172**	–	–	–	–	1	**173**
Insurance income	**139**	–	–	–	–	2	**141**
Total operating income	**23,758**	29	136	–	–	3	**23,926**
Investment experience	**3**	–	–	–	–	(3)	**–**
Total income	**23,761**	29	136	–	–	–	**23,926**
Operating expenses	**(10,895)**	(34)	–	–	–	–	**(10,929)**
Loan impairment expense	**(2,518)**	–	–	–	–	–	**(2,518)**
Net profit before tax	**10,348**	(5)	136	–	–	–	**10,479**
Income tax (expense)/benefit	**(3,052)**	75	(43)	–	–	–	**(3,020)**
Non-controlling interests	**–**	–	–	–	–	–	**–**
Net profit after income tax from continuing operations	**7,296**	70	93	–	–	–	**7,459**
Net profit after income tax from discontinued operations [3]	**153**	2,022	–	–	–	–	**2,175**
Net profit after income tax	**7,449**	2,092	93	–	–	–	**9,634**

1 Continuing operations net profit after tax includes gains and losses net of transaction and separation costs associated with the disposal of Aegis, AUSIEX, Count Financial and other businesses, and the dilution of the Group's interest in Bank of Hangzhou. Discontinued operations net profit after tax includes gains and losses net of transaction and separation costs associated with the disposal of CFS, CFSGAM, PT Commonwealth Life, and other businesses, and the deconsolidation and divestment of CommInsure Life.
2 Interest income includes total Effective interest income and Other interest income.
3 Statutory Net profit after income tax from discontinued operations is presented net of non-controlling interests.

Profit reconciliation (continued)

Profit reconciliation	Net profit after tax "cash basis" $M	(Loss)/gain on disposal and acquisition of controlled entities [2] $M	Hedging and IFRS volatility $M	Bankwest non-cash items [3] $M	Treasury shares valuation adjustment $M	Investment experience $M	Net profit after tax "statutory basis" $M
	Full year ended 30 June 2019 [1]						
Group							
Interest income [4]	**34,709**	–	–	–	–	–	**34,709**
Interest expense	**(16,485)**	–	–	–	–	–	**(16,485)**
Net interest income	**18,224**	–	–	–	–	–	**18,224**
Other banking income	**4,951**	42	(116)	–	–	–	**4,877**
Total banking income	**23,175**	42	(116)	–	–	–	**23,101**
Funds management income	**255**	–	–	–	–	(1)	**254**
Insurance income	**147**	–	–	–	–	3	**150**
Total operating income	**23,577**	42	(116)	–	–	2	**23,505**
Investment experience	**2**	–	–	–	–	(2)	**–**
Total income	**23,579**	42	(116)	–	–	–	**23,505**
Operating expenses	**(10,824)**	(102)	–	(2)	–	–	**(10,928)**
Loan impairment expense	**(1,201)**	–	–	–	–	–	**(1,201)**
Net profit before tax	**11,554**	(60)	(116)	(2)	–	–	**11,376**
Income tax (expense)/benefit	**(3,321)**	8	37	1	–	–	**(3,275)**
Non-controlling interests	**(12)**	–	–	–	–	–	**(12)**
Net profit after income tax from continuing operations	**8,221**	(52)	(79)	(1)	–	–	**8,089**
Net profit after income tax from discontinued operations [5]	**485**	(9)	–	–	6	–	**482**
Net profit after income tax	**8,706**	(61)	(79)	(1)	6	–	**8,571**

1 Comparative information has been restated to conform to presentation in the current year.
2 Continuing operations net profit after tax includes demerger costs for NewCo and impairment loss and transaction costs associated with the disposal of Count Financial, partly offset by a net gain on acquisition and disposals of other businesses. Discontinued operations net profit after tax includes gains and losses net of transaction and separation costs associated with the disposal of CommInsure Life, CFSGAM, Sovereign, TymeDigital SA and a net gain on acquisition and disposal of other businesses.
3 Includes merger related amortisation.
4 Interest income includes total Effective interest income and Other interest income.
5 Statutory net profit after income tax from discontinued operations is presented net of non-controlling interests.

Glossary of terms

Financial and remuneration related definitions

Term	Description
Assets Under Management	Assets Under Management (AUM) represents the market value of assets for which the Group acts as an appointed manager. Growth and volatility in this balance is a key performance indicator for the Wealth Management and New Zealand businesses.
Board	The Board of Directors of the Group.
Common Equity Tier 1 Capital (CET1)	The highest quality of capital available to the Group reflecting the permanent and unrestricted commitment of funds that are freely available to absorb losses. It comprises Ordinary share capital, Retained earnings and Reserves less prescribed deductions.
Corporations Act	*Corporations Act 2001* (Cth)
Customer satisfaction – Roy Morgan	This represents satisfaction with Main Financial Institution (MFI) based on the relationship with the financial institution as measured by Roy Morgan Research. The figures are six months rolling averages and are based on respondents aged 14+. The measure is the percentage of customers who answered as being either "very satisfied" or "fairly satisfied" with their MFI. Net Promoter Score (NPS) is now the primary metric by which we assess customer satisfaction. Advocacy is measured on a scale of 1 to 10, with 1 being "Very Unlikely" and 10 being "Very likely" to recommend. (Measuring our customers' satisfaction is important as satisfied customers usually return, they tell other people about their experiences, and they may well pay a premium for the privilege of doing business with an institution they trust.) Our aim is to retain our customers by providing quality service to them.
Deferred rights	Deferred rights to ordinary shares in CBA are used for deferred STVR awarded under Executive General Manager arrangements. These equity awards are subject to forfeiture if the Executive ceases to be employed by the Group prior to the vesting date as a result of resignation or serious misconduct, Board risk and reputation review and malus provisions.
Deferred shares	Awarded from the 2018 financial year, deferred shares are ordinary shares in CBA, which are restricted until vesting and used for deferred STVR arrangements and sign-on awards. These equity awards are subject to forfeiture if the Executive ceases to be employed by the Group prior to the vesting date as a result of resignation or serious misconduct, Board risk and reputation review and malus provisions.
Dividend payout ratio ("cash basis")	Dividends paid on ordinary shares divided by net profit after tax ("cash basis").
Dividend payout ratio ("statutory basis")	Dividends paid on ordinary shares divided by net profit after tax ("statutory basis").
DPS	Dividends per share.
DRP	Dividend reinvestment plan.
DRP participation	The percentage of total issued capital participating in the dividend reinvestment plan.
Earnings per share (EPS) (basic)	Basic earnings per share is the net profit attributable to ordinary equity holders of the Bank, divided by the weighted average number of ordinary shares on issue during the year per the requirements of relevant accounting standards.
Earnings per share (EPS) (diluted)	Diluted earnings per share adjusts the net profit attributable to ordinary equity holders of the Bank and the weighted average number of ordinary shares on issue used in the calculation of basic earnings per share, for the effects of dilutive potential ordinary shares per the requirements of relevant accounting standards.
Expense to income ratio	Represents operating expenses as a percentage of total operating income. The ratio is a key efficiency measure.
Executives	Collective term referring to the individuals in the following Executive groups: CEO, Group Executives and CEO ASB.
Full-time equivalent staff	Includes all permanent full-time staff, part-time staff equivalents and external contractors employed through third-party agencies.

Glossary of terms

Term	Description
Funds Under Administration	Funds Under Administration (FUA) represents the market value of funds administered by the Group and excludes AUM. Growth and volatility in this balance is a key performance indicator for the Wealth Management business and New Zealand businesses.
Group	Commonwealth Bank of Australia and its subsidiaries.
Group Executive (GE)	Members of the Executive Leadership Team (excludes the CEO and the CEO ASB).
Interest Rate Risk in the Banking Book (IRRBB)	Interest Rate Risk in the Banking Book is the risk that the Bank's profit derived from Net Interest Income (interest earned less interest paid), in current and future periods, is adversely impacted by changes in interest rates. This is measured from two perspectives: quantifying the change in the net present value of the Balance Sheet's future earnings potential, and the anticipated change to the Net Interest Income earned over 12 months. This calculation is driven by APRA regulations with further detail outlined in the Group's Basel III Pillar 3 report.
Key Management Personnel (KMP)	Persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.
Long-Term Variable Remuneration (LTVR)	A variable remuneration arrangement that grants instruments to participating Executives that may vest over a period of four years if performance hurdles are met.
Net profit after tax ("cash basis")	Represents net profit after tax and non-controlling interests before non-cash items including hedging and IFRS volatility, Bankwest non-cash items, treasury shares valuation adjustment, and losses or gains on acquisitions, disposal, closure and demerger of businesses. This is Management's preferred measure of the Group's financial performance.
Net profit after tax ("statutory basis")	Represents net profit after tax and non-controlling interests, calculated in accordance with Australian Accounting Standards. This is equivalent to the statutory item "Net profit attributable to Equity holders of the Bank".
Net Promoter Score Consumer	Refer to pages 297 - 298.
Net Promoter Score Business	Refer to pages 297 - 298.
Net Promoter Score Mobile App	Refer to pages 297 - 298.
Net Promoter Score Internet Banking	Refer to pages 297 - 298.
Net Stable Funding Ratio (NSFR)	The NSFR more closely aligns the behaviour terms of assets and liabilities. It is the ratio of the amount of available stable funding (ASF) to the amount of required stable funding (RSF). ASF is the portion of an Authorised Deposit-taking Institution's (ADI) capital and liabilities expected to be a reliable source of funds over a one year time horizon. RSF is a function of the liquidity characteristics and residual maturities of an ADI's assets and off Balance Sheet activities.
Net tangible assets per share	Net assets excluding intangible assets, non-controlling interests and other equity instruments divided by ordinary shares on issue at the end of the period (excluding Treasury Shares deduction).
Non-Executive Director	Key Management Personnel who are not Executives.
Other overseas	Represents amounts booked in branches and controlled entities outside Australia and New Zealand.
Profit after capital charge (PACC)	The Group uses PACC, a risk-adjusted measure, as a key measure of financial performance. It takes into account the profit achieved, the risk to capital that was taken to achieve it, and other adjustments.
Return on equity – cash basis	Based on cash net profit after tax ("cash basis") and non-controlling interests less other equity instruments' distributions applied to average shareholders' equity, excluding non-controlling interests, other equity instruments and the treasury shares deduction relating to life insurance statutory funds.
Return on equity – statutory basis	Based on net profit after tax ("statutory basis") less other equity instruments' distributions applied to average shareholders' equity, excluding non-controlling interests and other equity instruments.

Glossary of terms

Term	Description
Rights	Rights to ordinary shares in CBA granted under LTVR award and subject to performance hurdles.
Short-Term Variable Remuneration (STVR)	Variable remuneration paid subject to the achievement of predetermined performance hurdles over one financial year.
Total Committed Exposure (TCE)	Total Committed Exposure is defined as the balance outstanding and undrawn components of committed facility limits. It is calculated before collateralisation and excludes settlement exposures on derivatives.
Weighted average number of shares ("cash basis")	The calculation incorporates the bonus element of any rights issue, discount element of any DRP and excludes "Treasury Shares" related to investment in the Bank's shares held by the employee share scheme trust.
Weighted average number of shares ("statutory basis")	The calculation incorporates the bonus element of any rights issue, discount element of any DRP and excludes "Treasury Shares" related to investments in the Bank's shares held by both the life insurance statutory funds and by the employee share scheme trust.

Glossary of terms

Our business definitions

Statement	Source
#1 banking app in Australia	The Forrester Digital Experience Review™: Australian Mobile Banking Apps, Q3 2020. Commonwealth Bank of Australia was named the Overall Digital Experience Leader™ among mobile apps in Australia in Forrester's proprietary Digital Experience Review™. Forrester Research does not endorse any company included in any Digital Experience Review™ report and does not advise any person or organization to select the products or services of any particular company based on the ratings included in such reports.
#1 in home lending, household deposits and credit cards	Home lending: RBA Lending and Credit Aggregates. Household deposits and credit cards: APRA Monthly Authorised Deposit-taking Institution Statistics (MADIS).
#1 mobile app and internet banking Net Promoter Score	Refer to pages 297-298.
#1 mobile banking	Commonwealth Bank won Canstar's *Bank of the Year - Mobile Banking* award for 2020 (for the 5th year in a row). Awarded June 2020.
#1 online banking	Commonwealth Bank won Canstar's *Bank of the Year - Online Banking* award for 2020 (for the 11th year in a row). Awarded June 2020.
#1 payments provider with largest merchant base	Total volume of transactions processed in Australia for credit and debit cards based on RBA and quarterly Mastercard reported data. RBA: Credit and Charge Cards – Original Series – Personal and Commercial Cards. RBA: Debit Cards – Original Series.
6.1 million active customers	The total number of customers that have logged into the CommBank mobile app at least once in the month of June 2020. Includes Face ID logons.
CommBank transactions made digitally (by value)	The total value ($) of transfers and BPAY payments made in digital (NetBank, the CommBank mobile app, CommBank tablet app and old mobile app) as a proportion of the total value ($) of transfers in over-the-counter, ATM, EFTPOS and digital transactions over the period of July 2019 – June 2020.
Main Financial Institution (MFI) for more than 1 in 3 Australians	MFI Share measures the proportion of Banking and Finance MFI Customers that nominated each bank as their Main Financial Institution. MFI definition: In the Roy Morgan Single Source Survey MFI is a customer determined response where one institution is nominated as the primary financial institution they deal with (when considering all financial products they hold). Peers include ANZ Group, NAB Group and Westpac Group (including St George Group). CBA Group includes Bankwest. Source: Roy Morgan Single Source survey conducted by Roy Morgan, Australian population 14+ (12 month average to June 2020), excludes unable to identify MFI.
New business lending for Australian businesses	Includes Commercial Lending, Asset Finance and Institutional Lending (excluding other interest earning lending assets, primarily Cash Management Pooling Facilities, Leasing, Trade Finance, and Debt Markets).
New home lending for Australian home buyers	Includes RBS internal refinancing, excludes Viridian Line of Credit (VLOC) and excludes Bankwest internal refinancing.
People and delivery partners enabled to work remotely during COVID-19	Number of people (both CBA staff and partners, e.g. IT vendors) provided with the infrastructure needed to work remotely (e.g. Office 365, Virtual Desktop).
RepTrak score	The RepTrak Company (formerly Reputation Institute), June 2020. Reputation score amongst top 16 ASX customer-facing companies.
The largest share of new migrant segments	Main Financial Institution (MFI) Share measures the proportion of Banking and Finance MFI Customers who were not born in Australia and have been in Australia for less than 6 years that nominated each bank as their Main Financial Institution. MFI definition: In the Roy Morgan Single Source Survey MFI is a customer determined response where one institution is nominated as the primary financial institution they deal with (when considering all financial products they hold). Peers includes ANZ Group, NAB Group and Westpac Group (including St George Group). CBA Group includes Bankwest. Source: Roy Morgan's Single Source survey conducted by Roy Morgan, Australian population 14+ (12 month average to June 2020).
The largest share of youth segments	Main Financial Institution (MFI) Share measures the proportion of Banking and Finance MFI Customers aged 14-24 that nominated each bank as their Main Financial Institution. MFI definition: In the Roy Morgan Single Source Survey MFI is a customer determined response where one institution is nominated as the primary financial institution they deal with (when considering all financial products they hold). Peers includes ANZ Group, NAB Group and Westpac Group (including St George Group). CBA Group includes Bankwest. Source: Roy Morgan's Single Source survey conducted by Roy Morgan, Australian population 14+ (12 month average to June 2020).

Glossary of terms

Sustainability performance metrics definitions

Metric	Description
Absenteeism	Absenteeism refers to the average number of sick leave days (and carer's leave days for CommSec employees) per Australia-based full-time equivalent employees. Bankwest is included from FY19.
Age diversity	Percentage of permanent employees (full-time, part-time, job share or on extended leave), casuals, employees on international assignment and those contractors paid directly by the Group, by age group as at 30 June (excluding ASB businesses in New Zealand).
Australian Indigenous supplier spend	Refers to direct (first tier) supplier spend with Indigenous businesses in Australia. It includes any payments (including grant payments) made to an Indigenous business registered or certified by Supply Nation.
Cash contributions	Total donations contributed by the Group (excluding Aussie Home Loans) through charitable gifts, community partnerships and matched giving. Matched giving excludes staff contributions.
Community investment as a percentage of pre-tax profit	Total community investment as a percentage of the Group's cash net profit from continuing operations before tax as at 30 June.
Cultural diversity index (CDI)	The concentration mix of all cultures of the Group's employees resulting in an index between 0 and 1, where the higher the score, the more diverse the population. CDI is calculated using demographic information disclosed in the Group's biannual people and culture survey and benchmarked against the ancestry question in the 2016 Australian Census. The CDI excludes Aussie Home Loans, Bankwest, and ASB businesses in New Zealand, businesses in Indonesia, China and Vietnam.
Customer Advocate:	
Average business days to review complaint	Average number of business days taken to review a complaint, from the date it was received by the Office of the Customer Advocate until the review was finalised and an outcome is provided to the customer. It excludes Aussie Home Loans, ASB businesses in New Zealand and other overseas operations.
Complaints reviewed by the Office of the Customer Advocate (OCA)	Number of customer complaints reviewed by the OCA and recorded in the feedback management system (Firstpoint). It excludes Aussie Home Loans, ASB businesses in New Zealand and other overseas operations.
Outcomes from review process	Portion of complaints reviewed by the Office of the Customer Advocate where the internal dispute resolution (IDR) decision was; confirmed (no further action taken), enhanced (agreed with IDR decision but provided alternative financial/non-financial outcome) or substituted (IDR decision was incorrect). It excludes Aussie Home Loans, and ASB businesses in New Zealand and overseas operations.
Customer complaints – resolved	The number of complaints resolved for the Group during the reporting period as defined by the Australian Securities and Investments Commission Regulatory Guide 165, and recorded in the feedback management system (Firstpoint). In FY20 the methodology has been revised to consider only those complaints resolved after five business days. FY19 and FY18 figures have been restated using this revised methodology. It excludes Aussie Home Loans, Bankwest and overseas operations.
Electricity generated from on-site solar panels	Electricity generated during the reporting period from photovoltaic solar panels installed on approximately 80 bank branches. Electricity may be used on site or returned to the grid.
Employee engagement index – CBA	The index shows the proportion of employees replying with a score of 4 or 5 to four engagement questions in the Group's biannual people and culture survey. The questions relate to satisfaction, retention, advocacy and pride on a scale of 1-5 (where 1 is 'Strongly Disagree' and 5 is 'Strongly Agree'). The index excludes Aussie Home Loans, Bankwest and ASB businesses in New Zealand.
Employee turnover – involuntary	Refers to all involuntary exits of permanent employees as a percentage of the average permanent headcount paid directly by the Group (full-time, part-time, job share or on extended leave), excluding ASB businesses in New Zealand. Involuntary exits include redundancies and terminations for disciplinary reasons.
Employee turnover – voluntary	Refers to all voluntary exits of permanent employees as a percentage of the average permanent headcount paid directly by the Group (full-time, part-time, job share or on extended leave), excluding ASB businesses in New Zealand. Voluntary exits are determined to be resignations and retirements.

Glossary of terms

Metric	Description
Employees who identify as having a disability	The proportion of employees that have selected one or more of the disability conditions (including, but not limited to, physical or intellectual conditions, vision impairment, etc.) in the Group's biannual people and culture survey. It excludes Aussie Home Loans, Bankwest, ASB businesses in New Zealand, and businesses in Indonesia.
Employees who identify as LGBTI	The proportion of employees that identify as Lesbian, Gay, Bisexual, Transgender, Intersex (LGBTI) or other, by nominating one or more of the LGBTI options in the Group's biannual people and culture survey. It excludes Aussie Home Loans, Bankwest, ASB businesses in New Zealand and businesses in Indonesia, China, Vietnam and Singapore.
Employees with caring responsibilities	The proportion of employees that have selected any of the caring responsibility options (including, but not limited to, caring for elderly, children, people with chronic conditions, etc.) in the Group's biannual people and culture survey. It excludes Aussie Home Loans, Bankwest and ASB businesses in New Zealand.
Employees working flexibly	The proportion of employees that indicated they have used any of the flexible work options in the Group's biannual people and culture survey. It excludes Aussie Home Loans, Bankwest, and ASB businesses in New Zealand, and businesses in Indonesia, China and Vietnam.
Employees who have accessed parental leave	Number of employees eligible for parental leave benefit who had started primary or secondary carer parental leave during the reporting period, as recorded in the Group's human resources system. It excludes Aussie Home Loans, and ASB businesses in New Zealand and employees of discontinued operations.
Employees who have returned from parental leave and are still employed after 12 months	Number of employees who returned from a period of primary or secondary carer parental leave in the prior year and were still employed after 12 months within the reporting period, as recorded in the Group's human resources system. Excludes parental leave recorded prior to the introduction of a new HR System (2 March 2018) and employees that returned to a major business or subsidiary that is now a discontinued operation (refer to Note 11.3 on page 258 in the Financial Report for details on discontinued operations). Also excludes Aussie Home Loans and ASB businesses in New Zealand.
Employees working part-time or job sharing	The proportion of employees as at 30 June who are employed on a part-time or job share basis, as a percentage of permanent employees (full-time, part-time, job share or on extended leave).
Employment type	The number of Australian employees as at 30 June who are permanent employees working in full-time, part-time or casual positions, including job share or on extended leave. It excludes ASB businesses in New Zealand, fixed contractors and contingent workers.
Environmental, Social and Governance (ESG) training	Number of employees who have completed ESG learning modules, as recorded in CBA's learning management system (PeopleLink) as at 30 June, measured by headcount. This metric excludes Aussie Home Loans, Bankwest and ASB businesses in New Zealand.
Escalated complaints to an external dispute resolution (EDR) scheme	Number of complaints escalated to an EDR scheme for the Group, excluding Bankwest and ASB businesses in New Zealand. This includes complaints that have been through the Bank's internal dispute resolution process and have been escalated to an EDR scheme. FY19 has been restated based on an estimate modelled on the percentage of these complaints in FY20, and to exclude Bankwest. These complaints are recorded in the Group's feedback management system (Firstpoint) and are managed by Group Customer Relations. EDR schemes include, but are not limited to, the Australian Financial Complaints Authority (AFCA) and the Office of the Australian Information Commissioner (OAIC).
Female Directors on Board	The number of female Directors as a percentage of the number of Directors on the Board as at 30 June.
Forgone revenue	Forgone revenue consists of the aggregate value of fee-free or discounted CBA products and services during the reporting period for customers who have been assessed as low income earners, in vulnerable circumstances or not-for-profit organisations. It relates to monthly account and transaction fees only and does not include discounts on interest rates.
Fuels – natural gas, diesel and transport	Energy from the use of natural gas and diesel in retail and commercial operations, and transport fuels, under CBA's operational control during the reporting period.
Full-time equivalent employees (FTE)	Total FTE of the Group (excluding CBA employees based in New Zealand) by geographical work locations as at 30 June. FTE includes full-time, part-time, job share employees, employees on extended leave and contractors. One full-time role is equal to 38 working hours per week.

Glossary of terms

Metric	Description
Gender pay equity – female to male base salary comparison	Gender pay equity is defined as the ratio of weighted average base salary of males and females for Australia-based employees of the Group, as at 31 March. The data reflects roles in similar functions, role scope and responsibilities. The data refers to permanent full-time and part-time employees. It excludes the CEO, Board members, contractors, casual employees, seconded employees and employees who have not responded with a defined gender. Methodology changed in FY20, to improve representation of management levels.
Graduates	The number of graduates who accepted and commenced in a graduate position with CBA or Bankwest under the Talent Acquisition program. Graduate positions commence in February each year.
Greenhouse gas emissions:	
Scope 1 emissions	Relates to the consumption of natural gas and stationary fuel used in retail, commercial and data centre properties under the Group's operational control, and business use of Tool of Trade vehicles. Emissions are calculated using the relevant emissions factors noted in the regional definitions below.
Scope 2 emissions	Emissions from the electricity used by ATMs, retail, commercial, residential and data centre properties under the Group's operational control. Emissions are calculated using the relevant emission factors noted in the regional definitions below.
Scope 3 emissions	Indirect greenhouse gas emissions as a result of sources outside the Group's operational control, but support the Group's business activities. It includes rental car and taxi use, business use of private vehicles, dedicated bus services, business flights, hotel accommodation, emissions associated with electricity and diesel consumption at data centres not under CBA's operational control, and base building emissions. Emissions are calculated using the relevant emission factors noted in the regional definitions below.
Scope 1 and 2 emissions per FTE	Greenhouse gas emissions intensity based on total Scope 1 and 2 emissions for the Group or by geographical locations, and divided by the relevant FTE number. Calculations for FY20 exclude the reclassified Scope 2 emissions from the two data centres now under operational control.
Scope 1, 2 and 3 emissions – New Zealand	New Zealand emissions are based on emission factors sourced from Measuring Emissions: A Guide for Organisations (2020). In FY20, ASB businesses in New Zealand have reclassified a portion of their leased fleet fuel usage from Scope 3 emissions to Scope 1 emissions.
Scope 1, 2 and 3 emissions – Other overseas	Other overseas emissions are estimated by multiplying the Australian emissions per FTE as at 30 June by the number of FTEs of all the Group's other overseas offices.
Scope 1 – Natural gas and stationary emissions (Australia operations)	Emissions from the consumption of diesel and natural gas in retail, commercial and data centre properties in Australia under the Group's operational control as defined under the National Greenhouse and Energy Reporting Act. Source of emissions factors: National Greenhouse Accounts Factors (NGA) (2019).
Scope 1 – Transport emissions (Australia operations)	Emissions from the consumption of diesel, ethanol E10 and petrol from our business use of our Tool of Trade vehicle fleet in Australia. Source of emissions factors: NGA (2019).
Scope 2 – Purchased electricity – property portfolio emissions (Australia operations)	Emissions from the electricity used by ATMs, retail, commercial and residential properties under the Group's operational control in Australia as defined under the National Greenhouse and Energy Reporting Act. Source of emissions factors: NGA (2019).
Scope 2 – Purchased electricity – data centre emissions (Australia operations)	Emissions from the electricity used by data centres under the Group's operational control in Australia as defined under the National Greenhouse and Energy Reporting Act. Source of emissions factors: NGA (2019).
Scope 3 – Natural gas and diesel stationary (Australia operations)	Indirect emissions associated with the use of diesel and natural gas in retail, commercial and data centre properties in Australia under the Group's operational control as defined under the National Greenhouse and Energy Reporting Act. Source of emissions factors: NGA (2019).

Glossary of terms

Metric	Description
Scope 3 – Purchased electricity – data centre (Australia operations)	Indirect emissions from the electricity and diesel consumption in the Group's Australian data centres not under the Group's operational control as defined under the National Greenhouse and Energy Reporting Act. Source of emissions factors: NGA (2019).
Scope 3 – Transport (Australia operations)	Indirect emissions from rental car and taxi use, business use of private vehicles, dedicated bus service, business flights, and indirect emissions from business use of our tool-of-trade vehicle fleet. Source of emissions factors: NGA (2019) and DEFRA (2019) for flights.
Scope 3 – Hotel accommodation (Australia operations)	Indirect emissions from hotel accommodation used by employees and calculated based on the value of the spend on accommodation. Source of emissions factors: Energetics (2020).
Scope 3 – Transmission and distribution losses (Australia operations)	Indirect emissions associated with the electricity used by ATMs, retail, commercial and residential properties under the Group's operational control in Australia. Source of emissions factors: NGA (2019).
Scope 3 – Office paper (Australia operations)	Indirect emissions generated from the Group's use of office paper in the Group's commercial operations and retail branches under the Group's operational control in Australia. Source of emissions factors: DEFRA (2019).
Scope 3 – Base building (Australia operations)	Indirect emissions generated from CBA's proportion (by net lettable area) of base building electricity and natural gas usage for the Group's Australian Commercial offices. Source of emissions factors: NGA (2019).
Headcount	Total number of employees, including permanent headcount (full-time, part-time, job share, on extended leave), and contractors (fixed term arrangements) paid directly by the Group as at 30 June.
Health, safety and wellbeing training	Number of employees who completed health, safety and wellbeing training, as recorded in the Group's learning management system (PeopleLink) as at 30 June, measured by headcount. Excludes Aussie Home Loans, Bankwest and ASB businesses in New Zealand.
Indigenous Customer Assistance Line (calls received)	Number of calls received via the dedicated Indigenous Customer Assistance Line (ICAL) during the 12 months to 30 June. It excludes calls that were abandoned by customers.
Indigenous workforce	Represents the proportion of employees that have indicated they most strongly identify with Australian Aboriginal and/or Torres Strait Islander ancestry in the Group's biannual people and culture survey. It excludes businesses in Indonesia. Aboriginal and Torres Strait Islander representation in Australia is based on the 2016 Australian Census.
Lost Time Injury Frequency Rate (LTIFR)	LTIFR is the reported number of occurrences of lost time arising from injury or disease that have resulted in an accepted workers compensation claim, for each million hours worked by Australia and New Zealand employees. The metric captures claims relating to permanent, casual and contractors paid directly by the Group. It is reported using the information available as at 30 June. FY19 has been restated due to claims received after year-end reporting date. New Zealand employees included from FY18.
Low carbon funding	Financing provided to low carbon assets is based on total committed exposure (TCE) or total drawn lending facility (TDLF) as at 30 June. The Group's low carbon funding target is $15bn by 2025. Asset categories include large-scale renewable energy projects (based on TCE), low carbon commercial buildings (based on TCE and 6 star NABERS rating criteria), low carbon transport (based on TDLF) and energy efficient assets (includes small-scale renewable energy assets, based on TDLF). For the full definition, including definitions of each asset category, refer to the Non-financial performance metrics excel spreadsheet at www.commbank.com.au/CRreporting
Misconduct breaches resulting in termination	Represents closed substantiated misconduct cases which resulted in termination and were managed in Australia by the Workplace Relations and Group Investigations teams. Various policies within the Group govern staff conduct obligations, including the 'Code of Conduct' which is the guiding framework for the Group. It excludes incidents reported by local associates and joint ventures.
Net Promoter Score (NPS)	Net Promoter, Net Promoter System, Net Promoter Score, NPS and the NPS-related emoticons are registered trademarks of Bain & Co Inc., Satmetrix Systems, Inc., and Fred Reichheld. See more on page 298.

Glossary of terms

Metric	Description
NPS – ASB – Business and rural banking	Business Finance Monitor Net Promoter Score measures the net likelihood of recommendation to others of the business or rural customer's Main Financial Institution. Using a scale of 1 to 10 (1 means 'extremely unlikely' and 10 means 'extremely likely'), the 1-6 raters (detractors) are deducted from the 9-10 raters (promoters). Four quarter rolling average data is used. The ranking refers to ASB's position relative to the other main three New Zealand banks.
NPS – ASB – Retail banking	Retail Market Monitor Net Promoter Score measures the net likelihood of recommendation to others of the customer's Main Financial Institution. Using a scale of 1 to 10 (1 means 'extremely unlikely' and 10 means 'extremely likely'), the 1-6 raters (detractors) are deducted from the 9-10 raters (promoters). 11 month rolling average data has been used pending the build-up of a continuous 12 month sample. The ranking refers to ASB's position relative to the other main four New Zealand banks.
NPS – Bankwest – Business	DBM Business Net Promoter Score measures the net likelihood of recommendation to others of the customer's Main Financial Institution. Using a scale of 0 to 10 (0 means 'extremely unlikely' and 10 means 'extremely likely'), the 0-6 raters (detractors) are deducted from the 9-10 raters (promoters). 6 month rolling average data is used. Businesses with lending under $500,000 nationally or lending over $500,000 in West Australia are included in the metric.
NPS – Bankwest – Retail	DBM Consumer Main Financial Institution (MFI) Net Promoter Score. Australian Population 14+ (from Aug 16; 18+ for data prior). Refers to customers' likelihood to recommend their MFI using a scale from 0-10 (where 0 being 'Not at all likely' and 10 being 'Extremely likely') and is calculated by subtracting the percentage of Total Detractors (0-6) from the percentage of Promoters (9-10). Note that percentage signs are not used to report NPS 6 month rolling average. The metric is based on two of Bankwest's priority segments - Home Owner and Property Investors (HOPI) and those intending to purchase property within the next 12 months (Pre-HOPI).
NPS – CBA – Business	DBM Business Net Promoter Score measures the net likelihood of recommendation to others of the customer's Main Financial Institution. Using a scale of 0 to 10 (0 means 'extremely unlikely' and 10 means 'extremely likely'), the 0-6 raters (detractors) are deducted from the 9-10 raters (promoters). A 6-month rolling average data is used.
NPS – CBA – Consumer	DBM Consumer Main Financial Institution (MFI) Net Promoter Score. Australian Population 14+ (from Aug 16; 18+ for data prior). Refers to customers' likelihood to recommend their MFI using a scale from 0-10 (where 0 being 'Not at all likely' and 10 being 'Extremely likely') and is calculated by subtracting the percentage of Total Detractors (0-6) from the percentage of Promoters (9-10). Note that percentage signs are not used to report NPS. 6 month rolling average. CBA excludes Bankwest and Westpac excludes St George.
NPS – CBA – Internet banking	Internet banking (via the website or mobile app on a mobile phone or tablet): Roy Morgan Research. Australian population 14+ who used the internet banking services of their (self-nominated) Main Financial Institution in the last 4 weeks, rolling average of the last 6 months of spot scores as at June 2020. Rank based on comparison to ANZ, NAB and Westpac (at brand level).
NPS – CBA – Mobile app	Mobile app (via mobile app on a mobile phone or tablet): Roy Morgan Research. Australian population 14+ who used the internet banking services of their (self-nominated) Main Financial Institution in the last 4 weeks, rolling average of the last 6 months of spot scores, as at June 2020. Rank based on comparison to ANZ, NAB and Westpac (at brand level).
Office paper	A3 and A4 office paper used in retail and commercial operations under the Group's operational control. Invoiced reams of paper used to estimate usage as a weight. Excludes operations outside Australia.
Privacy complaints	Number of privacy related complaints escalated to the Office of the Australian Information Commissioner (OAIC) for the Group, excluding Aussie Home Loans, Bankwest and ASB businesses in New Zealand. This includes complaints that have been through the Bank's internal dispute resolution process and have escalated to the OAIC, or have been raised directly with the OAIC. These complaints are recorded in the Group's feedback management system (Firstpoint) and are managed by Group Customer Relations.
Program implementation costs	Total costs incurred by the Group to implement community investment programs and manage the Indigenous Customer Assistance Line call centre, the Corporate Affairs team, Women in Focus, school programs as well as other not-for-profit activities. These costs include salary and wages, occupancy, IT and other administration costs. It excludes Aussie Home Loans.

Glossary of terms

Metric	Description
Purchased electricity	Purchased electricity used in Australian retail and commercial properties under operational control, two data centres under operational control and two data centres outside operational control.
Renewable energy via power purchase agreements or retail contracts	Energy value of purchased electricity that has been sourced through power purchase agreements or renewable electricity retail contracts.
School banking students (active)	The number of active students who participated in the Commonwealth Bank's School Banking program during the 12 months to 30 June. Active students are those who banked at least once during the 12 month period through the School Banking Portal under the School Banking program.
SpeakUP Program cases	Number of SpeakUP cases recorded in the Group's SpeakUP Program during the 12 months to 30 June. The reports include both whistleblower and non-whistleblower disclosures.
Start Smart students (booked)	Number of students booked to attend the Commonwealth Bank's Start Smart financial education programs during the 12 months to 30 June. Start Smart sessions cover a range of topics and the same student may be booked to attend a number of sessions.
Substantiated misconduct cases	Represents closed substantiated misconduct cases managed in Australia by the Workplace Relations and Group Investigations teams. Various policies within the Group govern staff conduct obligations, including the 'Code of Conduct' which is the Group's guiding framework. It excludes incidents reported by local associates and joint ventures.
Time volunteering	Total estimated cost of pro bono and volunteering hours contributed by Australia-based CBA employees through volunteering activities as captured in the Group's volunteering database. Average hourly rates are calculated using Australia-based permanent employees' salaries as at 30 June, excluding the salary of the executive leadership and management teams.
Total community investment	Total voluntary investment contributed to communities in the form of cash contributions, time volunteering, forgone revenue and program implementation costs.
Training completion rates – Code of Conduct	Percentage of employees who have been assigned and completed the 'Code of Conduct' learning module recorded in the Group's learning management system (PeopleLink) as at 30 June. This metric excludes the training completion rates of the employees of Aussie Home Loans, Bankwest and ASB businesses in New Zealand. Numbers prior to FY19 are for completion of 'Our Commitments' training.
Training completion rates – mandatory learning	Percentage of employees who have been assigned and completed the Group's mandatory learning modules recorded in the Group's learning management system (PeopleLink) as at 30 June. This metric excludes the training completion rates of the employees of Aussie Home Loans, Bankwest and ASB. The Group's mandatory learning modules are Anti-Bribery and Corruption, Anti-Money Laundering and Counter-Terrorism Financing, Code of Conduct, Conflicts of Interest, Fraud, Security and Privacy, Resolving Customer Complaints, Workplace Conduct and Health and Safety.
Training hours	This represents the total completed training hours recorded in the Group's learning management system (PeopleLink) as at 30 June. Training hours are allocated to each training item such as face-to-face or online training. Executive Managers, General Managers, Executive General Managers and the Chief Executive Officer are included in 'Executive Managers and above' and 'Others' includes team managers and team members. This metric excludes the training completion rates of the employees of Aussie Home Loans, Bankwest and ASB businesses in New Zealand.
Training hours per employee	This metric represents the average completed training hours per employee that is recorded in CBA's learning management system (PeopleLink) as at 30 June, measured by headcount. This metric excludes the training completion rates of the employees of Aussie Home Loans, Bankwest and ASB businesses in New Zealand.
Water	Water consumption includes tenanted usage from CBA and Aussie Home Loans commercial buildings in Australia. As at 30 June 2020, 51% of water usage is based on invoiced amounts, the remainder is estimated based on an average usage per m2 of net lettable area. From FY18, water related metrics are reported on all commercial buildings. FY17 and FY16 were reported for nine commercial buildings. It includes invoiced water use for the two data centres that are under the Group's operational control.
Whistleblower cases	Number of whistleblower cases on-boarded into the Group's SpeakUP Program during the 12 months to 30 June.

Glossary of terms

Metric	Description
Women in Executive Manager and above roles	The percentage of roles at the level of Executive Manager and above filled by women, in relation to the total headcount at these levels as at 30 June. Excludes ASB businesses in New Zealand.
Women in Manager and above roles	The percentage of roles at the level of Manager and above (including Branch Managers) filled by women, in relation to the total headcount at this level as at 30 June. Excludes ASB businesses in New Zealand.
Women in Senior Leadership (Group Executives)	The percentage of executive roles that are currently filled by women as at 30 June. These roles are direct reports of the Chief Executive Officer with authority and responsibility for planning, directing and controlling the Group's activities. Excludes ASB businesses in New Zealand. For the list of current executives, please refer to the 2020 Annual Report pages 70-71.
Women in workforce	The percentage of roles filled by women, in relation to the total headcount as at 30 June. Excludes ASB businesses in New Zealand.

Contact us

Registered office

Ground Floor, Tower 1
201 Sussex Street
Sydney NSW 2000
Telephone: +61 2 9378 2000
Facsimile: +61 2 9118 7192
commbank.com.au

International locations

commbank.com.au/internationallocations

Share Registrar

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Mail: Link Market Services Limited
Locked Bag A14 Sydney South NSW 1235

Telephone: +61 1800 022 440
Email: cba@linkmarketservices.com.au
linkmarketservices.com.au

CBA Investor Relations

Telephone: +61 2 9118 7113
Email: cbainvestorrelations@cba.com.au
commbank.com.au/investors

All other enquiries

commbank.com.au/contactus

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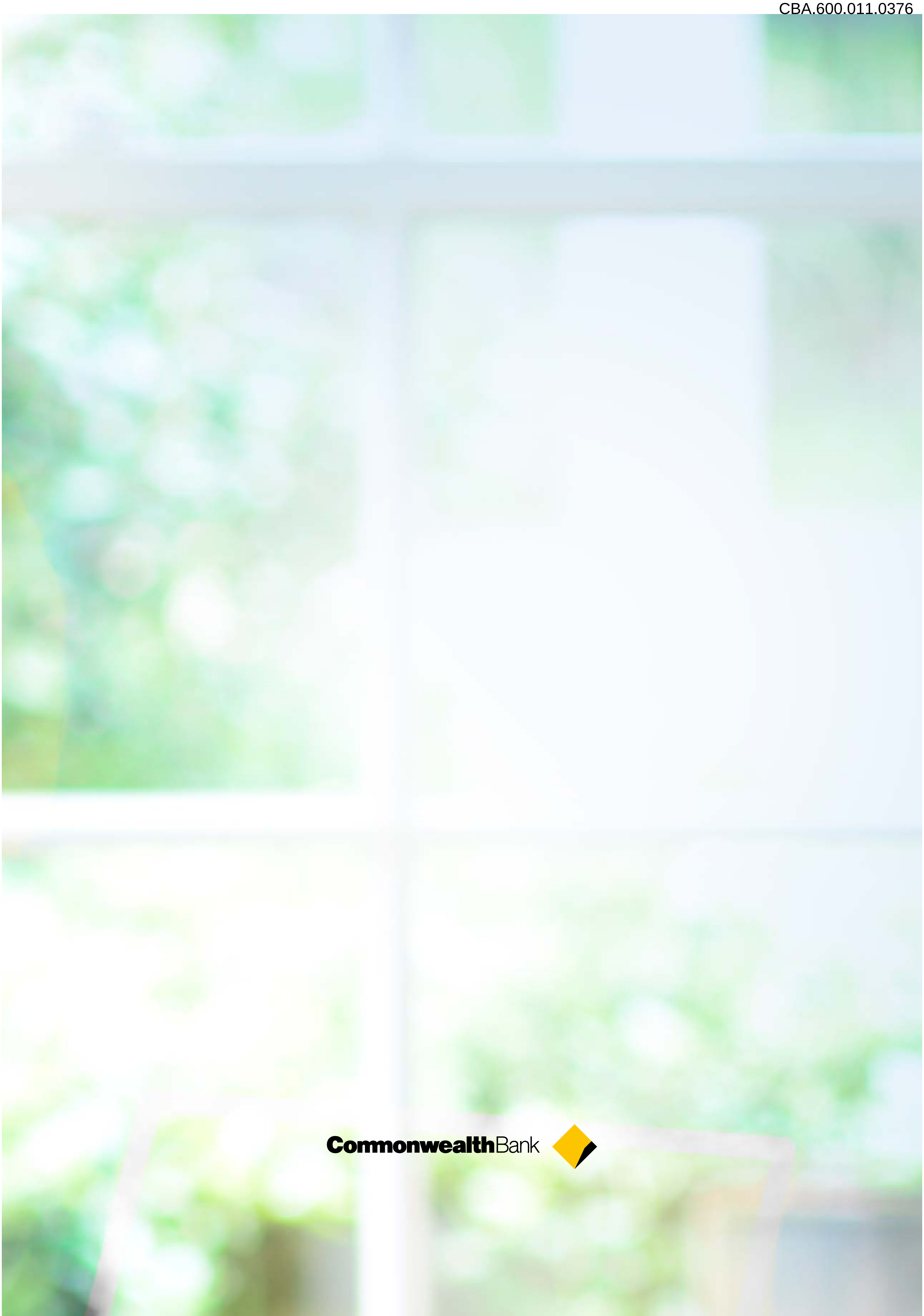
CommonwealthBank

TAB 16: Exhibit CBA-1

Commonwealth Bank

Profit Announcement

For the half year ended
31 December 2020

ASX Appendix 4D **Results for announcement to the market** [1] **Report for the half year ended 31 December 2020**	**$M**	
Revenue from ordinary activities [2, 3]	**11,896**	**down 1%**
Profit/(loss) from ordinary activities after tax attributable to Equity holders	**4,877**	**down 21%**
Net profit/(loss) for the period attributable to Equity holders	**4,877**	**down 21%**
Dividends (distributions)		
Interim dividend - fully franked (cents per share)		**150**
Record date for determining entitlements to the dividend		**17 February 2021**

1 Australian Securities Exchange (ASX) Listing Rule 4.2A.3.

2 Information has been presented on a continuing operations basis, including prior period restatements.

3 Represents total net operating income before operating expenses and impairment.

The release of this announcement was authorised by Kristy Huxtable, Company Secretary.

Commonwealth Bank of Australia I Media Release 15/2021 I ACN 123 123 124 I Ground Floor Tower 1, 201 Sussex Street, Sydney NSW 2000
10 February 2021.

This half year report is provided to the ASX under Rule 4.2A. Refer to Appendix 4.3 ASX Appendix 4D for disclosures required under ASX Listing Rules.

This report should be read in conjunction with the 30 June 2020 Annual Financial Report of the Commonwealth Bank of Australia and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

Except where otherwise stated, all figures relate to the half year ended 31 December 2020. The term “prior comparative period” refers to the half year ended 31 December 2019, while the term “prior half” refers to the half year ended 30 June 2020.

Important dates for shareholders

Half year results announcement	**10 February 2021**
Ex-dividend date	**16 February 2021**
Record date	**17 February 2021**
Last date to change participation in DRP	**18 February 2021**
Interim dividend payment date	**30 March 2021**
Full Year Results Announcement	**11 August 2021**

For further information contact

Investor Relations

Melanie Kirk

Phone 02 9118 7113

Email cbainvestorrelations@cba.com.au

Contents

ASX Announcement

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Commonwealth Bank

1H21 Results

ASX Announcement

Disciplined execution delivered strong outcomes with market share gains in core businesses, increased provisioning and a significant capital surplus.[1]

Net profit after tax

$4,877m

Statutory NPAT[2]

▼ 20.8% on 1H20

$3,886m

Cash NPAT

▼ 10.8% on 1H20

NPAT was supported by strong business outcomes but impacted by the low rate environment and COVID-19. Statutory NPAT includes gains on the sale of divestments, including the completion of BoComm Life.

Dividend

$1.50

Per share, fully franked[2]

▲ 53% on 2H20 ▼ 25% on 1H20

The interim dividend was $1.50 per share, fully franked. This represents a cash payout ratio of 67%, below the Board target payout range.

Volume growth in core businesses[3]

Business lending	+$4.0bn	>3x system
Home lending	+$13.0bn	1.5x system
Household deposits	+$23.2bn	1.1x system

Net interest margin

2.01%

▼ 3 bpts on 2H20 ▼ 10 bpts on 1H20

Group net interest margin (NIM) declined mainly due to higher liquid balances and the impact of the low rate environment on deposits and capital earnings, partly offset by lower wholesale funding costs.

Common Equity Tier 1 capital ratio

12.6%

APRA, Level 2[2]

▲ 100 bpts on 2H20 ▲ 90 bpts on 1H20

Strong organic capital generation and ongoing benefits of divestments supported higher capital levels, which remain well above APRA's 'unquestionably strong' benchmark of 10.5%. CET1 of 18.7% on an internationally comparable basis.

Loan impairment expense and provisions

$882m

▲ $233m on 1H20

1.81%

Provision coverage ratio to credit risk weighted assets[4]

Total loan impairment provisions were further increased during the period with a total provision coverage ratio of 1.81%.[4] The loan loss rate for the half was 22 basis points[5] (bpts).

For footnotes see the page vii of this ASX Announcement.

Commonwealth Bank of Australia | ACN 123 123 124
Ground Floor Tower 1, 201 Sussex Street, Sydney NSW 2000

Results overview

Executing our strategy Chief Executive Officer, Matt Comyn

The strength of our franchise, combined with the disciplined execution of our strategy, have delivered consistently good performance notwithstanding the current environment.

More than two years ago we outlined our strategy to become a simpler, better bank. Since then, we have made significant progress – divesting our wealth management businesses and improving non-financial risk management. We have also focused on operational excellence in our core banking businesses, achieving above market growth in home lending, deposits and business lending.

This position of strength means we are uniquely placed to respond to the rapidly changing operating context while continuing to support our customers, contribute meaningfully to our communities and deliver business performance.

We have refreshed our strategic priorities to build on our strong foundations and position us for the future. This is an evolutionary change to enable the Bank to focus on the new challenges and opportunities ahead.

We have set an ambitious agenda and are committed to building tomorrow's bank today for our customers.

Key financials

For the half year ended 31 December 2020[6].

- **Statutory NPAT**[7] including discontinued operations was $4,877m, down 20.8%, mainly due to lower gains realised in the period on the sale of businesses.
- **Cash NPAT** from continuing operations was $3,886m, down 10.8%. Excluding COVID-19 impacts and remediation costs, cash NPAT was broadly flat.
- **Operating income** was $11,961m, down 0.5%, due to the impact of COVID-19 and lower net interest margin, partly offset by core volume growth.
- **Net interest margin** was 2.01%, down 10bpts, due to higher liquid assets and the impact of lower rates.
- **Operating expenses** were $5,566m, up 2.3% excluding remediation costs, driven by higher investment spend, the impact of COVID-19 and increased volume-related expenses.
- **Loan impairment expense** increased $233m reflecting uncertainty in the economic outlook. The loan loss rate was 22 bpts of average gross loans and acceptances.
- **Deposit funding** of 75% from continued growth in deposit volumes.
- **Common Equity Tier 1** (CET1) capital ratio of 12.6% (Level 2, APRA), up 100 bpts since June 2020.
- **Interim dividend** of $1.50 per share fully franked.

Outlook Chief Executive Officer, Matt Comyn

We remain committed to supporting our customers and helping the economy recover.

Australia is relatively well positioned having started from a position of fiscal and economic strength. We have a solid pipeline of infrastructure projects, the outlook for mining and agriculture exports is strong, and the community has benefitted from the Government's significant income support measures.

Although the outlook is positive, there are a number of health and economic risks that could dampen the pace of recovery. We are prepared for a range of scenarios and have taken a careful approach to provisioning.

We also continue to monitor our lending portfolios closely for any signs of stress. The low interest rate environment will continue to put pressure on our revenue which is why we remain focused on performance, operational execution and capital allocation.

The Bank's leading franchise and strong foundations mean it is well placed for the challenges ahead. The strength of our balance sheet and capital position enables us to support customers and help lead the country through recovery. We will also continue to work with government, regulators and our industry peers to support initiatives that stimulate economic activity and jobs.

Operating performance

Our businesses continued to perform well, with strong operational execution delivering above market growth in home lending, deposits and business lending. This volume growth helped to offset the impact of lower net interest margins.

Operating income

Operating income
Cash basis

$11,961m

2H20 $11,738m

1H20 $12,023m

Net interest margin

2.01%

2H20 2.04%

1H20 2.11%

Net interest income was flat, with strong volume growth across core banking businesses helping to offset the impact on net interest margin of lower interest rates and heightened competition.

Home lending grew at 1.5x system[8] due to consistent operational excellence. Household deposit balances grew at 1.1x system[8], and Group transaction account balances were up 37% reflecting increased liquidity in the economy and higher demand for at-call deposits in the low rate environment.

Net interest margin (NIM) decreased 3 bpts on 2H20 and 10 bpts on 1H20, due to higher liquid assets and the impact of the low rate environment on deposit margins and earnings on capital, partly offset by lower wholesale funding costs.

Cash rate headwinds are expected to be 7 bpts to Group NIM in FY21.

Other operating income decreased by $83m in the half. Key drivers were:

- Lower credit card, retail foreign exchange and deposit fee income primarily due to a decline in spend and transaction volumes as a result of COVID-19;
- Further impairment of aircraft, both owned and leased to airlines, in our Structured Asset Finance portfolio; and
- Lower Global Markets sales income driven by reduced client demand for hedging activities in the low rate environment.

These decreases were partly offset by:

- Higher CommSec equities income from increased trading volumes;
- Higher Global Markets trading income from precious metals inventory financing and gains in fixed income and rates portfolios; and
- Lower insurance claims related to weather events, mainly bushfires.

Operating expenses

Operating expenses

$5,566m

2H20 $5,689m

1H20 $5,206m

Operating expenses increased 2.3% excluding remediation costs. Key drivers were:

- Higher investment spend, up 34%, with continued investment across the business driven primarily by increased investment in digital;
- Increased financial assistance and operations staffing to assist customers impacted by COVID-19 and support higher home loan and business loan volumes; and
- Higher staff and IT costs to continue to support the Bank's core businesses.

These increases were partly offset by business simplification initiatives including discretionary spend cost reductions.

Remediation cost provisions of $241m were recognised during the half, including $118m of additional provisions for historical Aligned Advice remediation issues, mainly related to program costs.

The **cost-to-income** ratio (cash basis) was 46.5%.

Provisions and credit quality

Loan impairment expense

Loan impairment expense

$882m

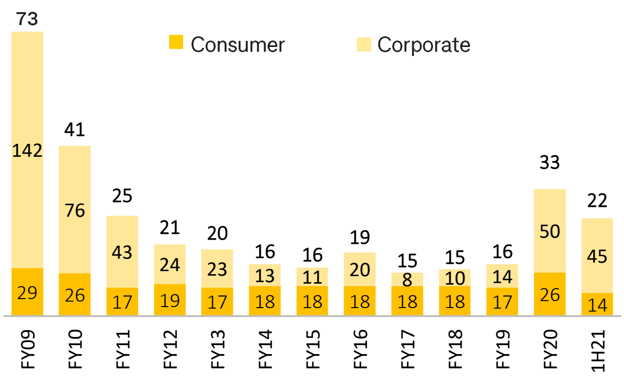
2H20 $1,869m

1H20 $649m

Loan impairment expense increased due to higher collective provisions.

Forward looking adjustments were made to reflect the uncertain economic outlook and emerging industry risks in particular for the Aviation and Entertainment, Leisure & Tourism sectors.

Loan loss rate[9] (bpts)



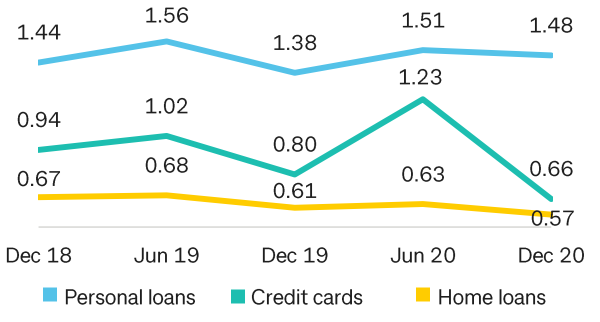
Portfolio credit quality

Consumer arrears

Arrears on home loans and consumer finance remain low, and are being temporarily insulated by COVID-19 support measures. In line with APRA's regulatory approach, loans currently in deferral as part of COVID-19 support packages are not included in arrears.

As at 31 January, approximately 25,000 home loans remain in deferral (balances $9bn) down from 145,000 loans (balances $51bn) as at 30 June 2020.[10]

Consumer arrears >90 days[11] (%)

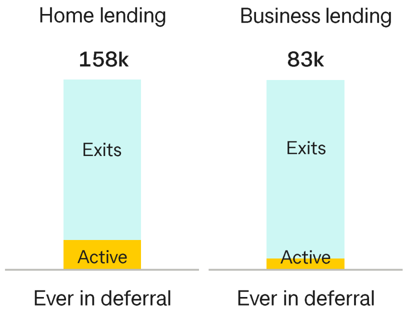


Troublesome and impaired assets

Troublesome and impaired assets increased to $8,195m. This was mainly due to the impact of COVID-19 on corporate customers in Aviation, Entertainment, Leisure & Tourism and Commercial Property sectors.

SME loans on repayment deferrals as at 31 January were approximately 2,000 loans (balances $0.3bn) down from 67,000 loans (balances $15.7bn) as at 30 June 2020.[10]

Repayment deferrals[12]



Loan impairment provisions

Provisions were further increased in the half to $6.8bn, driven by forward looking adjustments to collective provisions for emerging risks as a result of COVID-19. Collective provisions include forward looking adjustments that are estimates of the likely effects of emerging risks, including assumptions around likely deterioration in portfolio arrears rates and counterparty risk ratings.

Total provisions to credit risk weighted assets increased to 1.81%, 11 bpts higher on the prior half.

Total impairment provisions ($bn)

Balance sheet strength

Capital strength is a highlight of the result, with key liquidity and funding metrics also remaining strong during 1H21. The Bank is well prepared for a range of possible macro-economic outcomes.

Capital

Common Equity Tier 1 capital ratio

12.6%

APRA (Level 2)

2H20 11.6%

1H20 11.7%

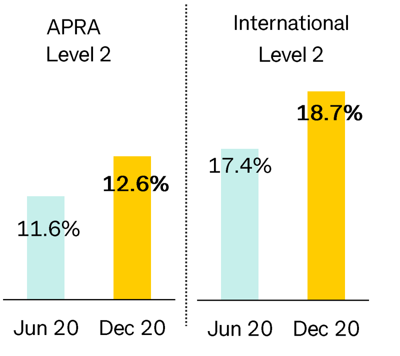
The Group has a strong capital position with a CET1 capital ratio of 12.6% (Level 2), well above APRA's 'unquestionably strong' benchmark of 10.5%.

The CET1 ratio increased by 100 bpts since June 2020, driven by:

- Organic capital generation from profits generated by the business;
- The benefits from proceeds received in relation to the sales of BoCommLife, CommInsure Life, and other previously announced divestments; and
- A 50% reduction in APRA's operational risk capital overlay arising from the Prudential Inquiry (+17 bpts);
- Partly offset by higher risk weighted assets largely as a result of growth in home and business lending.

The pro-forma capital uplift from the finalisation of remaining divestments (Colonial First State, CommInsure Life) is expected to be 32-42 bpts (CET 1, Level 2).

Common Equity Tier 1 capital ratio



Funding and liquidity

Deposit funding ratio

75%

2H20 74%

1H20 71%

The **deposit funding** ratio was 75%, up from 71% in 1H20, as the Group continued to satisfy a significant portion of its funding requirements from customer deposits. This was due to the continuing growth in customers' transaction and savings account balances.

As at 31 December 2020, the Group had access to $41bn of funding provided through the RBA's three-year Term Funding Facility (TFF) and $19bn had been drawn.

The average tenor of the long term wholesale funding portfolio was 5.2 years (5.7 years excluding the TFF). Long term wholesale funding accounted for 69% of total wholesale funding, up 3% from 31 December 2019.

The average **liquidity coverage ratio** (LCR) for the quarter ended 31 December 2020 was 143%, an increase of 9% compared to the quarterly average ended 31 December 2019. The LCR remains well above the minimum regulatory requirement of 100%.

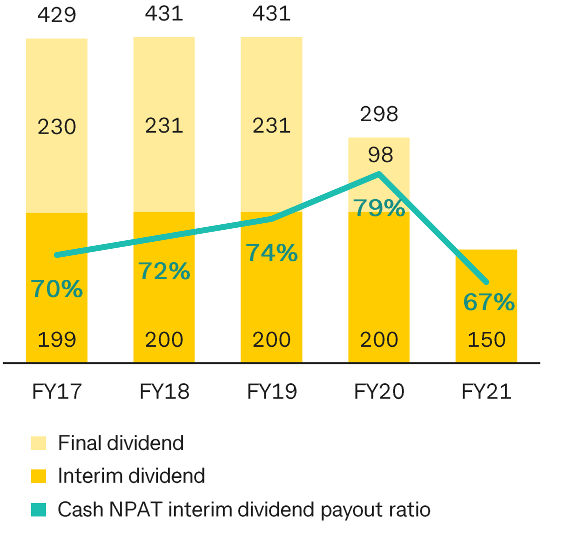
The **net stable funding ratio** (NSFR) as at 31 December 2020 was 123%, an increase of 9% from the prior comparative period, and well above the regulatory minimum of 100%. The increase in the ratio was due to the growth in customer deposits, the benefit from the TFF, and the Group's strong capital position.

Delivering for shareholders

Dividends

- A fully franked interim dividend of $1.50 per share was determined for the six months to 31 December 2020. The dividend payout ratio was 67% of cash earnings.
- On 15 December 2020, APRA updated its capital management guidance to banks, easing restrictions on the payment of dividends. APRA continues to expect banks to moderate dividend payout ratios to ensure they are sustainable, taking into account the outlook for profitability, capital and the broader environment.
- The Bank's dividend policy seeks to: pay dividends at strong and sustainable levels; target a full year payout ratio of 70% to 80% of cash NPAT; and maximise the use of its franking account by paying fully franked dividends.
- The Dividend Reinvestment Plan (DRP) continues to be offered to shareholders. No discount will apply. The DRP is anticipated to be satisfied in full by an on-market purchase of shares.

Dividend per share
(cents)



Footnotes

Page i

1. Comparative information has been restated to conform to presentation in the current period. Unless otherwise stated: all figures relate to the half year ended 31 December 2020 and comparisons are to the prior comparative period, the half year ended 31 December 2019; financials are presented on a continuing operations basis.
2. Statutory NPAT, CET1 and dividend per share include discontinued operations. Discontinued operations includes Colonial First State (CFS), CommInsure Life, BoCommLife, Colonial First State Global Asset Management (CFSGAM) and PT Commonwealth Life. Includes non-controlling interests related to discontinued operations.
3. As reported in APRA Monthly ADI Statistics (MADIS). System multiple calculated on a non-annualised basis. CBA business lending multiple estimate is based on Business Banking growth rate (excluding Institutional Banking and Markets) over published APRA Total Business Lending data (excluding estimated institutional lending balances). CBA business lending growth is Business Banking excluding Institutional Banking and Markets.
4. Total provisions as a percentage of credit risk weighted assets.
5. Loan impairment expense ("cash basis") annualised as a percentage of average gross loans and acceptances (GLAAs).

Page ii

6. See 1 above.
7. For an explanation of and reconciliation between statutory and cash NPAT refer to page 3 of the Profit Announcement for the half year ended 31 December 2020.

Page iii

8. See 3 above.

Page iv

9. See 5 above. FY09 includes Bankwest on a pro-forma basis.
10. Australian deferral accounts. CBA Product view basis.
11. Group consumer arrears including New Zealand.
12. Australian deferral accounts as at 31 January 2021. CBA Product view basis.

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.

Key financial information

Group performance summary (continuing operations)	Half year ended[1] ("cash basis") 31 Dec 20 $m	30 Jun 20 $m	31 Dec 19 $m	Dec 20 v Jun 20 %	Dec 20 v Dec 19 %
Net interest income	**9,371**	9,260	9,350	1	-
Other banking income	**2,419**	2,294	2,543	5	(5)
Total banking income	**11,790**	11,554	11,893	2	(1)
Funds management income	**80**	75	98	7	(18)
Insurance income	**91**	109	32	(17)	large
Total operating income	**11,961**	11,738	12,023	2	(1)
Operating expenses	**(5,566)**	(5,689)	(5,206)	(2)	7
Loan impairment expense	**(882)**	(1,869)	(649)	(53)	36
Net profit before tax	**5,513**	4,180	6,168	32	(11)
NPAT from continuing operations	**3,886**	2,940	4,356	32	(11)
NPAT from discont'd operations[2]	**89**	15	138	large	(36)
NPAT incl. discont'd operations ("statutory basis")	**4,877**	3,473	6,161	40	(21)
Cash net profit after tax, by division (continuing operations)					
Retail Banking Services[3]	**2,196**	1,886	2,256	16	(3)
Business and Private Banking	**1,335**	1,079	1,395	24	(4)
Institutional Banking and Markets	**423**	168	465	large	(9)
New Zealand	**542**	288	529	88	2
International Financial Services	**127**	29	98	large	30
Corporate Centre	**(737)**	(510)	(387)	45	90
NPAT from continuing operations	**3,886**	2,940	4,356	32	(11)
Shareholder ratios & performance indicators (continuing operations)					
Earnings per share – "cash basis" – basic (cents)	**219.5**	166.2	246.2	32	(11)
Return on equity – "cash basis" (%)	**10.5**	8.3	12.3	220 bpts	(180) bpts
Dividends per share – fully franked (cents)[4]	**150**	98	200	53	(25)
Dividend payout ratio – "cash basis" (%)[4]	**67.0**	58.7	78.8	large	large
Average interest earning assets ($M)[5]	**922,924**	913,139	881,850	1	5
Net interest margin (%)	**2.01**	2.04	2.11	(3) bpts	(10) bpts
Operating expenses to total operating income (%)	**46.5**	48.5	43.3	(200) bpts	320 bpts
Funds Under Administration (FUA) – average ($M)[6]	**-**	-	15,332	-	large
Assets Under Management (AUM) – average ($M)	**18,179**	17,272	16,730	5	9

1. Comparative information has been restated to conform to presentation in the current period.
2. The financial results of discontinued operations are excluded from the individual account lines of the Bank's performance and reported as a single cash net profit after tax line item. Discontinued operations includes Colonial First State (CFS), CommInsure Life, BoCommLife, Colonial First State Global Asset Management (CFSGAM) and PT Commonwealth Life. Includes non-controlling interests related to discontinued operations.
3. Retail Banking Services including Mortgage Broking and General Insurance.
4. Includes discontinued operations.
5. Average interest earning assets are net of average mortgage offset balances.
6. FUA average has been calculated using the average for the period the Group owned Aegis up until 2 December 2019.

Highlights

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Contents

2. Highlights

Highlights

Group Performance Summary

Group Performance Summary	Half Year Ended ("statutory basis") 31 Dec 20 $M	Dec 20 vs Dec 19 %	Half Year Ended [1] ("cash basis") 31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Net interest income	**9,371**	–	**9,371**	9,260	9,350	1	–
Other banking income	**2,354**	(9)	**2,419**	2,294	2,543	5	(5)
Total banking income	**11,725**	(2)	**11,790**	11,554	11,893	2	(1)
Funds management income	**80**	(18)	**80**	75	98	7	(18)
Insurance income	**91**	large	**91**	109	32	(17)	large
Total operating income	**11,896**	(1)	**11,961**	11,738	12,023	2	(1)
Operating expenses	**(5,627)**	8	**(5,566)**	(5,689)	(5,206)	(2)	7
Loan impairment expense	**(882)**	36	**(882)**	(1,869)	(649)	(53)	36
Net profit before tax	**5,387**	(13)	**5,513**	4,180	6,168	32	(11)
Corporate tax expense	**(1,610)**	(9)	**(1,627)**	(1,240)	(1,812)	31	(10)
Non controlling interests	**–**	–	**–**	–	–	–	–
Net profit after tax from continuing operations	**3,777**	(15)	**3,886**	2,940	4,356	32	(11)
Net profit after tax from discontinued operations [2]	**1,100**	(36)	**89**	15	138	large	(36)
Net profit after tax	**4,877**	(21)	**3,975**	2,955	4,494	35	(12)
Gain on acquisition, disposal, closure and demerger of businesses	**n/a**	n/a	**910**	461	1,631	97	(44)
Hedging and IFRS volatility	**n/a**	n/a	**(8)**	57	36	large	large
Net profit after tax ("statutory basis")	**4,877**	(21)	**4,877**	3,473	6,161	40	(21)
Cash net profit after tax, by division							
Retail Banking Services (excl. Mortgage Broking and General Insurance)			**2,161**	1,840	2,255	17	(4)
Mortgage Broking and General Insurance			**35**	46	1	(24)	large
Retail Banking Services			**2,196**	1,886	2,256	16	(3)
Business Banking			**1,335**	1,079	1,395	24	(4)
Institutional Banking and Markets			**423**	168	465	large	(9)
New Zealand			**542**	288	529	88	2
International Financial Services			**127**	29	98	large	30
Corporate Centre			**(737)**	(510)	(387)	45	90
Net profit after tax from continuing operations ("cash basis")			**3,886**	2,940	4,356	32	(11)

1 Comparative information has been restated to conform to presentation in the current period.

2 The financial results of discontinued operations are excluded from the individual account lines of the Bank's performance and are reported as a single cash net profit after tax line item. Discontinued operations includes Colonial First State (CFS), CommInsure Life, BoCommLife, Colonial First State Global Asset Management (CFSGAM) and PT Commonwealth Life and non-controlling interests related to discontinued operations.

Highlights (continued)

Non-Cash Items included in Statutory Profit

The Profit Announcement discloses the net profit after tax on both a statutory and cash basis. The statutory basis is prepared in accordance with the Corporations Act and the Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS). The cash basis is used by management to present a clear view of the Bank'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 with the prior year and prior half disclosures and do not discriminate between positive and negative adjustments. A list of items excluded from cash profit is provided in the table below.

	Half Year Ended				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
Non-Cash Items Included in Statutory Profit	**$M**	$M	$M	Jun 20 %	Dec 19 %
Gain on acquisition, disposal, closure and demerger of businesses	**910**	461	1,631	97	(44)
Hedging and IFRS volatility	**(8)**	57	36	large	large
Total non-cash items (after tax)	**902**	518	1,667	74	(46)

Non-cash items attributable to continuing and discontinued operations are set out below:

	Half Year Ended				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
Non-Cash Items Included in Statutory Profit	**$M**	$M	$M	Jun 20 %	Dec 19 %
(Loss)/gain on acquisition, disposal, closure and demerger of businesses [1]	**(101)**	10	60	large	large
Hedging and IFRS volatility	**(8)**	57	36	large	large
Non-cash items (after tax) from continuing operations	**(109)**	67	96	large	large
Gain on acquisition, disposal, closure and demerger of businesses [2]	**1,011**	451	1,571	large	(36)
Non-cash items (after tax) from discontinued operations	**1,011**	451	1,571	large	(36)
Total non-cash items (after tax)	**902**	518	1,667	74	(46)

1 Includes gains and losses net of transaction and separation costs associated with disposal of AUSIEX, Aussie Home Loans, Count Financial and other businesses, and the dilution of the Group's interest in Bank of Hangzhou.

2 Includes post-completion adjustments (such as purchase price adjustments, and finalisation of accounting adjustments for goodwill and foreign currency translation reserve recycling), and transaction and separation costs associated with the disposal of BoCommLife, CFS, CFSGAM, PT Commonwealth Life and other businesses, and the deconsolidation of CommInsure Life.

Highlights (continued)

Key Performance Indicators

	Half Year Ended [1]				
Key Performance Indicators [2]	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Group Performance from continuing operations					
Statutory net profit after tax ($M)	**3,777**	3,007	4,452	26	(15)
Cash net profit after tax ($M)	**3,886**	2,940	4,356	32	(11)
Net interest margin (%)	**2. 01**	2. 04	2. 11	(3)bpts	(10)bpts
Operating expenses to total operating income (%)	**46. 5**	48. 5	43. 3	(200)bpts	320 bpts
Spot number of full-time equivalent staff (FTE)	**42,720**	41,778	40,519	2	5
Average number of FTE	**42,185**	41,147	40,879	3	3
Effective corporate tax rate (%)	**29. 5**	29. 7	29. 4	(20)bpts	10 bpts
Profit after capital charge (PACC) ($M) [3]	**1,821**	1,614	2,250	13	(19)
Average interest earning assets ($M) [4]	**922,924**	913,139	881,850	1	5
Average interest bearing liabilities ($M) [4]	**776,387**	781,037	763,025	(1)	2
Funds under administration (FUA) - average ($M) [5]	**–**	–	15,332	–	large
Assets under management (AUM) - average ($M)	**18,179**	17,272	16,730	5	9
Group Performance including discontinued operations					
Statutory net profit after tax ($M)	**4,877**	3,473	6,161	40	(21)
Cash net profit after tax ($M)	**3,975**	2,955	4,494	35	(12)
Net interest margin (%)	**2. 01**	2. 04	2. 11	(3)bpts	(10)bpts
Operating expenses to total operating income (%)	**47. 1**	50. 1	44. 3	(300)bpts	280 bpts
Spot number of full-time equivalent staff (FTE)	**44,548**	43,585	42,548	2	5
Average number of FTE	**44,007**	43,196	43,760	2	1
Effective corporate tax rate (%)	**29. 5**	29. 8	29. 3	(30)bpts	20 bpts
Profit after capital charge (PACC) ($M) [3]	**1,906**	1,594	2,319	20	(18)
Average interest earning assets ($M) [4]	**923,211**	913,690	882,241	1	5
Average interest bearing liabilities ($M) [4]	**776,387**	781,037	763,253	(1)	2
Funds under administration (FUA) - average ($M) [6]	**149,491**	152,195	184,047	(2)	(19)
Assets under management (AUM) - average ($M) [7]	**18,179**	17,608	235,547	3	(92)

1 Comparative information has been restated to conform to presentation in the current period.

2 Presented on a "cash basis" unless stated otherwise.

3 The Bank uses PACC as a key measure of risk-adjusted profitability. It takes into account the profit achieved, the risk to capital that was taken to achieve it, and other adjustments.

4 Average interest earning assets are net of average mortgage offset balances. Average interest bearing liabilities exclude average mortgage offset balances.

5 Average FUA (continuing operations) has been calculated using the average for the period the Group owned Aegis up until 2 December 2019.

6 Average FUA (including discontinued operations) has been calculated using the average for the period the Group operated CommInsure Life up until 1 November 2019 and the Group owned Aegis up until 2 December 2019.

7 Average AUM has been calculated using the average for the period the Group owned CFSGAM up until 2 August 2019.

Highlights (continued)

Key Performance Indicators (continued)

	Half Year Ended				
Key Performance Indicators	**31 Dec 20**	30 Jun 20	31 Dec 19	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Shareholder Returns from continuing operations					
Earnings Per Share (EPS) (cents) [1]					
Statutory basis - basic	**213. 4**	170. 0	251. 7	26	(15)
Cash basis - basic	**219. 5**	166. 2	246. 2	32	(11)
Return on equity (ROE) (%) [1]					
Statutory basis	**10. 2**	8. 5	12. 6	170 bpts	(240)bpts
Cash basis	**10. 5**	8. 3	12. 3	220 bpts	(180)bpts
Shareholder Returns including discontinued operations					
Earnings Per Share (EPS) (cents) [1]					
Statutory basis - basic	**275. 5**	196. 3	348. 4	40	(21)
Cash basis - basic	**224. 5**	167. 1	254. 0	34	(12)
Return on equity (ROE) (%) [1]					
Statutory basis	**13. 2**	9. 8	17. 4	340 bpts	(420)bpts
Cash basis	**10. 7**	8. 3	12. 7	240 bpts	(200)bpts
Dividends per share - fully franked (cents)	**150**	98	200	53	(25)
Dividend cover - "cash basis" (times)	**1. 5**	1. 7	1. 3	(12)	15
Dividend payout ratio (%) [1]					
Statutory basis	**54. 57**	49. 95	57. 47	462 bpts	(290)bpts
Cash basis	**66. 95**	58. 71	78. 78	large	large
Capital including discontinued operations					
Common Equity Tier 1 (Internationally Comparable) (%) [2]	**18. 7**	17. 4	17. 5	130 bpts	120 bpts
Common Equity Tier 1 (APRA) (%)	**12. 6**	11. 6	11. 7	100 bpts	90 bpts
Risk weighted assets (RWA) ($M) - Basel III	**453,616**	454,948	449,154	–	1
Leverage Ratio including discontinued operations					
Leverage Ratio (Internationally Comparable) (%) [2]	**6. 8**	6. 7	7. 0	10 bpts	(20)bpts
Leverage Ratio (APRA) (%)	**6. 0**	5. 9	6. 1	10 bpts	(10)bpts
Funding and Liquidity Metrics including discontinued operations					
Liquidity Coverage Ratio (%) [3]	**143**	155	134	large	large
Weighted Average Maturity of Long Term Debt (years) [4]	**5. 2**	5. 3	5. 4	(0.1) years	(0.2) years
Customer Deposit Funding Ratio (%)	**75**	74	71	100 bpts	400 bpts
Net Stable Funding Ratio (%)	**123**	120	114	300 bpts	large
Credit Quality Metrics including discontinued operations					
Loan impairment expense ("cash basis") annualised as a % of average GLAAs	**0. 22**	0. 48	0. 17	(26)bpts	5 bpts
Gross impaired assets as a % of GLAAs	**0. 39**	0. 46	0. 44	(7)bpts	(5)bpts
Credit risk weighted assets (RWA) ($M)	**376,900**	374,194	375,217	1	–

1 For definitions refer to Appendix 4.8.
2 Analysis aligns with the 13 July 2015 APRA study titled “International capital comparison study”.
3 Quarterly average.
4 Represents the weighted average maturity (WAM) of outstanding long-term wholesale debt with a residual maturity greater than 12 months including drawdown of the RBA Term Funding Facility (TFF). WAM as at 31 December 2020 excluding the TFF drawdown is 5.7 years.

Highlights (continued)

Key Performance Indicators (continued)

Key Performance Indicators	Half Year Ended [1] 31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Retail Banking Services [2]					
Cash net profit after tax ($M)	**2,161**	1,840	2,255	17	(4)
Net interest margin (%)	**2. 60**	2. 62	2. 65	(2)bpts	(5)bpts
Average interest earning assets (AIEA) ($M) [3]	**375,715**	371,519	365,200	1	3
Operating expenses to total operating income (%) [4]	**39. 2**	39. 2	38. 2	–	100 bpts
Risk weighted assets ($M) [5]	**165,036**	167,205	167,134	(1)	(1)
Business Banking					
Cash net profit after tax ($M)	**1,335**	1,079	1,395	24	(4)
Net interest margin (%)	**3. 02**	3. 04	3. 16	(2)bpts	(14)bpts
Average interest earning assets ($M) [3]	**171,123**	170,381	170,671	–	–
Operating expenses to total banking income (%) [4]	**36. 2**	37. 3	35. 2	(110)bpts	100 bpts
Risk weighted assets ($M)	**137,962**	136,288	131,381	1	5
Institutional Banking and Markets					
Cash net profit after tax ($M)	**423**	168	465	large	(9)
Net interest margin (%)	**0. 95**	0. 99	0. 98	(4)bpts	(3)bpts
Average interest earning assets ($M)	**144,716**	144,109	137,024	–	6
Operating expenses to total banking income (%) [4]	**39. 2**	48. 9	41. 2	large	(200)bpts
Risk weighted assets ($M)	**88,253**	93,325	84,413	(5)	5
New Zealand					
Cash net profit after tax ($M)	**542**	288	529	88	2
Risk weighted assets - APRA basis ($M) [6]	**52,020**	50,812	52,612	2	(1)
Net interest margin (ASB) (%) [7]	**2. 09**	2. 09	2. 15	–	(6)bpts
Average interest earning assets (ASB) (NZ$M) [7]	**104,904**	102,345	98,839	3	6
Operating expenses to total operating income (ASB) (%) [4,7]	**37. 1**	42. 5	36. 5	large	60 bpts
FUA - average (ASB) (NZ$M) [7,8]	**–**	–	16,273	–	large
AUM - average (ASB) (NZ$M) [7]	**19,469**	18,156	17,706	7	10
Wealth Management [9]					
Cash net profit after tax ($M)	**84**	10	127	large	(34)
Operating expenses to total operating income (%) [4]	**65. 1**	94. 4	66. 9	large	(180)bpts
FUA - average ($M) [10]	**149,491**	152,195	158,654	(2)	(6)

1 Comparative information has been restated to conform to presentation in the current period.
2 Excludes Mortgage Broking and General Insurance.
3 Net of average mortgage offset balances.
4 Presented on a “cash basis”.
5 Includes Mortgage Broking and General Insurance.
6 Risk weighted assets represent ASB only and are calculated in accordance with APRA requirements.
7 Key financial metrics represent ASB only and are calculated in New Zealand dollar terms.
8 Average FUA has been calculated using the average for the period the Group owned Aegis up until 2 December 2019.
9 Presented as discontinued operations.
10 Average FUA includes Colonial First State (including Commonwealth Bank Group Super) and excludes CommInsure Life Investments.

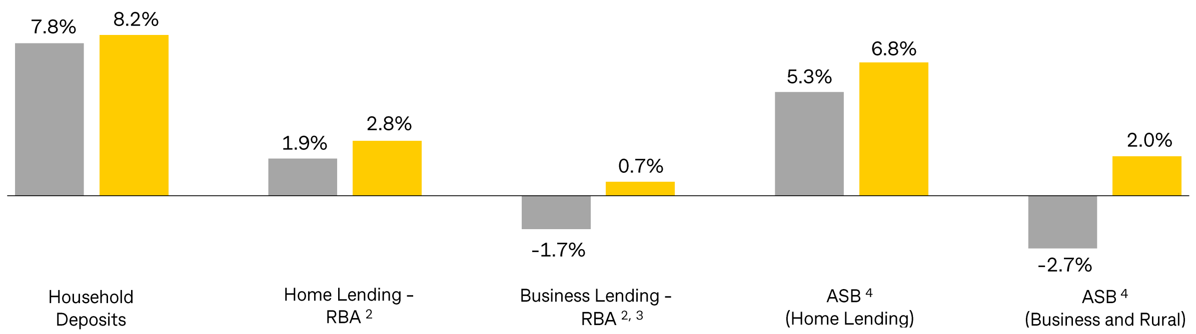
Highlights (continued)

Market Share

Market Share	31 Dec 20 %	30 Jun 20 %	31 Dec 19 %	Dec 20 vs Jun 20	Dec 20 vs Dec 19
	As at [1]				
Home loans - RBA [2]	**25. 2**	25. 0	24. 9	20 bpts	30 bpts
Home loans - APRA [3]	**25. 9**	25. 7	25. 5	20 bpts	40 bpts
Credit cards - APRA [3]	**27. 5**	26. 5	26. 6	100 bpts	90 bpts
Other household lending - APRA [3, 4]	**18. 6**	19. 0	19. 2	(40)bpts	(60)bpts
Household deposits - APRA [3]	**27. 2**	27. 1	26. 8	10 bpts	40 bpts
Business lending - RBA [2]	**15. 1**	14. 8	14. 7	30 bpts	40 bpts
Business lending - APRA [3]	**17. 3**	16. 8	16. 7	50 bpts	60 bpts
Business deposits - APRA [3]	**21. 3**	20. 5	20. 1	80 bpts	120 bpts
Equities trading [5]	**4. 8**	3. 7	2. 9	110 bpts	190 bpts
Australian Retail - administrator view [6]	**14. 4**	14. 7	14. 9	(30)bpts	(50)bpts
FirstChoice Platform [6]	**10. 9**	11. 0	10. 9	(10)bpts	–
NZ home loans [7]	**21. 8**	21. 5	21. 5	30 bpts	30 bpts
NZ customer deposits [7]	**18. 2**	18. 2	17. 8	–	40 bpts
NZ business lending [7,8]	**16. 6**	15. 6	15. 5	100 bpts	110 bpts
NZ retail AUM	**14. 9**	14. 8	14. 9	10 bpts	–

1 Comparatives have been updated to reflect market restatements.
2 System source: RBA Financial Aggregates.
3 System source: APRA's Monthly Authorised Deposit-taking Institution Statistics (MADIS) publication.
4 Other Household Lending market share includes personal loans, margin loans and other forms of lending to individuals.
5 Represents CommSec traded value (excluding AUSIEX) as a percentage of total Australian Equities markets, on a 12 month rolling average basis.
6 System source: Strategic Insights as at 30 September 2020 and includes Colonial First State only.
7 As at November 2020 due to a delay in the publishing of RBNZ data for December 2020.
8 Comparative market share rates have been normalised to exclude the impact of ANZ's sale of UDC Finance Limited in September 2020.

CBA growth against System [1]
Balance growth – 6 months to December 20



1 System source: RBA/APRA/RBNZ. CBA includes Bankwest.
2 System source: RBA Financial Aggregates.
3 CBA Domestic Business lending growth (including Institutional Lending but excludes Cash Management Pooling Facilities).
4 NZ system growth rates for the half year ended December 2020 are based on the run-rated growth rate for the five months to November 2020, due to a delay in the publishing of RBNZ December 2020 data.

Credit Ratings

Credit Ratings	Long-term	Short-term	Outlook
Fitch Ratings	A+	F1	Negative
Moody's Investors Service	Aa3	P-1	Stable
S&P Global Ratings	AA-	A-1+	Negative

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Group Performance Analysis

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Contents

3. Group Performance Analysis

Group Performance Analysis

Financial Performance and Business Review

Performance Overview – comments are versus prior comparative period unless stated otherwise (continuing operations basis [1]).

The Bank's statutory net profit after tax (NPAT) from continuing operations for the half year ended 31 December 2020 decreased $675 million or 15.2% on the prior comparative period to $3,777 million. The Bank's statutory NPAT (including discontinued operations) for the half year ended 31 December 2020 decreased $1,284 million or 20.8% on the prior comparative period to $4,877 million.

Cash net profit after tax ("cash NPAT" or "cash profit") from continuing operations decreased $470 million or 10.8% on the prior comparative period to $3,886 million. The result was driven by a 0.5% decrease in operating income, a 6.9% increase in operating expenses and a 35.9% increase in loan impairment expense.

Operating income decreased 0.5% on the prior comparative period. Key movements included:

- Net interest income increased 0.2% primarily driven by a $41 billion or 4.7% increase in average interest earning assets (AIEA), mainly due to growth in home loans, business loans and non-lending interest earning assets. This was offset by a 10 basis point or 4.7% reduction in Net Interest Margin (NIM), mainly due to higher liquid assets, and the impact of the low-rate environment on deposit margins and earnings on capital, partly offset by the benefit from lower wholesale funding costs;
- Other banking income decreased 4.9%, primarily driven by lower retail banking fee income from a decline in spend and transaction volumes due to the impact of COVID-19, and the impairment of aircraft, which are owned by the Group and leased to various airlines, partly offset by higher Global Markets trading income and higher CommSec equities income from increased trading volumes and active customer numbers;
- Funds management income decreased 18.4%, primarily driven by the wind down of the Aligned Advice businesses; and
- Insurance income increased $59 million, primarily driven by lower claims experience mainly due to the absence of bushfire related claims in the current half.

Operating expenses increased 6.9%. Excluding remediation costs and other [2], operating expenses increased 2.3%, due to higher investment spend, increased financial assistance and operations staffing, mainly in response to COVID-19 and higher home and business lending volumes, higher occupancy, wage inflation, and volume driven IT costs, partly offset by lower discretionary spend and business simplification initiatives.

Loan impairment expense (LIE) increased 35.9%, primarily driven by higher collective provisions mainly due to increased forward looking adjustments reflecting uncertainty in the economic outlook, as a result of COVID-19.

CET1 increased by 100 basis points from 30 June 2020 to 12.6%, well above APRA's 'unquestionably strong' benchmark of 10.5%. The increase was primarily driven by capital generated from earnings (+88bps), benefits from divestments (+42bps), and a 50% reduction in APRA's Operational Risk capital add-on (+17bps). This was partly offset by the 2020 final dividend payment (-32bps), and an increase in risk weighted assets (-13bps).

Earnings per share ("cash basis") was down 10.8% on the prior comparative period at 219.5 cents per share, primarily due to the decrease in cash profit.

Return on equity ("cash basis") decreased 180 basis points to 10.5% due to the impact of lower cash profit (approximately 130 basis points) and an increase in capital levels (approximately 50 basis points).

The Group declared an interim dividend of $1.50 per share, which is equivalent to 66.95% of the Bank's cash profit.

Balance sheet strength and resilience is a key priority for the Bank. The Bank has managed key balance sheet risks in a sustainable and conservative manner, and has made strategic decisions to ensure strength in capital, funding and liquidity. In particular, the Bank has:

- Satisfied a significant proportion of its funding requirements from customer deposits, accounting for 75% of total funding at 31 December 2020 (up from 71% at 31 December 2019);
- Issued new long-term wholesale funding of $2.1 billion, and accessed an additional $17.6 billion of the RBA Term Funding Facility (TFF). As at 31 December 2020, $19.1 billion of the TFF has been drawn. Including the TFF, the portfolio WAM [3] was 5.2 years (down from 5.4 years as at 31 December 2019);
- Maintained its strong funding position, with long-term wholesale funding accounting for 69% of total wholesale funding (up from 66% at 31 December 2019); and
- Appropriately managed the level of liquid assets and customer deposit growth to maintain our strong funding and liquidity positions, as illustrated by the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) being well above the regulatory minimum.

1 The financial results of discontinued operations are excluded from the individual account lines of the Bank's performance and are reported as a single cash net profit after tax line item. Discontinued operations include Colonial First State (CFS), CommInsure Life, BoCommLife, Colonial First State Global Asset Management (CFSGAM) and PT Commonwealth Life.

2 For further details on remediation costs and other refer to page 11.

3 The portfolio WAM excluding the TFF was 5.7 years (up from 5.4 years as at 31 December 2019).

Group Performance Analysis (continued)

Financial Performance and Business Review (continued)

Performance Overview (continued)

The Bank's financial result was impacted by remediation costs and other expenses. In order to present a transparent view of the business' performance, operating expenses are shown both before and after these items.

	Half Year Ended [1] ("cash basis")				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
Group Performance Summary	**$M**	$M	$M	Jun 20 %	Dec 19 %
Total operating income	**11,961**	11,738	12,023	2	(1)
Operating expenses excluding remediation costs and other	**(5,325)**	(5,235)	(5,206)	2	2
Remediation costs and other [2]	**(241)**	(454)	–	(47)	n/a
Total operating expenses	**(5,566)**	(5,689)	(5,206)	(2)	7
Loan impairment expense	**(882)**	(1,869)	(649)	(53)	36
Net profit before tax	**5,513**	4,180	6,168	32	(11)
Corporate tax expense	**(1,627)**	(1,240)	(1,812)	31	(10)
Non-controlling interests - continuing operations	**–**	–	–	–	–
Net profit after tax from continuing operations ("cash basis")	**3,886**	2,940	4,356	32	(11)
Non-cash items - continuing operations [3]	**(109)**	67	96	large	large
Net profit after tax from continuing operations ("statutory basis")	**3,777**	3,007	4,452	26	(15)
Net profit after tax from discontinued operations ("cash basis")	**89**	15	141	large	(37)
Non-cash items - discontinued operations [3]	**1,011**	451	1,571	large	(36)
Non-controlling interests - discontinued operations [4]	**–**	–	(3)	–	large
Net profit after tax ("statutory basis")	**4,877**	3,473	6,161	40	(21)

1 Comparative information has been restated to conform to presentation in the current period.

2 The half year ended 31 December 2020 includes $118 million of additional provisions for historical Aligned Advice remediation issues and associated program costs, and $123 million of Banking and other Wealth related customer remediation and other litigation provisions. The half year ended 30 June 2020 includes a $300 million provision for historical Aligned Advice remediation issues and associated program costs, $94 million of Wealth and Banking customer refunds and associated program costs, and a $60 million increase in provisions for other remediation items, including to address New Zealand Compliance Audit findings related to holiday pay. The half year ended 31 December 2019 includes other expenses including approximately a $220 million one-off impact of accelerated amortisation following a review of the amortisation method and the useful life of certain technology assets, as well as a one-off benefit from the release of a historical provision which was no longer required, and other rebates (these items net to nil).

3 Refer to page 3 for further information.

4 Non-controlling interests in discontinued operations includes a 20% outside equity interest in PT Commonwealth Life up until 4 June 2020.

Group Performance Analysis (continued)

Net Interest Income (continuing operations basis)

	Half Year Ended				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
	$M	$M	$M	Jun 20 %	Dec 19 %
Net interest income - "cash basis"	**9,371**	9,260	9,350	1	-
Average interest earning assets					
Home loans [1]	**494,736**	489,014	480,140	1	3
Consumer finance	**17,257**	19,735	21,250	(13)	(19)
Business and corporate loans	**216,472**	220,060	215,886	(2)	-
Total average lending interest earning assets	**728,465**	728,809	717,276	-	2
Non-lending interest earning assets [2]	**194,459**	184,330	164,574	5	18
Total average interest earning assets	**922,924**	913,139	881,850	1	5
Net interest margin (%)	**2. 01**	2. 04	2. 11	(3)bpts	(10)bpts

1 Net of average mortgage offset balances. Gross average home loans balance, excluding mortgage offset accounts was $549,776 million for the half year ended 31 December 2020 ($539,132 million for the half year ended 30 June 2020, $527,650 million for the half year ended 31 December 2019). While these balances are required to be grossed up under accounting standards, they are netted down for the calculation of customer interest payments and the Bank's net interest margin.

2 Average interest earning assets is presented on a continuing operations basis (excluding assets held for sale). For the half year ended 31 December 2020, $287 million of non-lending interest earning assets have been reclassified to assets held for sale ($550 million for the half year ended 30 June 2020 and $391 million for the half year ended 31 December 2019).

Half Year Ended December 2020 versus December 2019

Net interest income was $9,371 million, an increase of $21 million or flat on the prior comparative period. The result was driven by a $41 billion or 5% increase in average interest earning assets to $923 billion, partly offset by a 10 basis point or 5% decrease in net interest margin to 2.01%.

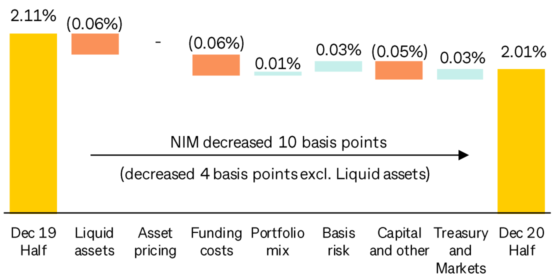
Average Interest Earning Assets

Average interest earning assets increased $41 billion or 5% on the prior comparative period to $923 billion.

- Home loan average balances increased $15 billion or 3% on the prior comparative period to $495 billion, driven by strong new business application volumes and continued focus on credit decisioning turnaround times;
- Consumer finance average balances decreased $4 billion or 19% on the prior comparative period to $17 billion, driven by lower consumer demand for unsecured lending, lower discretionary spend due to COVID-19, and increased customer repayments following fiscal and regulatory income support measures;
- Business and corporate loan average balances increased $1 billion or flat on the prior comparative period to $216 billion, driven by an increase in business lending, partly offset by a decline in institutional lending balances due to a continued focus on risk-adjusted returns in a highly liquid capital market; and
- Non-lending interest earning asset average balances increased $30 billion or 18% on the prior comparative period to $194 billion, driven by a $19 billion increase in average liquid asset balances due to strong customer deposit growth, and an $11 billion increase in average trading asset balances mainly in Global Markets due to increased government bond holdings and higher commodities financing balances.

For further details on the balance sheet movements refer to the 'Group Assets and Liabilities' on page 21.

NIM movement since December 2019



Net Interest Margin

The Bank's net interest margin decreased 10 basis points on the prior comparative period to 2.01%. The key drivers of the movement were:

Liquid assets: Decreased margin by 6 basis points driven by increased lower yielding non-lending interest earning assets, including liquid assets.

Asset pricing: Flat, reflecting higher home lending margins (up 3 basis points), offset by reduced business lending margins (down 2 basis points) from repricing actions to support businesses during COVID-19 and lower consumer finance margins (down 1 basis point). Increased home lending margins were driven by repricing (up 11 basis points), partly offset by the impact of customers switching from higher margin loans to lower margin loans (down 4 basis points) and increased competition (down 4 basis points).

Funding costs: Decreased margin by 6 basis points, reflecting lower earnings on transaction and savings deposits due to the decreases in the cash rate (down 11 basis points), partly offset by a higher benefit from the replicating portfolio (up 3 basis points) and the benefit from lower wholesale funding costs (up 2 basis points).

Group Performance Analysis (continued)

Net Interest Income (continued)

Portfolio Mix: Increased margin by 1 basis point due to a higher deposit funding ratio (31 December 2020: 75%; 31 December 2019: 71%) driven by strong growth in transaction and savings deposits (up 4 basis points), partly offset by the unfavourable impact from asset mix with a decline in higher margin consumer finance balances (down 3 basis points).

Basis Risk: Basis Risk arises from the spread between the 3 month bank bill swap rate and the 3 month overnight index swap rate. The Bank's margin increased 3 basis points reflecting a decrease in the average spread notwithstanding a structural reduction in exposure to basis risk from strong growth in cash rate linked deposits and a mix shift towards fixed rate home loans.

Capital and other: Decreased margin by 5 basis points driven by lower earnings on capital due to the falling interest rate environment (down 4 basis points) and reduced contribution from New Zealand (down 1 basis point) reflecting the impact from decreases in the RBNZ cash rate.

Treasury and Markets: Increased margin by 3 basis points driven by higher bonds and commodities financing income in Global Markets.

Half Year Ended December 2020 versus June 2020

Net interest income increased $111 million or 1% on the prior half, driven by a $10 billion or 1% increase in average interest earning assets and the benefit of two additional calendar days in the current half, partly offset by a 3 basis point or 1% decrease in net interest margin.

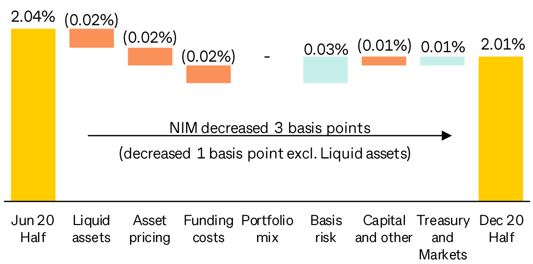
Average Interest Earning Assets

Average interest earning assets increased $10 billion or 1% on the prior half.

- Home loan average balances increased $6 billion or 1% on the prior half, driven by strong new business application volumes and continued focus on credit decisioning turnaround times;
- Consumer finance average balances decreased $2 billion or 13% on the prior half, driven by lower consumer demand for unsecured lending and increased customer repayments following fiscal and regulatory income support measures;
- Business and corporate loan average balances decreased $4 billion or 2% on the prior half, driven by lower institutional lending due to a continued focus on risk-adjusted returns in a highly liquid capital market, partly offset by an increase in business lending; and
- Non-lending interest earning asset average balances increased $10 billion or 5% on the prior half, driven by an $8 billion increase in average trading asset balances mainly in Global Markets, due to increased government bond holdings and higher commodities financing balances, and a $2 billion increase in average liquid asset balances from strong customer deposit growth.

For further details on the balance sheet movements refer to the 'Group Assets and Liabilities' on page 21.

NIM movement since June 2020



Net Interest Margin

The Bank's net interest margin decreased 3 basis points on the prior half. The key drivers of the movement were:

Liquid assets: Decreased margin by 2 basis points driven by increased lower yielding non-lending interest earning assets, including liquid assets.

Asset pricing: Decreased margin by 2 basis points driven by home lending (down 1 basis point) and consumer finance (down 1 basis point). Decreased home lending margins reflect the impact of customers switching from higher margin loans to lower margin loans (down 3 basis points) and increased competition (down 2 basis points), partly offset by repricing (up 4 basis points).

Funding costs: Decreased margin by 2 basis points, reflecting lower earnings on transaction and savings deposits due to the decreases in the cash rate (down 3 basis points) and reduced earnings on investment deposits due to lower swap rates (down 1 basis point), partly offset by a higher benefit from the replicating portfolio (up 1 basis point) and the benefit from lower wholesale funding costs (up 1 basis point).

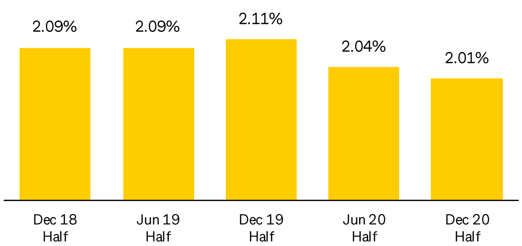
Portfolio Mix: Flat, reflecting a higher deposit funding ratio (31 December 2020: 75%; 30 June 2020: 74%) driven by strong growth in transaction and savings deposits (up 2 basis points), offset by an unfavourable impact from asset mix, mainly due to a decline in higher margin consumer finance balances (down 2 basis points).

Basis Risk: Basis Risk arises from the spread between the 3 month bank bill swap rate and the 3 month overnight index swap rate. The Bank's margin increased 3 basis points reflecting a decrease in the average spread notwithstanding a structural reduction in exposure to basis risk due to strong growth in cash rate linked deposits and a mix shift towards fixed rate home loans.

Capital and other: Decreased margin by 1 basis point driven by lower earnings on capital due to the falling interest rate environment.

Treasury and Markets: Increased margin by 1 basis point driven by higher bonds and commodities financing income in Global Markets.

NIM (Half Year Ended)



Group Performance Analysis (continued)

Other Banking Income (continuing operations basis)

	Half Year Ended				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
	$M	$M	$M	Jun 20 %	Dec 19 %
Commissions	**1,299**	1,236	1,321	5	(2)
Lending fees	**525**	503	483	4	9
Trading income	**535**	432	508	24	5
Other income	**60**	123	231	(51)	(74)
Other banking income - "cash basis"	**2,419**	2,294	2,543	5	(5)

Half Year Ended December 2020 versus December 2019

Other banking income was $2,419 million, a decrease of $124 million or 5% on the prior comparative period.

Commissions decreased by $22 million or 2% to $1,299 million, mainly driven by lower credit card, retail foreign exchange and deposit income primarily due to a decline in spend and transaction volumes due to the impact of COVID-19. This was partly offset by higher equities income from increased trading volumes and an increase in active customer numbers.

Lending fees increased by $42 million or 9% to $525 million, mainly driven by higher institutional lending undrawn commitment fees reflecting lower utilisation from reduced client financing activities as a result of COVID-19.

Trading income increased by $27 million or 5% to $535 million, driven by higher Global Markets trading income from commodities financing and gains in the fixed income and rates portfolio, partly offset by lower Global Markets sales income driven by reduced client demand for hedging activities due to lower volatility in the low-rate environment.

Other income decreased by $171 million or 74% to $60 million, primarily driven by the impairment of aircraft, which are owned by the Group and leased to various airlines, and lower Treasury income due to upfront break costs on the buyback of term debt and lower gains on the sale of liquid assets. This was partly offset by a payment received from AIA reflecting progress in meeting partnership milestones related to the divestment of CommInsure Life.

Half Year Ended December 2020 versus June 2020

Other banking income increased by $125 million or 5% on the prior half.

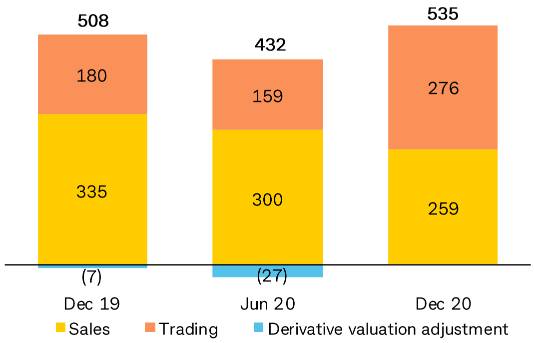
Commissions increased by $63 million or 5%, mainly driven by higher merchants income due to the non-recurrence of COVID-19 fee waivers that were provided in the prior half and increased volumes, and higher equities income from increased trading volumes and an increase in active customer numbers. This was partly offset by lower deposit and retail foreign exchange income primarily due to a decline in international transaction volumes and volume-based fees due to the impact of COVID-19.

Lending fees increased by $22 million or 4%, mainly driven by higher business lending fee income reflecting volume growth, and higher institutional lending undrawn commitment fees reflecting lower utilisation from reduced client financing activities as a result of COVID-19.

Trading income increased by $103 million or 24%, driven by higher Global Markets trading income from commodities financing, and favourable derivative valuation adjustments. This was partly offset by lower Global Markets sales income driven by reduced client demand for hedging activities due to lower volatility in the low-rate environment.

Other income decreased by $63 million or 51%, primarily driven by lower Treasury income due to upfront break costs on the buyback of term debt, lower AIA partnership payments driven by one additional milestone occurring in the prior half, and higher impairment of aircraft operating leases in the current half. This was partly offset by higher net profits from minority investments.

Trading Income ($M)



Group Performance Analysis (continued)

Funds Management Income (continuing operations basis)

	Half Year Ended [1]				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
	$M	$M	$M	Jun 20 %	Dec 19 %
Retail Banking Services [2]	**15**	16	51	(6)	(71)
New Zealand	**68**	65	71	5	(4)
Other	**(3)**	(6)	(24)	(50)	(88)
Funds management income - "cash basis"	**80**	75	98	7	(18)
Funds Under Administration (FUA) - average ($M) [3]	**-**	-	15,332	-	large
Assets Under Management (AUM) - average ($M) [4]	**18,179**	17,272	16,730	5	9

1 Comparative information has been restated to conform to presentation in the current period.
2 Retail Banking Services incorporates the results of Commonwealth Financial Planning and the Aligned Advice businesses.
3 Average FUA has been calculated using the average for the period the Group owned Aegis up until 2 December 2019. All average FUA balances relate to New Zealand.
4 All average AUM balances relate to New Zealand.

Half Year Ended December 2020 versus December 2019

Funds management income was $80 million, a decrease of $18 million or 18% on the prior comparative period. The key drivers were:

- A decrease in Retail Banking Services of $36 million or 71% to $15 million, reflecting the wind-down of the Aligned Advice businesses; and
- A decrease in New Zealand of $3 million or 4% to $68 million, driven by lower income due to the sale of the Aegis business on 2 December 2019, partly offset by higher average AUM (up 9%) reflecting net inflows and favourable investment markets.

Half Year Ended December 2020 versus June 2020

Funds management income increased $5 million or 7% on the prior half. The key drivers were:

- An increase in New Zealand of $3 million or 5%, driven by higher average AUM (up 5%) reflecting net inflows and favourable investment markets; partly offset by
- A decrease in Retail Banking Services of $1 million or 6%, reflecting the wind-down of the Aligned Advice businesses.

Insurance Income (continuing operations basis)

	Half Year Ended [1]				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
	$M	$M	$M	Jun 20 %	Dec 19 %
Insurance income - "cash basis"	**91**	109	32	(17)	large

1 Comparative information has been restated to conform to presentation in the current period.

Half Year Ended December 2020 versus December 2019

Insurance income was $91 million, an increase of $59 million on the prior comparative period. This result was driven by lower claims experience net of reinsurance recoveries, mainly due to the absence of bushfire related claims in the current half.

Half Year Ended December 2020 versus June 2020

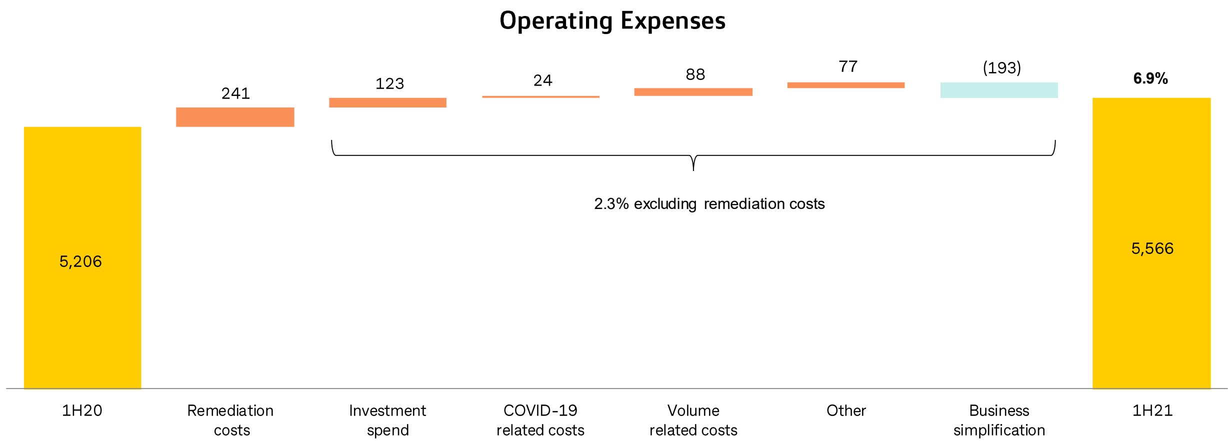
Insurance income decreased $18 million or 17% on the prior half. This result was driven by higher claims experience net of reinsurance recoveries, mainly due to the October 2020 Queensland hail storms.

Group Performance Analysis (continued)

Operating Expenses (continuing operations basis)

	Half Year Ended [1]				
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Staff expenses	**2,986**	2,831	2,898	5	3
Occupancy and equipment expenses	**576**	566	519	2	11
Information technology services expenses	**962**	992	940	(3)	2
Other expenses	**801**	846	849	(5)	(6)
Operating expenses excluding remediation costs and other - "cash basis"	**5,325**	5,235	5,206	2	2
Remediation costs and other [2]	**241**	454	–	(47)	n/a
Operating expenses including remediation costs and other - "cash basis"	**5,566**	5,689	5,206	(2)	7
Operating expenses to total operating income excluding remediation costs and other (%)	**44. 5**	44. 6	43. 3	(10)bpts	120 bpts
Operating expenses to total operating income (%)	**46. 5**	48. 5	43. 3	(200)bpts	320 bpts
Average number of full-time equivalent staff (FTE)	**42,185**	41,147	40,879	3	3
Spot number of full-time equivalent staff (FTE)	**42,720**	41,778	40,519	2	5

1 Comparative Information has been restated to conform to presentation in the current period.
2 For further details on remediation costs and other refer to page 11.



Half Year Ended December 2020 versus December 2019

Operating expenses excluding remediation costs and other were $5,325 million, an increase of $119 million or 2% on the prior comparative period.

Staff expenses increased by $88 million or 3% to $2,986 million, mainly driven by wage inflation and increased full-time equivalent staff (FTE). The average number of FTE increased by 1,306 or 3% from 40,879 to 42,185, primarily due to additional project resources as we continue to invest in our digital capabilities, innovation and risk and compliance initiatives, increased financial assistance and operations staffing, mainly in response to COVID-19 and higher home and business lending volumes, and additional frontline business bankers, partly offset by business simplification initiatives.

Occupancy and equipment expenses increased by $57 million or 11% to $576 million, primarily driven by higher depreciation following the completion of new corporate offices, annual rental reviews and increased cleaning and maintenance costs due to COVID-19.

Information technology services expenses increased by $22 million or 2% to $962 million. This was primarily driven by higher investment spend, and increased IT infrastructure costs including higher compute volumes and cloud usage, partly offset by lower amortisation.

Other expenses decreased by $48 million or 6% to $801 million, primarily driven by reduced credit card loyalty redemptions, lower discretionary spend and business simplification initiatives.

Operating expenses to total operating income ratio excluding remediation costs and other increased 120 basis points from 43.3% to 44.5%.

Group Performance Analysis (continued)

Operating Expenses (continued)

Half Year Ended December 2020 versus June 2020

Operating expenses excluding remediation costs and other increased $90 million or 2% on the prior half.

Staff expenses increased by $155 million or 5%, mainly driven by wage inflation, increased FTE and higher long service leave and superannuation provisions due to a reduction in discount rates in the falling rate environment. The average number of FTE increased by 1,038 or 3% from 41,147 to 42,185, primarily due to additional project resources as we continue to invest in our digital capabilities, innovation and risk and compliance initiatives, increased operations staffing, mainly in response to higher home and business lending volumes, and additional frontline business bankers, partly offset by business simplification initiatives.

Occupancy and equipment expenses increased by $10 million or 2%, primarily due to higher depreciation following the completion of new corporate offices and annual rental reviews.

Information technology services expenses decreased by $30 million or 3%, primarily due to lower amortisation partly offset by higher investment spend and increased IT infrastructure costs including higher compute volumes and cloud usage.

Other expenses decreased by $45 million or 5%, primarily driven by lower discretionary spend and the non-recurrence of one-off costs associated with the bushfire recovery grants incurred in the prior half.

Operating expenses to total operating income ratio excluding remediation costs and other decreased 10 basis points from 44.6% to 44.5%.

Investment Spend (continuing operations basis)

	Half Year Ended				
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Expensed investment spend [1]	**473**	421	350	12	35
Capitalised investment spend [2]	**383**	377	289	2	33
Investment spend	**856**	798	639	7	34
Comprising:					
Risk and compliance	**553**	576	465	(4)	19
Productivity and growth	**234**	176	125	33	87
Branch refurbishment and other	**69**	46	49	50	41
Investment spend	**856**	798	639	7	34

1 Included within the operating expenses disclosure on page 16.
2 Includes software capitalised investment spend and non-software capitalised investment spend, primarily related to branch refurbishments and the development of the corporate and supporting offices.

Half Year Ended December 2020 versus December 2019

The Bank has continued to invest in becoming a simpler and better bank for our customers with $856 million of investment spend incurred in the half year ended 31 December 2020, an increase of $217 million or 34% on the prior comparative period. This is mainly driven by an increase of $109 million in productivity and growth initiatives.

In the current period, productivity and growth initiatives accounted for 27% of investment spend, an increase from 20% in the prior comparative period. The Bank has increased focus on strengthening capabilities and extending our digital leadership through the ongoing modernisation of our digital platform to provide integrated and personalised experiences for our customers, and innovating for future growth through initiatives such as X15 ventures, capability enhancement of the New Payment Platform, and ongoing advancement of the digital interface for our home loan and everyday banking customers.

Risk and compliance projects accounted for 65% of investment spend, a decrease from 73% in the prior comparative period. Whilst risk and compliance initiatives continue to be a focus for the Bank, significant progress on our regulatory and compliance frameworks and obligations has allowed for an increased proportion of funding to be allocated to delivering strategic priorities for the business.

Key areas of investment across each of the categories are outlined below.

Risk and Compliance

Financial Crimes Compliance

The Bank has continued to strengthen Financial Crimes Compliance as part of a comprehensive program of investment, including:

- Anti-money laundering and counter-terrorism financing (AML/CTF) compliance, including upgrading and enhancing our AML/CTF technology, updating our process documentation, investing in further capability and improving the training of our personnel;
- Enhancing Customer Risk Assessment capability, and strengthening data controls and processes to improve data quality; and
- Enhancing the Bank's processes for monitoring, managing, reporting and controlling financial crime across all of its operations, including how the Bank engages with and informs AUSTRAC and other regulators, and improving the Group's operating model to provide increased capability in the management of financial crime risk.

Group Performance Analysis (continued)

Investment Spend (continued)

Other Risk and Compliance

The Bank has continued to invest in the following:

- Implementing new processes and enhancing systems to address new regulations including the Comprehensive Credit Reporting Regime, Banking Code of Practice and Open Banking;
- Upgrading trading platforms to enable additional functionalities to achieve compliance with new market regulations and reduce operational risk;
- Continuing investment in protecting customers and the Bank against cyber security risks, and data and privacy breaches;
- Enhancing system integration and controls to improve quality and lineage of data;
- Improving the collections environment by building a resilient and simplified ecosystem; and
- Other work improving the resilience of the Bank's IT infrastructure and data centres.

Productivity and Growth

The Bank has invested in the following:

- Ongoing development of CommBank applications and digital channels to improve the customer service experience and the resilience of the digital infrastructure;
- Commercial lending systems to upgrade the end-to-end process for loan origination and maintenance, to improve business customer experiences;
- Enhancing technology and services to assist merchant customers, including developing a self-service merchant portal and deploying the next generation smart payment device offering;
- Accelerating the use of cloud-based technology to reduce the cost of ownership of IT infrastructure;
- Simplifying and automating manual back-end processes and systems to improve customer experience and deliver cost savings; and
- Collaborating with our partners in initiatives including additional features for our core products and support for our customers.

Branch Refurbishment and Other

The Bank has continued to invest in the following:

- Retail branch refurbishment as our branch design is constantly evolving to reflect changes in customer preferences; and
- Consolidation and development of corporate offices as existing leases expire.

Capitalised Software

	Half Year Ended				
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Opening Balance	**1,349**	1,418	1,712	(5)	(21)
Additions	**291**	206	201	41	45
Amortisation and write-offs	**(243)**	(274)	(495)	(11)	(51)
Reclassification to assets held for sale	**-**	(1)	-	large	-
Closing balance	**1,397**	1,349	1,418	4	(1)

Half Year Ended December 2020 versus December 2019

Capitalised software balance decreased $21 million or 1% to $1,397 million.

Additions increased by $90 million or 45% to $291 million, due to higher capitalised investment spend in relation to productivity and growth initiatives, including enhancements to the Bank's digital channels and sales management capabilities.

Amortisation and write-offs decreased by $252 million or 51% to $243 million, driven by the non-recurrence of the accelerated amortisation of certain capitalised software balances in the prior comparative period, and lower capitalised software balances.

Half Year Ended December 2020 versus June 2020

Capitalised software balance increased $48 million or 4% on the prior half.

Additions increased by $85 million or 41%, due to higher capitalised investment spend in relation to productivity and growth initiatives, including enhancements to the Bank's digital channels and sales management capabilities.

Amortisation and write-offs decreased by $31 million or 11% due to lower capitalised software balances.

Group Performance Analysis (continued)

Loan Impairment Expense (continuing operations basis)

	Half Year Ended [1]				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
	$M	$M	$M	Jun 20 %	Dec 19 %
Retail Banking Services	**308**	768	266	(60)	16
Business Banking	**286**	550	234	(48)	22
Institutional Banking and Markets	**177**	286	67	(38)	large
New Zealand	**27**	271	21	(90)	29
IFS and Corporate Centre	**84**	(6)	61	large	38
Loan impairment expense - "cash basis"	**882**	1,869	649	(53)	36

1 Comparative information has been restated to conform to presentation in the current period.

Half Year Ended December 2020 versus December 2019

Loan impairment expense was $882 million, an increase of $233 million or 36% on the prior comparative period. This was driven by:

- An increase in Institutional Banking and Markets of $110 million to $177 million, driven by higher collective provisions mainly due to increased forward looking adjustments reflecting uncertainty in the economic outlook, in particular within the Aviation sector due to COVID-19 travel restrictions, partly offset by lower individual provisions;
- An increase in Business Banking of $52 million or 22% to $286 million, driven by higher collective provisions mainly due to increased forward looking adjustments reflecting uncertainty in the economic outlook, in particular Accommodation, Cafes and Restaurants, and Commercial Property, due to the impact of COVID-19. The increase was also driven by portfolio growth, and higher individual provisions driven by a small number of large exposures;
- An increase in Retail Banking Services of $42 million or 16% to $308 million, driven by higher collective provisions mainly due to increased forward looking adjustments reflecting uncertainty in the economic outlook as a result of COVID-19, partly offset by lower consumer finance balances;
- An increase in IFS and Corporate Centre of $23 million or 38% to $84 million, mainly driven by a higher central management overlay; and
- An increase in New Zealand of $6 million or 29% to $27 million, driven by higher collective provisions in the business portfolio mainly due to increased forward looking adjustments reflecting uncertainty in the economic outlook, in particular Commercial Property, Accommodation, Cafes and Restaurants, due to the impact of COVID-19, partly offset by lower consumer impairment expenses in the current half.

Loan impairment expense as a percentage of average gross loans and acceptances (GLAAs) increased 5 basis points to 22 basis points.

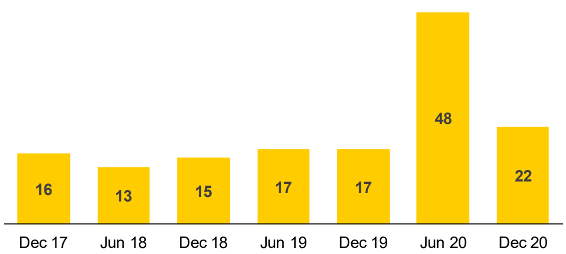
Half Year Ended December 2020 versus June 2020

Loan impairment expense decreased by $987 million or 53% on the prior half. This was driven by:

- A decrease in Retail Banking Services of $460 million or 60%, driven by higher collective provision charges recognised in the prior half, mainly due to the impact of COVID-19, lower consumer finance balances and reduced arrears;
- A decrease in Business Banking of $264 million or 48%, driven by higher collective provision charges recognised in the prior half, mainly due to the impact of COVID-19;
- A decrease in New Zealand of $244 million or 90%, driven by higher collective and individually assessed provision charges recognised in the prior half, mainly due to the impact of COVID-19; and
- A decrease in Institutional Banking and Markets of $109 million or 38%, driven by higher collective and individually assessed provision charges recognised in the prior half, mainly due to the impact of COVID-19, partly offset by an increase in forward looking adjustments for the Aviation sector in the current half; partly offset by
- An increase in IFS and Corporate Centre of $90 million, mainly driven by a central management overlay in the current half, and the non-recurrence of an impairment benefit in prior half from the release of a centrally held provision for drought affected agriculture and associated regional communities in NSW and Queensland.

Loan impairment expense annualised as a percentage of average gross loans and acceptances (GLAAs) decreased 26 basis points.

Half Year Loan Impairment Expense ("cash basis") annualised as a percentage of average GLAAs (bpts)



Group Performance Analysis (continued)

Taxation Expense (continuing operations basis)

	Half Year Ended				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
	$M	$M	$M	Jun 20 %	Dec 19 %
Corporate tax expense ($M)	**1,627**	1,240	1,812	31	(10)
Effective tax rate - "cash basis" (%)	**29. 5**	29. 7	29. 4	(20)bpts	10 bpts

Half Year Ended December 2020 versus December 2019

Corporate tax expense for the half year ended 31 December 2020 was $1,627 million, a decrease of $185 million or 10% on the prior comparative period, reflecting a 29.5% effective tax rate.

The rate is below the Australian company tax rate of 30% primarily as a result of the profit earned by offshore businesses in jurisdictions that have lower corporate tax rates.

Half Year Ended December 2020 versus June 2020

Corporate tax expense increased $387 million or 31% on the prior half.

The 20 basis point decrease in the effective tax rate from 29.7% to 29.5% was primarily due to an increase in profit earned by the offshore jurisdictions.

Group Performance Analysis (continued)

Group Assets and Liabilities

	As at				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
Total Group Assets and Liabilities	**$M**	$M	$M	Jun 20 %	Dec 19 %
Interest earning assets					
Home loans [1]	**559,318**	542,880	535,090	3	5
Consumer finance	**17,449**	18,217	21,167	(4)	(18)
Business and corporate loans	**215,340**	216,695	214,145	(1)	1
Loans, bills discounted and other receivables [2]	**792,107**	777,792	770,402	2	3
Non-lending interest earning assets [3]	**201,833**	178,806	159,391	13	27
Total interest earning assets	**993,940**	956,598	929,793	4	7
Other assets [2,3]	**62,177**	55,692	48,869	12	27
Assets held for sale [3]	**1,617**	1,770	1,206	(9)	34
Total assets	**1,057,734**	1,014,060	979,868	4	8
Interest bearing liabilities					
Transaction deposits [4]	**168,145**	145,316	128,294	16	31
Savings deposits [4]	**249,670**	236,339	201,930	6	24
Investment deposits	**167,916**	181,483	204,875	(7)	(18)
Other demand deposits	**66,844**	61,940	65,098	8	3
Total interest bearing deposits	**652,575**	625,078	600,197	4	9
Debt issues	**122,548**	142,503	153,327	(14)	(20)
Other interest bearing liabilities [3]	**69,109**	51,264	56,507	35	22
Total interest bearing liabilities	**844,232**	818,845	810,031	3	4
Non-interest bearing transaction deposits	**91,013**	74,335	60,871	22	50
Other non-interest bearing liabilities [3]	**46,831**	48,273	37,251	(3)	26
Liabilities held for sale [3]	**655**	594	562	10	17
Total liabilities	**982,731**	942,047	908,715	4	8

1 Home loans are presented gross of $57,479 million of mortgage offset balances (30 June 2020: $50,597 million; 31 December 2019: $49,006 million). These balances are required to be grossed up under accounting standards, but are netted down for the calculation of customer interest payments.

2 Loans, bills discounted and other receivables exclude provisions for impairment which are included in other assets.

3 On 13 May 2020, CBA announced that it has entered into an agreement to sell a 55% interest in Colonial First State (CFS) to KKR. On 28 April 2020, CBA announced that it has entered into an agreement to sell AUSIEX to Nomura Research Institute. On 16 December 2020, CBA announced that it has entered into an agreement to merge Aussie Home Loans (AHL) with Lendi. As at 31 December 2020, $323 million of non-lending interest earning assets (30 June 2020: $290 million) and $1,292 million of other assets (30 June 2020: $1,074 million) have been reclassified to assets held for sale, and $630 million of other non-interest bearing liabilities (30 June 2020: $591 million) and $25 million of other interest bearing liabilities (30 June 2020: $3 million) have been reclassified to liabilities held for sale in relation to these businesses.

4 Transaction and savings deposits includes $57,479 million of mortgage offset balances (30 June 2020: $50,597 million; 31 December 2019: $49,006 million).

Half Year Ended December 2020 versus December 2019

Total assets were $1,058 billion, an increase of $78 billion or 8% on the prior comparative period, driven by an increase in home loans, non-lending interest earning assets, business and corporate loans, and other assets, partly offset by lower consumer finance balances.

Total liabilities were $983 billion, an increase of $74 billion or 8% on the prior comparative period, driven by an increase in transaction deposits (interest bearing and non-interest bearing), savings deposits, other interest bearing liabilities and other non-interest bearing liabilities, partly offset by a decrease in investment deposits and debt issues.

The Bank continued to fund a significant portion of lending growth from customer deposits. Customer deposits represented 75% of total funding (31 December 2019: 71%).

Home loans

Home loan balances increased $24 billion to $559 billion, reflecting a 5% increase on the prior comparative period. The increase was driven by Retail Banking Services and New Zealand, while Business Banking home loan growth was flat. Domestic home loan growth of 5% was above system growth of 4%, reflecting strong new business application volumes and a continued focus on credit decisioning turn-around times.

Home loans in Australia amount to $498 billion (31 December 2019: $477 billion) of which 69% were owner occupied, 29% were investment home loans and 2% were lines of credit (31 December 2019: 67% were owner occupied, 31% were investment home loans and 2% were lines of credit).

Group Performance Analysis (continued)

Group Assets and Liabilities (continued)

Consumer finance

Consumer finance balances decreased $4 billion to $17 billion, an 18% decrease on the prior comparative period, broadly in line with system. The decrease was driven by lower consumer demand for unsecured lending, lower spend due to COVID-19, and increased customer repayments following fiscal and regulatory income support measures.

Business and corporate loans

Business and corporate loans increased $1 billion to $215 billion, an increase of 1% on the prior comparative period. This was driven by 7% growth in Business Banking (above system growth) primarily across the Property Investment, Agriculture and Health industries, supporting Australian businesses with over 12,100 loans funded under the Government's SME Guarantee Scheme. New Zealand business lending increased 3% and New Zealand rural lending was flat (excluding the impact of FX). This was partly offset by a 6% decline in institutional lending balances due to a continued focus on risk adjusted returns in a highly liquid capital market, and a decrease in pooled facilities.

Domestic business lending (excluding institutional lending) increased 6%, above system growth.

Non-lending interest earning assets

Non-lending interest earning assets increased $42 billion to $202 billion, a 27% increase on the prior comparative period. This was mainly driven by an increase in liquid asset balances due to strong customer deposit growth, increased Government bonds held, and an increase in sale and repurchase agreements.

Other assets

Other assets, including derivative assets, property, plant and equipment and intangibles, increased $13 billion to $62 billion, a 27% increase on the prior comparative period. The increase was driven by higher precious metals inventory balances in Institutional Banking and Markets, and an increase in derivative assets driven by foreign currency and interest rate volatility.

Total interest bearing deposits

Total interest bearing deposits increased $52 billion to $653 billion, a 9% increase on the prior comparative period. This was primarily driven by growth in transaction and savings deposits, partly offset by lower investment deposits. The growth in transaction and savings deposits was driven by increased liquidity in the economy and increased demand for at-call deposits in the low-rate environment. The reduction in investment deposits reflects customers switching to at-call deposits.

Domestic household deposits grew at 15%, above system growth of 13%.

Debt issues

Debt issues decreased $31 billion to $123 billion, a 20% decrease on the prior comparative period, reflecting lower wholesale funding requirements due to growth in customer deposit funding.

Deposits satisfied the majority of the Bank's funding requirements, however strong access was maintained to both domestic and international wholesale debt markets.

Refer to pages 37-38 for further information on debt programs and issuance for the half year ended 31 December 2020.

Other interest bearing liabilities

Other interest bearing liabilities, including loan capital, liabilities at fair value through income statement and amounts due to other financial institutions, increased $13 billion to $69 billion, a 22% increase on the prior comparative period. The increase was mainly driven by the drawdown of the RBA Term Funding Facility, with $19.1 billion drawn down by 31 December 2020, and the issuance of additional Tier 2 USD capital instruments, partly offset by lower central bank deposits reflecting reduced demand for short-term funding.

Non-interest bearing transaction deposits

Non-interest bearing transaction deposits increased $30 billion to $91 billion, a 50% increase on the prior comparative period. The increase was driven by increased liquidity in the economy, continued growth in existing customer balances and increased demand for at-call deposits in the low-rate environment.

Other non-interest bearing liabilities

Other non-interest bearing liabilities, including derivative liabilities, increased $10 billion to $47 billion, a 26% increase on the prior comparative period. The increase was driven by higher derivative liabilities primarily due to foreign currency and interest rate volatility.

Half Year Ended December 2020 versus June 2020

Total assets increased $44 billion or 4% on the prior half, driven by increased home loans, non-lending interest earning assets, and other assets, partly offset by lower business and corporate loans, and consumer finance balances.

Total liabilities increased $41 billion or 4% on the prior half, reflecting an increase in transaction deposits (interest bearing and non-interest bearing), savings deposits, other interest bearing liabilities, and other demand deposits, partly offset by a decrease in investment deposits, debt issues, and other non-interest bearing liabilities.

Customer deposits represented 75% of total funding (30 June 2020: 74%).

Home loans

Home loan balances increased $16 billion or 3% on the prior half, driven by an increase in Retail Banking Services and New Zealand balances, while Business Banking home loan growth was flat. Domestic home loan growth of 3% was above system growth of 2%, reflecting strong new business application volumes and a continued focus on credit decisioning turn-around times.

Home loans in Australia amount to $498 billion (30 June 2020: $485 billion) of which 69% were owner occupied, 29% were investment home loans and 2% were lines of credit (30 June 2020: 68% were owner occupied, 30% were investment home loans and 2% were lines of credit).

Consumer finance

Consumer finance balances decreased $1 billion or 4%, broadly in line with system. The decrease was driven by lower consumer demand for unsecured lending and increased customer repayments following fiscal and regulatory income support measures.

Group Performance Analysis (continued)

Group Assets and Liabilities (continued)

Business and corporate loans

Business and corporate loans decreased $1 billion or 1% on the prior half, reflecting a 7% decline in institutional lending balances due to continued focus on risk adjusted returns in a highly liquid capital market, and a decrease in pooled facilities, partly offset by 4% growth in Business Banking (above system growth) primarily across the Property Investment, Health and Transport industries, supporting Australian businesses with an additional 4,800 loans funded under the Government's SME Guarantee Scheme compared to the prior half. New Zealand business lending increased 3% and New Zealand rural lending increased 1% (excluding the impact of FX).

Domestic business lending (excluding institutional lending) increased 4%, above system growth.

Non-lending interest earning assets

Non-lending interest earning assets increased $23 billion or 13% on the prior half, mainly driven by higher liquid asset balances due to strong customer deposit growth, an increase in sale and repurchase agreements and higher commodities financing balances in Institutional Banking and Markets.

Other assets

Other assets, including derivative assets, property, plant and equipment and intangibles, increased $6 billion or 12% on the prior half, driven by higher derivative assets primarily due to foreign currency and interest rate volatility, and increased precious metals inventory balances in Institutional Banking and Markets.

Total interest bearing deposits

Total interest bearing deposits increased $27 billion or 4% on the prior half, primarily driven by growth in transaction, savings and other demand deposit balances, partly offset by lower investment deposits. The growth in transaction and savings deposits was driven by increased liquidity in the economy and increased demand for at-call deposits in the low-rate environment. The reduction in investment deposits reflects customers switching to at-call deposits.

Domestic household deposits grew at 8%, in line with system growth.

Debt issues

Debt issues decreased $20 billion or 14% on the prior half, reflecting lower wholesale funding requirements due to growth in customer deposit funding.

Refer to pages 37-38 for further information on debt programs and issuance for the half year ended 31 December 2020.

Other interest bearing liabilities

Other interest bearing liabilities, including loan capital, liabilities at fair value through income statement and amounts due to other financial institutions, increased $18 billion or 35% on the prior half primarily driven by the drawdown of the RBA Term Funding Facility, with an additional $17.6 billion drawn down during the current half, and the issuance of additional Tier 2 USD capital instruments, partly offset by lower central bank deposits reflecting reduced demand for short-term funding.

Non-interest bearing transaction deposits

Non-interest bearing transaction deposits increased $17 billion or 22% on the prior half. The increase was driven by increased liquidity in the economy, continued growth in existing customer balances and increased demand for at-call deposits in the low-rate environment.

Other non-interest bearing liabilities

Other non-interest bearing liabilities, including derivative liabilities, decreased $1 billion or 3% on the prior half. The decrease was driven by a reduction in unsettled trades, partly offset by an increase in derivative liabilities due to foreign currency and interest rate volatility.

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Group Operations & Business Settings

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Contents

4. Group Operations & Business Settings

Group Operations and Business Settings

Loan Impairment Provisions and Credit Quality

Provisions for Impairment

	As at				
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Provisions for impairment losses					
Collective provisions	**5,943**	5,396	4,067	10	46
Individually assessed provisions	**872**	967	959	(10)	(9)
Total provisions for impairment losses	**6,815**	6,363	5,026	7	36
Less: Provision for Off Balance Sheet exposures	**(137)**	(119)	(87)	15	57
Total provisions for loan impairment	**6,678**	6,244	4,939	7	35

Half Year Ended December 2020 versus December 2019

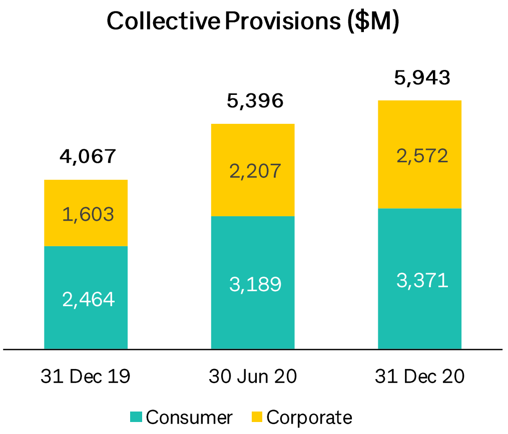
Total provisions for impairment losses as at 31 December 2020 were $6,815 million, an increase of $1,789 million or 36% on the prior comparative period. The increase was driven by:

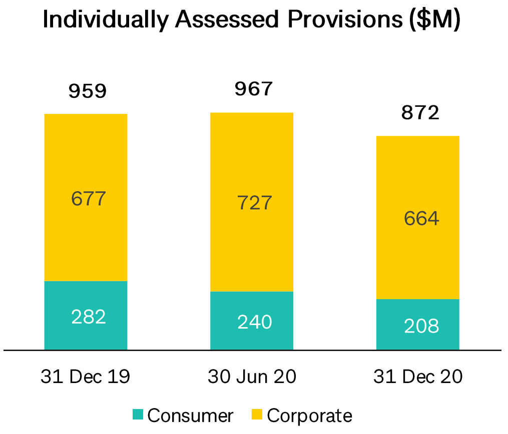
- Corporate collective provisions increased by $969 million or 60% to $2,572 million. This was driven by increased forward looking adjustments reflecting uncertainty in the economic outlook and emerging industry sector risks, in particular Aviation, Commercial Property, as well as other sectors reliant on discretionary spending, mainly due to COVID-19; and
- Consumer collective provisions increased by $907 million or 37% to $3,371 million. This was driven by increased forward looking adjustments reflecting uncertainty in the economic outlook and emerging risks as a result of COVID-19, which offset the benefit of lower consumer finance balances; partly offset by
- Consumer individually assessed provisions decreased by $74 million or 26% to $208 million, mainly driven by decreases in the 90+ days arrears balances in the Australian home loan portfolio as a result of repayment deferrals, government support initiatives and the impact of lower interest rates; and
- Corporate individually assessed provisions decreased by $13 million or 2% to $664 million. This was mainly driven by write-offs and write-backs across various industry sectors, partly offset by the impairment of a small number of large exposures.

Half Year Ended December 2020 versus June 2020

Total provisions for impairment losses increased $452 million or 7% on the prior half. The increase was driven by:

- Corporate collective provisions increased by $365 million or 17%. This was mainly driven by increased forward looking adjustments reflecting emerging industry sector risks, in particular Aviation, Commercial Property, as well as other sectors reliant on discretionary spending, mainly due to COVID-19; and
- Consumer collective provisions increased by $182 million or 6%. This was driven by increased forward looking adjustments, reflecting emerging risks as a result of COVID-19, which offset the benefit of improvements in the economic outlook, lower consumer finance balances and reduced arrears; partly offset by
- Corporate individually assessed provisions decreased by $63 million or 9%, mainly driven by write-offs and write-backs across various industry sectors, partly offset by the impairment of a small number of large exposures; and
- Consumer individually assessed provisions decreased by $32 million or 13%, mainly driven by decreases in the 90+ days arrears balances in the Australian home loan portfolio as a result of repayment deferrals, government support initiatives and the impact of lower interest rates.





Group Operations and Business Settings (continued)

Loan Impairment Provisions and Credit Quality (continued)

Credit Quality

Credit Quality Metrics	Half Year Ended [1] 31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Gross loans and acceptances (GLAA) ($M)	**792,959**	778,675	771,383	2	3
Risk weighted assets (RWA) ($M) - Basel III	**453,616**	454,948	449,154	–	1
Credit RWA ($M) - Basel III	**376,900**	374,194	375,217	1	–
Gross impaired assets ($M)	**3,100**	3,548	3,383	(13)	(8)
Net impaired assets ($M)	**1,920**	2,293	2,161	(16)	(11)
Provision Ratios					
Collective provision as a % of credit RWA - Basel III	**1. 58**	1. 44	1. 08	14 bpts	50 bpts
Total provisions as a % of credit RWA - Basel III	**1. 81**	1. 70	1. 34	11 bpts	47 bpts
Total provisions for impaired assets as a % of gross impaired assets	**38. 07**	35. 37	36. 12	270 bpts	195 bpts
Total provisions for impaired assets as a % of gross impaired assets (corporate)	**48. 42**	46. 62	54. 90	180 bpts	large
Total provisions for impaired assets as a % of gross impaired assets (consumer)	**29. 09**	26. 18	24. 61	291 bpts	448 bpts
Total provisions for impairment losses as a % of GLAAs	**0. 86**	0. 82	0. 65	4 bpts	21 bpts
Asset Quality Ratios					
Gross impaired assets as a % of GLAAs	**0. 39**	0. 46	0. 44	(7)bpts	(5)bpts
Loans 90+ days past due but not impaired as a % of GLAAs	**0. 39**	0. 43	0. 41	(4)bpts	(2)bpts
Loan impairment expense ("cash basis") annualised as a % of average GLAAs	**0. 22**	0. 48	0. 17	(26)bpts	5 bpts
Net write-offs annualised as a % of GLAAs	**0. 11**	0. 14	0. 12	(3)bpts	(1)bpt
Corporate total committed exposures rated investment grade (%) [2]	**65. 90**	66. 30	65. 30	(40)bpts	60 bpts
Australian Home Loan Portfolio					
Portfolio dynamic LVR (%) [3]	**51. 45**	52. 69	53. 42	(124)bpts	(197)bpts
Customers in advance (%) [4]	**79. 82**	80. 12	81. 70	(30)bpts	(188)bpts

1 Comparative information has been restated to conform to presentation in the current period.
2 Investment grades based on CBA grade in S&P equivalent.
3 Loan to value ratio (LVR) defined as current balance as a percentage of the current valuation on Australian home loan portfolio.
4 Any amount ahead of monthly minimum repayment (including offset facilities).

Provision Ratios and Impaired Assets

Total provisions as a proportion of credit RWA increased by 11 basis points on the prior half to 1.81%. This was driven by higher collective provisions due to increased forward looking adjustments reflecting uncertainty in the economic outlook and emerging risks, mainly due to COVID-19.

Gross impaired assets were $3,100 million, a decrease of $448 million or 13% on the prior half. Gross impaired assets as a proportion of GLAAs were 0.39%, a decrease of 7 basis points on the prior half, reflecting reduced new impairments due to repayment deferrals, as well as write-offs, debt sales, and settlement of a small number of larger corporate exposures. Provision coverage for the impaired asset portfolio was 38.07%, an increase of 270 basis points on the prior half, mainly driven by higher provision coverage for impaired home loans.

COVID-19 Support

From March 2020, the Bank has offered a number of support measures to retail and business customers impacted by the COVID-19 pandemic, including repayment deferrals of up to 6 months in duration. In July 2020, the Bank announced that customers may be able to extend their existing repayment deferrals by up to 4 months, on a case by case basis, depending on their individual circumstances. By December 2020, the majority of customers on repayment deferral arrangements have returned to normal repayments upon expiration of deferrals. Subject to standard eligibility criteria, customers have been offered a range of options such as switching to interest only payments for a period following the end of the repayment deferral. In limited cases, further support including interest rate reductions and hardship assistance, has been provided to customers who do not qualify for a further repayment deferral. Refer to pages 99-100 for further details on loan modifications relating to COVID-19.

The Bank has also participated in the Australian Government's Small and Medium Enterprises (SME) Guarantee Scheme. Under the Scheme, the Government guarantees 50% of new loans issued to SMEs.

Group Operations and Business Settings (continued)

Loan Impairment Provisions and Credit Quality (continued)

Retail Portfolio Asset Quality

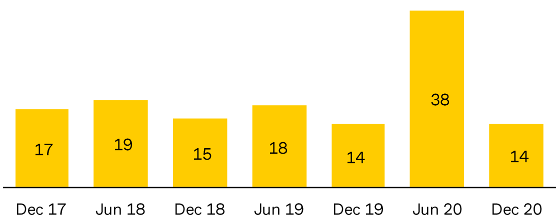
Consumer loan impairment expense (LIE) as a percentage of average gross loans and acceptances was 14 basis points, a decrease of 24 basis points on the prior half, mainly reflecting higher collective provision charges in the prior half, primarily due to COVID-19.

Home loan 90+ days arrears were 0.57%, a decrease of 6 basis points on the prior half, driven by a combination of repayment deferrals, government support initiatives and the impact of lower interest rates. Credit cards 90+ days arrears were 0.66%, a decrease of 57 basis points on the prior half, driven by an improvement in customer origination quality and government support initiatives. Personal Loans 90+ days arrears were 1.48%, a decrease of 3 basis points on the prior half, driven by government support initiatives, partly offset by lower balances including the impact from reduced new lending.

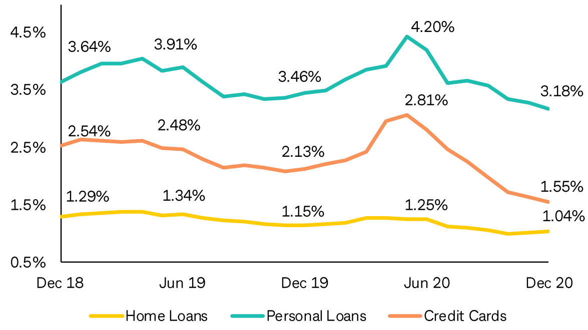
The home loan dynamic LVR was 51.45%, a decrease of 124 basis points on the prior half. The home lending book remains well secured and the majority of home lending customers remain in advance of scheduled repayments.

Consumer LIE

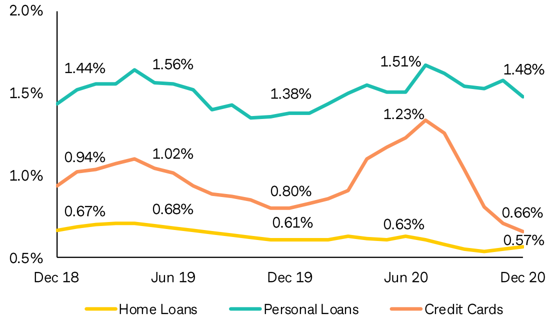
Half Year Loan impairment expense ("cash basis") annualised as percentage of average GLAAs (bpts)



30+ Days Arrears Ratios (%) [1]



90+ Days Arrears Ratios (%) [1]



1 Includes retail portfolios of Retail Banking Services, Business Banking and New Zealand.

Group Operations and Business Settings (continued)

Loan Impairment Provisions and Credit Quality (continued)

Corporate Portfolio Asset Quality

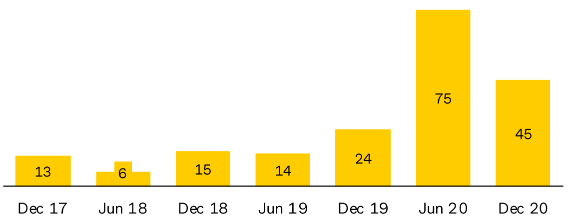
Corporate troublesome exposures were $5.1 billion, a decrease of $0.1 billion or 2% on the prior half, mainly driven by the movement of several large exposures from the troublesome portfolio to the impaired portfolio, partly offset by a small number of downgrades in the troublesome portfolio across a range of sectors including the Entertainment, Leisure & Tourism, Commercial Property and Aviation industries.

Investment grade rated exposures decreased by 40 basis points on the prior half to 65.9% of overall portfolio risk graded counterparties, reflecting the impact of downgrades and changes in business mix over the half.

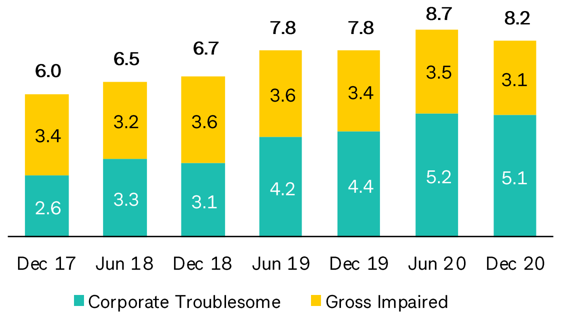
Corporate LIE as a percentage of gross loans and acceptances was 45 basis points, a decrease of 30 basis points on the prior half, reflecting higher collective provision charges in the prior half mainly due to COVID-19.

Corporate LIE

Half Year Loan impairment expense ("cash basis") annualised as percentage of average GLAA (bpts)

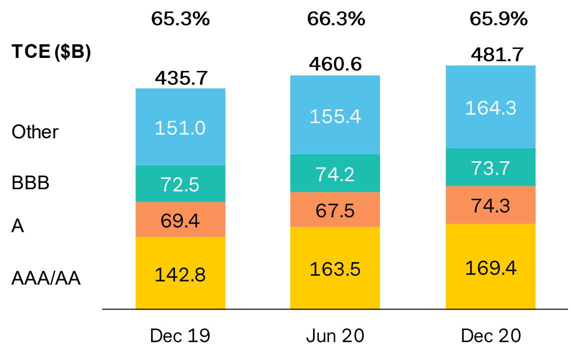


Troublesome and Impaired Assets ($B)



Corporate Portfolio Quality

% of book rated investment grade [1,2]



1 CBA grades in S&P equivalents.

2 Comparative information has been restated to conform to presentation in the current period.

Group Operations and Business Settings (continued)

Loan Impairment Provisions and Credit Quality (continued)

Industry Exposure and Asset Quality

The distribution of the Bank's credit exposures by sector remained relatively consistent during the half. The largest movement was an increase in the Government, Administration & Defence sector of 100 basis points, from 11.8% to 12.8% of the Bank's total committed exposure, driven by an increase in Government bond holdings. This was partly offset by a reduction in the Finance & Insurance sector of 80 basis points, from 7.6% to 6.8% of the Bank's total committed exposures, as the Bank re-weighted its liquidity portfolio towards government bonds as part of ongoing liquidity management activities.

Movements in troublesome and impaired assets (TIA) were mixed across sectors, as total TIA decreased by $515 million compared to the prior half to $8,195 million.

TIA as a percentage of total committed exposures (TCE) was 0.70%, a decrease of 8 basis points from the prior half reflecting:

- Construction (down 166 basis points) driven by the upgrade of a number of large single name exposures;
- Retail Trade (down 150 basis points) driven by the upgrade of a number of large single name exposures;
- Manufacturing (down 127 basis points) driven by a write-off and sale of a number of large single name exposures;
- Transport & Storage (down 56 basis points) driven by a debt sale, partly offset by downgrades in the aviation and travel related industries; partly offset by
- Entertainment, Leisure & Tourism (up 295 basis points) driven by the downgrade of a number of large single name exposures;
- Business Services (up 129 basis points) driven by the downgrade of a large single name exposure;
- Electricity, Gas & Water (up 60 basis points) driven by the downgrade of a large single name exposure;
- Education (up 18 basis points) driven by the downgrade of a number of smaller exposures; and
- Commercial Property (up 15 basis points) driven by the downgrade of a number of large single name exposures.

	Total Committed Exposures (TCE) [1]		Troublesome and Impaired Assets (TIA) [1]		TIA % of TCE [1]	
	31 Dec 20	30 Jun 20	**31 Dec 20**	30 Jun 20	**31 Dec 20**	30 Jun 20
Sector	**%**	%	**$M**	$M	**%**	%
Consumer	**58. 7**	58. 8	**1,662**	1,929	**0. 24**	0. 29
Government, Admin. & Defence	**12. 8**	11. 8	**-**	-	**-**	-
Finance & Insurance	**6. 8**	7. 6	**21**	48	**0. 03**	0. 06
Commercial Property	**6. 6**	6. 6	**904**	752	**1. 17**	1. 02
Transport & Storage	**2. 3**	2. 5	**755**	951	**2. 82**	3. 38
Agriculture & Forestry	**2. 1**	2. 1	**861**	948	**3. 48**	4. 12
Manufacturing	**1. 4**	1. 4	**545**	724	**3. 41**	4. 68
Entertainment, Leisure & Tourism	**1. 1**	1. 2	**1,071**	686	**8. 27**	5. 32
Electricity, Water & Gas	**1. 1**	1. 1	**170**	89	**1. 35**	0. 75
Retail Trade	**1. 0**	1. 0	**424**	572	**3. 58**	5. 08
Business Services	**1. 0**	1. 0	**390**	221	**3. 26**	1. 97
Health & Community Services	**0. 9**	0. 8	**116**	103	**1. 07**	1. 09
Wholesale Trade	**0. 9**	0. 8	**262**	269	**2. 55**	2. 94
Mining, Oil & Gas	**0. 8**	1. 0	**126**	204	**1. 38**	1. 87
Construction	**0. 8**	0. 9	**342**	506	**3. 46**	5. 12
Media & Communications	**0. 5**	0. 5	**175**	186	**3. 30**	3. 37
Personal & Other Services	**0. 3**	0. 3	**105**	128	**3. 22**	4. 43
Education	**0. 3**	0. 2	**40**	29	**1. 28**	1. 10
Other	**0. 6**	0. 4	**226**	365	**3. 44**	5. 77
Total	**100. 0**	100. 0	**8,195**	8,710	**0. 70**	0. 78

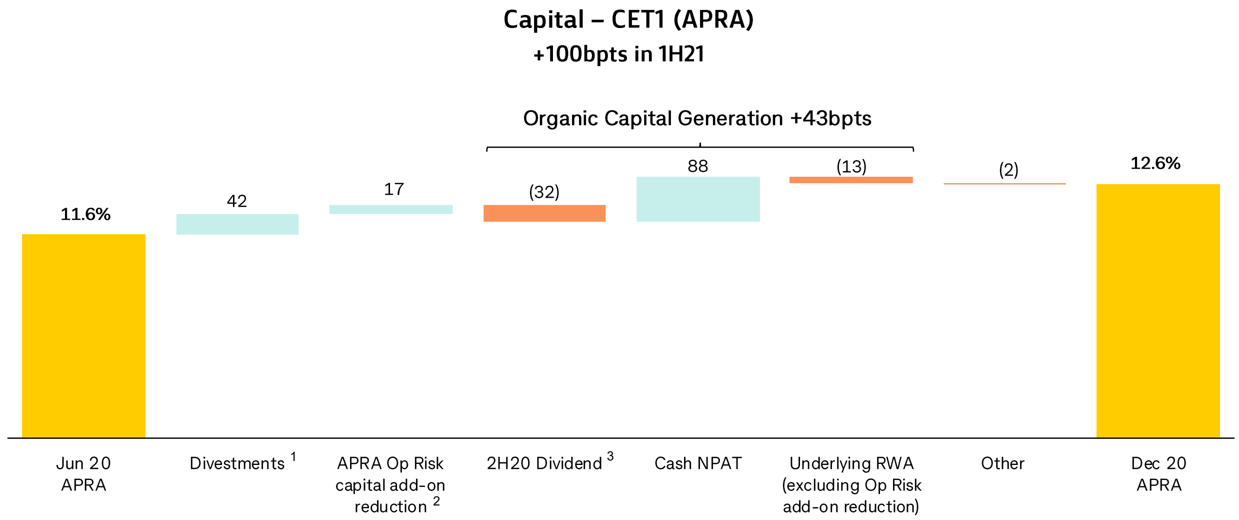
1 Comparative information has been restated to conform to presentation in the current period.

Group Operations and Business Settings (continued)

Capital

	As at				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
Summary Group Capital Adequacy Ratios	%	%	%	Jun 20 %	Dec 19 %
Common Equity Tier 1	**12. 6**	11. 6	11. 7	100 bpts	90 bpts
Tier 1	**15. 0**	13. 9	14. 1	110 bpts	90 bpts
Tier 2	**3. 9**	3. 6	3. 3	30 bpts	60 bpts
Total Capital (APRA)	**18. 9**	17. 5	17. 4	140 bpts	150 bpts
Common Equity Tier 1 (Internationally Comparable) [1]	**18. 7**	17. 4	17. 5	130 bpts	120 bpts

1 Aligns with the 13 July 2015 APRA study titled "International capital comparison study".



1 Relates to additional receipt of funds as part of the divestment of CommInsure Life, the completion of the divestment of BoCommLife, and benefit from the revised calculation of non-cash gains and losses on disposal of previously announced divestments.
2 The benefit from a 50% reduction in APRA's operational risk regulatory capital add-on from $1 billion to $500 million (reduction of $6.25 billion RWA).
3 The 2020 final dividend included the issuance of $264 million of shares (CET1 impact of 6 basis points) in respect of the Dividend Reinvestment Plan.

Capital Position

The Bank's CET1 ratio (APRA) was 12.6% as at 31 December 2020, an increase of 100 basis points from 30 June 2020 and an increase of 90 basis points from 31 December 2019. The CET1 ratio was above APRA's 'unquestionably strong' benchmark of 10.5% and consistently well in excess of regulatory minimum capital adequacy requirements at all times throughout the half year ended 31 December 2020.

After allowing for the impact of the 2020 final dividend, net of shares issued under the Dividend Reinvestment Plan (DRP) (-32 basis points), the CET1 ratio increased by 132 basis points in the half year ended 31 December 2020. This was driven by capital generated from earnings (+88 basis points), benefit from divestments (+42 basis points) and a 50% reduction in APRA's Operational Risk capital add-on (+17 basis points). This was partially offset by higher underlying RWA (-13 basis points) and other items (-2 basis points).

Further details on the movements in RWA are provided on page 32.

Internationally Comparable Capital Position

The Bank's CET1 ratio as measured on an internationally comparable basis was 18.7% as at 31 December 2020, placing it amongst the top quartile of international peer banks.

Capital Initiatives

The following significant capital initiatives were undertaken during the half year ended 31 December 2020:

Common Equity Tier 1 Capital

- The DRP in respect of the 2020 final dividend was satisfied by the issuance of $264 million of ordinary shares, representing a participation rate of 15.2%.

Tier 2 Capital

- In August 2020, the Bank issued an AUD205 million subordinated note and an AUD200 million subordinated note that are both Basel III compliant Tier 2 capital;
- In September 2020, the Bank issued an AUD1,400 million subordinated note that is Basel III compliant Tier 2 capital; and
- In December 2020, the Bank issued an AUD270 million subordinated note that is Basel III compliant Tier 2 capital.

Group Operations and Business Settings (continued)

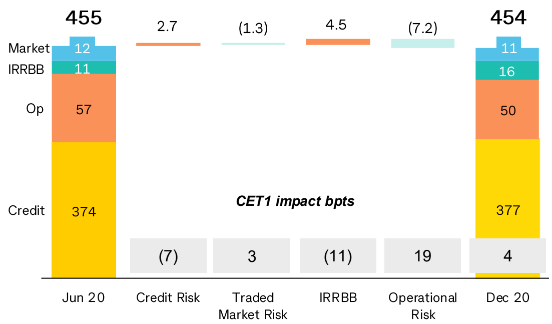
Capital (continued)

Risk Weighted Assets (RWA)

Total Group Risk Weighted Assets

Total RWA decreased by $1.3 billion on the prior half to $453.6 billion driven by decreases in operational risk RWA and traded market risk RWA, partly offset by higher credit risk RWA and IRRBB RWA.

Total Risk Weighted Assets ($B)

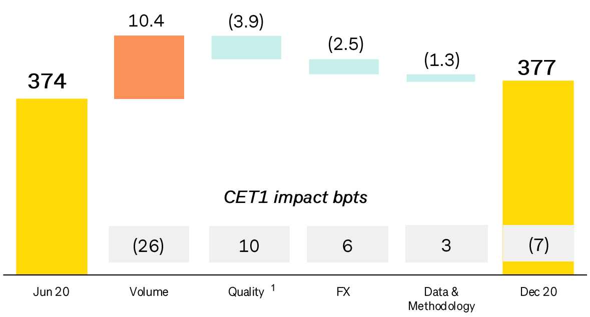


Credit Risk Weighted Assets

Credit risk RWA increased by $2.7 billion on the prior half to $376.9 billion, primarily driven by:

- Volume growth across commercial portfolios, residential mortgages, and bank and sovereign exposures, partly offset by a reduction in unsecured retail portfolios and in exposures subject to standardised treatment (increase of $10.4 billion); partly offset by
- Credit quality improvement (decrease of $3.9 billion), primarily across retail portfolios, driven by:
  - improved loan serviceability;
  - growth in mortgage offset balances; and
  - higher provision coverage on defaulted assets, reducing RWA.
- Foreign currency movements due to appreciation of the AUD against major currencies (decrease of $2.5 billion); and
- Data and methodology, credit risk estimates and other changes (decrease of $1.3 billion).

Credit Risk Weighted Assets ($B)



1 Credit quality includes portfolio mix.

Traded Market Risk Weighted Assets

Traded market risk RWA decreased by $1.3 billion or 10% on the prior half. This was mainly due to the implementation of an enhanced model measurement approach for certain interest rate option exposures.

Interest Rate Risk Weighted Assets

IRRBB RWA increased by $4.5 billion or 40% on the prior half. This was due to changes in interest rate risk management positions and increased size of the replicating portfolio due to growth in deposits.

Operational Risk Weighted Assets

Operational Risk RWA decreased by $7.2 billion or 13% on the prior half. The decrease is mainly due to a 50% reduction in APRA's Operational Risk add-on from $12.5 billion to $6.25 billion.

The Group regularly reviews and updates its operational risk RWA to reflect material changes in its operational risk profile in accordance with the Operational Risk Management Framework and governance processes.

Basel Regulatory Framework

Background

APRA has implemented a set of capital, liquidity and funding reforms based on the Basel Committee on Banking Supervision (BCBS) "Basel III" framework. The objectives of the reforms are to increase the quality, consistency and transparency of capital, to enhance the risk coverage framework, and to reduce systemic and pro-cyclical risk. The APRA prudential standards require a minimum CET1 ratio of 4.5% effective from 1 January 2013. An additional CET1 capital conservation buffer of 3.5%, inclusive of a Domestic Systemically Important Bank (D-SIB) requirement of 1% and a countercyclical capital buffer (CCyB) [1] of 0% (effective from 1 January 2016), brings the minimum CET1 ratio requirement to 8%.

Unquestionably Strong Capital Ratios

In July 2017, APRA released an information paper establishing the quantum of additional capital required for the Australian banking sector to have capital ratios that are unquestionably strong.

APRA's expectation is that the Australian major banks will operate for the majority of the year with a CET1 ratio of 10.5% or more. As at 31 December 2020, the Group's CET1 ratio was 12.6%, and was above the 10.5% benchmark for the entire 2020 calendar year.

Subsequently, APRA issued proposed revisions to the overall design of the capital framework. Further detail on the proposed APRA reforms is provided on page 33.

1 In December 2020, APRA announced that the CCyB for Australian exposures will remain at 0%. The Bank has limited exposures to those offshore jurisdictions in which a CCyB in excess of 0% has been imposed.

Group Operations and Business Settings (continued)

Capital (continued)

APRA's COVID-19 capital announcements

On 19 March 2020, APRA announced temporary changes to its expectations regarding bank capital ratios and advised that, provided banks are able to meet their minimum capital requirements, the capital buffers built up over recent years to meet the 10.5% unquestionably strong benchmark CET1 capital ratio can be utilised to facilitate ongoing lending to the economy during the period of disruption caused by COVID-19.

On 23 March 2020, APRA also announced its regulatory approach to COVID-19 customer support measures being offered by banks in the current environment. Additional guidance was provided in July 2020 and September 2020. This included capital relief in the form of ADIs being able to 'stop the clock' on arrears and relief for restructured loans.

The Group has introduced a number of support measures for customers impacted by COVID-19, which include loan repayment deferral arrangements and the origination of loans under the Government's Small and Medium Enterprises (SME) Guarantee Scheme.

On 15 December 2020, APRA announced that its guidance issued in July 2020 requiring banks to preserve capital through retaining at least half of their earnings during the period of disruption caused by COVID-19, will no longer apply from calendar year 2021. Nevertheless, in determining the appropriate level of dividends, APRA expects banks to moderate dividend payout ratios to ensure they are sustainable, taking into account the outlook for profitability, capital and the broader environment.

Pillar 3 Disclosures

Details on the market disclosures required under Pillar 3, per prudential standard APS 330 "Public Disclosure", are provided on the Bank's website at:

www.commbank.com.au/regulatorydisclosures

Regulatory Reforms

APRA

In February 2018, APRA commenced consultation on a number of proposed changes to the ADI capital framework, commonly known as "Basel III". Following an initial round of consultation and industry responses, in December 2020, APRA released a further consultation package titled "Discussion paper – A more flexible and resilient capital framework for ADIs". The objectives of the proposed changes are to increase the risk sensitivity within the capital framework, to enhance the ability to respond flexibly to future stress events, and to improve the comparability of the Australian framework with international standards. The package sets out APRA's key proposals based on feedback received in earlier consultations. APRA's proposals include:

- Higher regulatory capital buffers, with the CCyB set at 100 basis points for all ADIs and the capital conservation buffer increasing from 250 basis points to 400 basis points for Internal Ratings-based (IRB) ADIs such as CBA;
- Implementing more risk sensitive risk weights, particularly for residential mortgage lending, by targeting higher risk segments, such as interest only and investor mortgages;
- For non-retail credit portfolios, closer alignment of risk estimates relative to overseas peers and allowing internal models to be used for commercial property exposures. The expected decrease in RWAs due to this proposal will be tempered through higher scaling factors;
- RWA for New Zealand subsidiaries to be determined under RBNZ rules at the consolidated group level; and
- Implementing a 72.5% output floor to limit the capital benefit for IRB ADIs relative to standardised ADIs.

These proposals will result in changes to the calculation of RWA and will therefore, result in changes to the presentation of bank capital ratios. APRA expects that capital ratios will increase, as the amount of RWA will likely fall. APRA further reiterated that it is targeting a capital outcome in dollar terms that remains consistent with the "unquestionably strong" capital benchmark.

APRA intends to implement the Basel III changes on 1 January 2023.

In January 2019, the Basel Committee on Banking Supervision released "Minimum capital requirements for market risk" which finalised changes to the identification and measurement of market risk under both the standardised approach and the internal model approach. APRA is yet to commence consultation on APS 116 "Capital Adequacy: Market Risk" and implementation is not expected until 2024.

In October 2019, APRA released a consultation paper on APS 111 "Capital Adequacy: Measurement of Capital". The consultation paper outlines APRA's proposal to change its existing approach on equity exposures to banking and insurance subsidiaries of ADIs. APRA has proposed that each individual equity exposure will be risk-weighted at 250% up to 10% of the ADI's Level 1 CET1 capital, with any excess above that threshold to be deducted from Level 1 CET1 capital. In November 2020, APRA advised that the 10% threshold will apply to new or additional investments into banking and insurance subsidiaries until APS 111 is finalised and implemented.

On 9 July 2019, APRA confirmed that the Australian loss-absorbing capacity regime will be established under the existing capital framework. For Domestic Systemically Important Banks (D-SIB), including CBA, APRA will require an additional Total Capital requirement of 3% of RWA based on the existing capital framework, effective 1 January 2024. APRA is evaluating whether any consequential adjustment to the required amount of loss absorbing capacity is necessary, taking into account proposed changes to the capital framework announced in December 2020 as outlined above.

In August 2019, APRA released the final APS 222 "Associations with Related Entities". The revised standard is intended to strengthen the ability of ADIs to monitor, limit and control risk arising from transactions and other associations with related entities. These new requirements will be in place from 1 January 2022.

Group Operations and Business Settings (continued)

Capital (continued)

Reserve Bank of New Zealand (RBNZ)

In December 2019, the RBNZ confirmed that the RWA of IRB banks, such as ASB Bank Limited, will increase to approximately 90% of that required under a standardised approach. In addition, for those banks deemed systemically important, including ASB, the Tier 1 capital requirement will increase to 16% of RWA, of which 13.5% must be in the form of CET1 capital. Tier 2 capital will remain in the framework, and can contribute up to 2% of the 18% minimum Total Capital ratio. Existing Additional Tier 1 and Tier 2 contingent instruments issued by New Zealand banks will no longer be eligible under RBNZ's new capital criteria and will be phased out.

The RBNZ announced that these reforms will commence from 1 July 2022 with a 6 year implementation period until 1 July 2028. Revisions to Additional Tier 1 and Tier 2 eligibility will commence on 1 July 2021.

On 2 April 2020, the RBNZ announced a freeze on the distribution of dividends by banks in New Zealand due to COVID-19. This restriction will remain in place until 31 March 2021, or later if required. Dividends from the Bank's New Zealand subsidiary, ASB, only affect the Group's Level 1 CET1 capital ratio. As at 31 December 2020, the Group's Level 1 CET1 capital ratio was 12.8%, well above APRA's unquestionably strong benchmark, and as such, the Group is well placed to absorb the suspension of dividends.

The RBNZ has provided concessions similar to those provided by APRA for loan deferrals granted in response to COVID-19.

Group Operations and Business Settings (continued)

Leverage Ratio

	As at				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
Summary Group Leverage Ratio	**$M**	$M	$M	Jun 20 %	Dec 19 %
Tier 1 Capital ($M)	**67,920**	63,414	63,218	7	7
Total Exposures ($M) [1]	**1,125,048**	1,073,131	1,040,423	5	8
Leverage Ratio (APRA) (%)	**6. 0**	5. 9	6. 1	10 bpts	(10)bpts
Leverage Ratio (Internationally Comparable) (%) [2]	**6. 8**	6. 7	7. 0	10 bpts	(20)bpts

1 Total exposures is the sum of on Balance Sheet exposures, derivatives, Securities Financing Transactions (SFTs), and off Balance Sheet exposures, net of any Tier 1 regulatory deductions, as outlined in APS 110 "Capital Adequacy".

2 The Tier 1 Capital included in the calculation of the internationally comparable leverage ratio aligns with the 13 July 2015 APRA study titled "International capital comparison study", and includes Basel III non-compliant Tier 1 instruments that are currently subject to transitional rules.

The Bank's Leverage Ratio, defined as Tier 1 Capital as a percentage of total exposures, was 6.0% at 31 December 2020 on an APRA basis and 6.8% on an internationally comparable basis. The ratio increased 10 basis points on an APRA basis from 30 June 2020 driven by higher Tier 1 Capital, partly offset by a 5% growth in exposures.

In November 2018, APRA released draft prudential and reporting standards, including changes to the definition of exposures related to derivatives and off Balance Sheet items and advocating a minimum leverage ratio requirement of 3.5% for IRB banks, applicable from 1 January 2023.

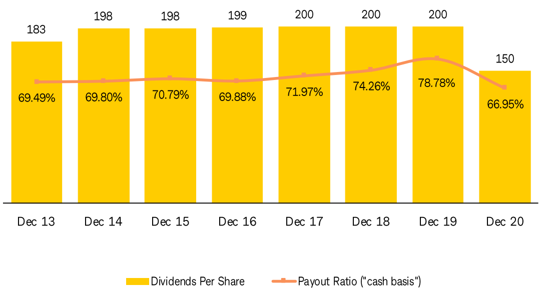
Dividends

Interim dividend for the Half Year Ended 31 December 2020

The interim dividend determined was $1.50 per share, a decrease of 50 cents on the prior comparative period. The dividend payout ratio ("cash basis") for the half year ended to 31 December 2020 was 66.95% (54.57% on a "statutory basis").

The interim dividend will be fully franked and will be paid on 30 March 2021 to owners of ordinary shares at the close of business on 17 February 2021 (record date). Shares will be quoted ex-dividend on 16 February 2021.

Interim Dividend History (cents per share)



Dividend Reinvestment Plan (DRP)

The DRP will continue to be offered to shareholders, and no discount will be applied to shares allocated under the plan for the interim dividend. The DRP for the 2021 interim dividend is anticipated to be satisfied in full by an on-market purchase of shares.

Dividend Policy

The Bank will seek to:

- Pay cash dividends at strong and sustainable levels;
- Target a full year payout ratio of 70% to 80%; and
- Maximise the use of its franking account by paying fully franked dividends.

On 15 December 2020, APRA announced that its guidance issued in July 2020 requiring banks to preserve capital through retaining at least half of their earnings during the period of disruption caused by COVID-19, will no longer apply from calendar year 2021. Nevertheless, in determining the appropriate level of dividends, APRA expects banks to moderate dividend payout ratios to ensure they are sustainable, taking into account the outlook for profitability, capital and the broader environment.

Group Operations and Business Settings (continued)

Liquidity

	Quarterly Average Ended [1]				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
Level 2	**$M**	$M	$M	Jun 20 %	Dec 19 %
Liquidity Coverage Ratio (LCR) Liquid Assets					
High Quality Liquid Assets (HQLA) [2]	**120,730**	121,889	89,028	(1)	36
Committed Liquidity Facility (CLF) [3]	**62,425**	68,931	50,700	(9)	23
Total LCR liquid assets	**183,155**	190,820	139,728	(4)	31
Net Cash Outflows (NCO)					
Customer deposits	**97,779**	93,759	76,473	4	28
Wholesale funding	**10,834**	11,869	11,143	(9)	(3)
Other net cash outflows [4]	**19,720**	17,935	16,946	10	16
Total NCO	**128,333**	123,563	104,562	4	23
Liquidity Coverage Ratio (%)	**143**	155	134	large	large
LCR surplus	**54,822**	67,257	35,166	(18)	56

1 The averages presented are calculated as simple averages of daily observations over the quarter. Spot LCR for 31 December 2020 was 127% (30 June 2020: 145%; 31 December 2019: 125%).

2 Includes all repo-eligible securities with the Reserve Bank of New Zealand. The amount of open-repo of Internal Residential Mortgage-Backed Securities and Exchange Settlement Account (ESA) cash balance held by the Reserve Bank of Australia is shown net.

3 Committed Liquidity Facility (CLF) includes CLF of $30.0 billion (30 June 2020: $45.8 billion; 31 December 2019: $50.7 billion) and the Group's average undrawn TFF allowance of $21.8 billion as per APRA guidance.

4 Includes cash inflows.

Liquidity Coverage Ratio (LCR)

The Group holds high quality, well diversified liquid assets to meet Balance Sheet liquidity needs, and regulatory requirements, including APRA's Liquidity Coverage Ratio (LCR). The LCR requires Australian Authorised Deposit-taking Institutions (ADIs) to hold sufficient liquid assets to meet 30 day Net Cash Outflows (NCOs) projected under a prescribed stress scenario. LCR liquid assets consist of High Quality Liquid Assets (HQLA) in the form of cash, deposits with central banks, government securities, and other repo-eligible securities with the Reserve Bank of Australia (RBA) under the Committed Liquidity Facility (CLF). Given the limited amount of government securities in Australia, the RBA provides participating ADIs access to contingent liquidity on a secured basis via the CLF. The amount of the CLF for each ADI is set annually by APRA.

The Group's CLF allocation decreased from $45.8 billion to $30.0 billion on 1 December 2020, driven by a reduced requirement for contingent liquidity due to an increase in HQLA held and available to be held by the ADIs.

On 19 March 2020, the RBA announced the establishment of a three-year Term Funding Facility (TFF), providing eligible ADIs fixed-rate funding at 0.25%. From 4 November 2020 onwards, new drawdowns of TFF are provided at a fixed-rate of 0.10%. As at 31 December 2020, the Group had a total TFF allocation of $41.0 billion, with its initial TFF allowance of $19.1 billion fully drawn, and its Supplementary Allowance of $13.0 billion and Additional Allowance of $8.9 billion undrawn. As at 1 February 2021, the Group's total available TFF allocation was $40.9 billion.

The Group's December 2020 quarterly average LCR was 143%, a decrease of 12% compared to the quarterly average ended 30 June 2020, and an increase of 9% from the quarterly average ended 31 December 2019. The LCR remains well above the regulatory minimum of 100%.

Compared to the quarterly average ended 30 June 2020, LCR liquid assets decreased by $7.7 billion or 4% due to the reduction in the CLF from 1 December 2020. The Group's 30 day modelled NCOs increased $4.8 billion or 4% mainly driven by strong growth in at-call customer deposits.

Group Operations and Business Settings (continued)

Funding

Group Funding [2]	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
	As at [1]				
Customer deposits	**680,334**	640,969	600,456	6	13
Short-term wholesale funding [3]	**70,542**	71,191	81,518	(1)	(13)
Long-term wholesale funding - less than or equal to one year residual maturity [4]	**30,326**	22,147	26,032	37	16
Long-term wholesale funding - more than one year residual maturity [4]	**119,739**	125,563	131,264	(5)	(9)
IFRS MTM and derivative FX revaluations	**5,270**	7,241	3,012	(27)	75
Total wholesale funding	**225,877**	226,142	241,826	–	(7)
Short-term collateral deposits [5]	**3,288**	3,618	5,523	(9)	(40)
Total funding	**909,499**	870,729	847,805	4	7

1 Comparative information has been restated to conform to presentation in the current period.
2 Shareholders' equity is excluded from this view of funding sources.
3 Short-term wholesale funding includes debt with an original maturity or call date of less than or equal to 12 months, and consists of certificates of deposit and bank acceptances, debt issued under the Euro Medium Term Note (EMTN) program and the domestic, Euro and US commercial paper programs of Commonwealth Bank of Australia and ASB. Short-term wholesale funding also includes deposits from banks and central banks as well as net repurchase agreements.
4 Long-term wholesale funding includes debt with an original maturity or call date of greater than 12 months and the Group's drawn TFF allowance.
5 Short-term collateral deposits includes net collateral received and the amount of internal Residential Mortgage Backed Securities (RMBS) pledged with the Reserve Bank to facilitate intra-day cash flows in the Exchange Settlement Account (ESA).

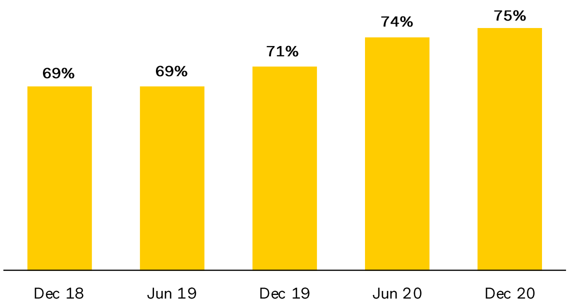
Customer Deposits

Customer deposits accounted for 75% of total funding at 31 December 2020, an increase of 1% from 74% at 30 June 2020 and an increase of 4% from 71% at 31 December 2019. The Group satisfied a significant proportion of its funding requirements from retail, business, and institutional customer deposits.

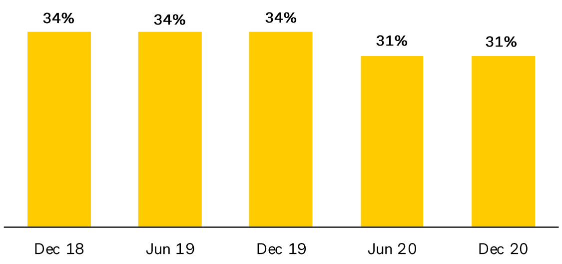
Short-Term Wholesale Funding

Short-term wholesale funding accounted for 31% of total wholesale funding at 31 December 2020, flat on 30 June 2020, and a decrease of 3% from 34% at 31 December 2019 as the Group continues to maintain a conservative funding mix.

Customers Deposits to Total Funding Ratio



Short-Term to Total Wholesale Funding Ratio



Group Operations and Business Settings (continued)

Funding (continued)

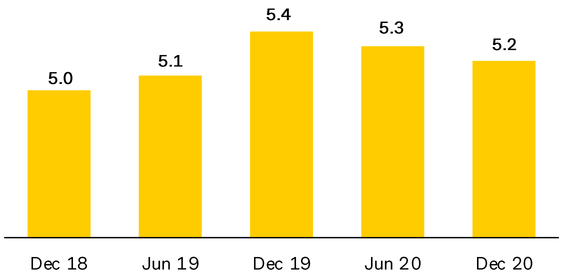
Long-Term Wholesale Funding

Long-term wholesale funding (including IFRS MTM and derivative FX revaluations) accounted for 69% of total wholesale funding at 31 December 2020, flat on 30 June 2020 and an increase of 3% from 31 December 2019.

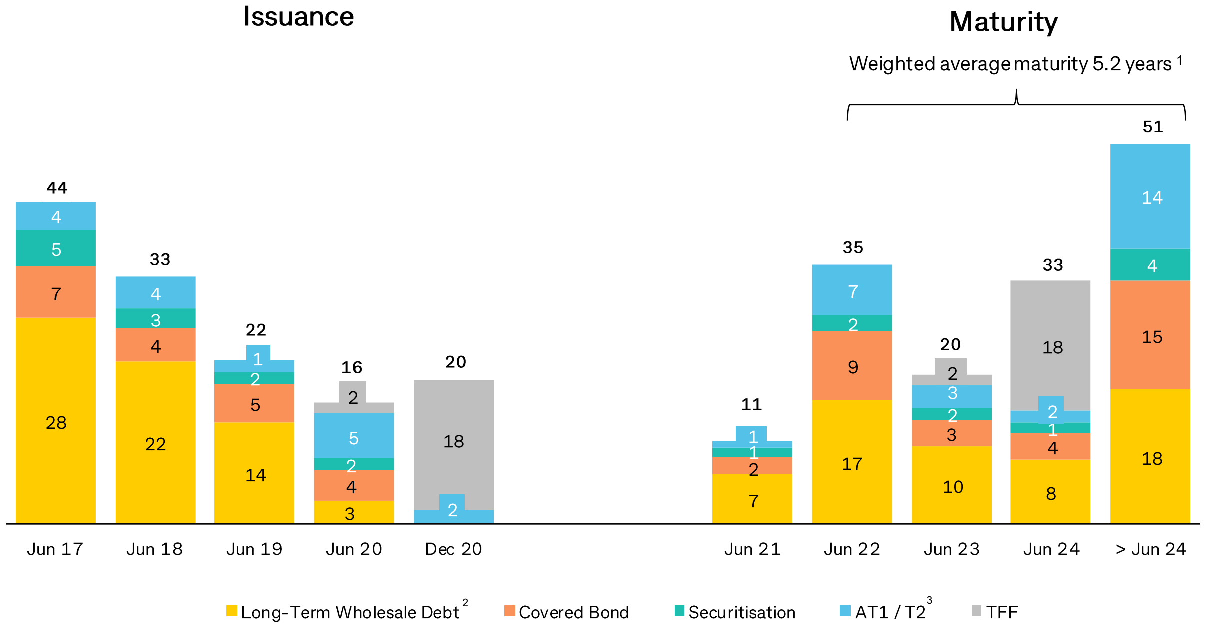
During the half year to 31 December 2020, the Group raised $2.1 billion of long-term wholesale funding (Tier 2 Capital), all denominated in AUD. In addition, the Group drew down $17.6 billion of its TFF allowance, taking the total long-term funding issuance for the 6 months to 31 December 2020 to $19.7 billion.

The Weighted Average Maturity (WAM) of outstanding long-term wholesale debt with a residual maturity greater than 12 months at 31 December 2020 was 5.2 years (5.7 years excluding the TFF).

Weighted Average Maturity of Long-Term Wholesale Debt (years) [1]



Long-Term Wholesale Funding Profile ($B)



1 Represents the weighted average maturity of outstanding long-term wholesale debt with a residual maturity greater than 12 months at 31 December 2020 including the TFF drawdown. WAM as at 31 December 2020 excluding TFF drawdowns is 5.7 years.

2 Includes Senior Bonds and Structured MTN.

3 Additional Tier 1 and Tier 2 Capital.

Group Operations and Business Settings (continued)

Net Stable Funding Ratio (NSFR)

	As at				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
Level 2	**$M**	$M	$M	Jun 20 %	Dec 19 %
Required Stable Funding					
Residential Mortgages ≤35% [1,2]	**269,535**	264,169	274,745	2	(2)
Other Loans	**243,543**	236,540	240,311	3	1
Liquid and Other Assets	**69,627**	63,078	59,777	10	16
Total Required Stable Funding	**582,705**	563,787	574,833	3	1
Available Stable Funding					
Capital	**103,281**	99,005	96,464	4	7
Retail/SME Deposits	**423,891**	394,155	371,896	8	14
Wholesale Funding & Other [3]	**191,112**	185,758	185,845	3	3
Total Available Stable Funding	**718,284**	678,918	654,205	6	10
Net Stable Funding Ratio (NSFR) (%)	**123**	120	114	300 bpts	large

Net Stable Funding Ratio (NSFR)

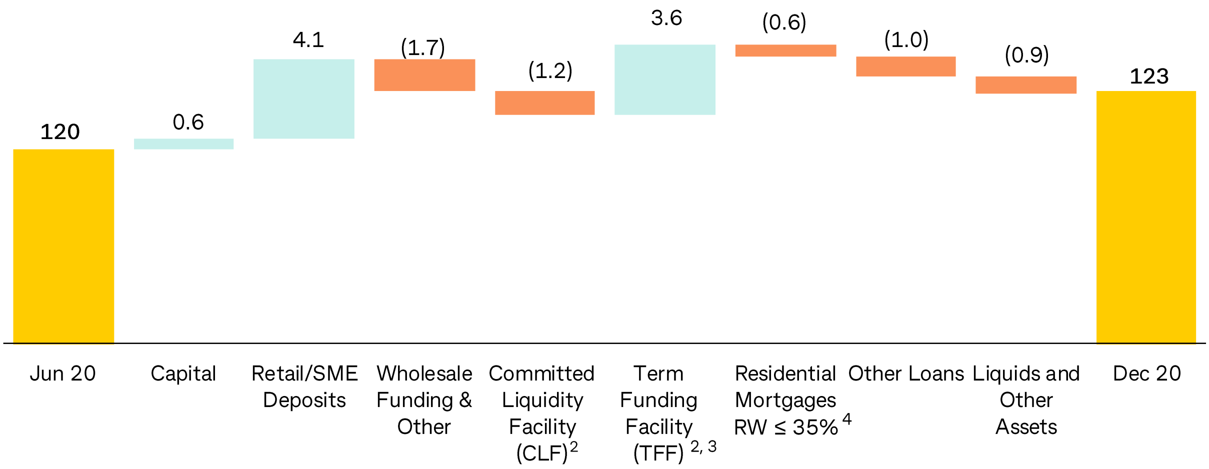
On 1 January 2018, APRA introduced a Net Stable Funding Ratio (NSFR) requirement designed to encourage stable funding of core assets. APRA prescribed factors are used to determine the stable funding requirement of assets and the stability of funding sources.

The Group's NSFR was 123% at 31 December 2020, an increase of 3% from 120% at 30 June 2020 and an increase of 9% from 114% at 31 December 2019, and well above the regulatory minimum of 100%.

The 3% increase in Required Stable Funding (RSF) over the half primarily reflects an increase in the Group's lending balances including both residential mortgages and business lending.

The 6% increase in Available Stable Funding (ASF) over the half reflects strong growth in Retail and SME deposits, an increase in Capital due to Tier 2 issuances, and the drawing down of the TFF.

NSFR Movement (%)



1. This represents residential mortgages with a risk weighting of less than or equal to 35% under APRA standard APS 112 "Capital Adequacy: Standardised Approach to Credit Risk".
2. For the purpose of calculating NSFR, the residential mortgages that have been pledged as collateral for the TFF and CLF receive a lower RSF factor. The decrease in the Group's CLF allocation from $45.8 billion to $30.0 billion from 1 December 2020 has resulted in a higher RSF factor for those mortgages no longer eligible as collateral. The increase in the Group's TFF allowance in the current half has resulted in a lower RSF factor for mortgages that have been pledged as collateral for the TFF and therefore lowered the RSF and benefited NSFR. The impact from the two changes have broadly offset each other in the current half.
3. In addition to the lower RSF factor from the increased TFF allowance, the increased drawn TFF balances during the half have resulted in a higher ASF (benefit from increase in 3 year funding) and therefore a benefit to NSFR.
4. Primarily reflecting the impact on NSFR from volume growth in mortgages.

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Divisional Performance

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Contents

5. Divisional Performance

Divisional Performance

Divisional Summary

	Half Year Ended 31 December 2020					
Divisional Summary	**Retail Banking Services [1] $M**	**Business Banking $M**	**Institutional Banking and Markets $M**	**New Zealand $M**	**IFS and Corporate Centre $M**	**Total $M**
Net interest income	4,923	2,603	691	999	155	**9,371**
Other banking income	763	831	546	200	79	**2,419**
Total banking income	5,686	3,434	1,237	1,199	234	**11,790**
Funds management income	15	–	–	68	(3)	**80**
Insurance income	92	–	–	–	(1)	**91**
Total operating income	5,793	3,434	1,237	1,267	230	**11,961**
Operating expenses	(2,357)	(1,242)	(485)	(486)	(996)	**(5,566)**
Loan impairment expense	(308)	(286)	(177)	(27)	(84)	**(882)**
Net profit/(loss) before tax	3,128	1,906	575	754	(850)	**5,513**
Corporate tax (expense)/benefit	(932)	(571)	(152)	(212)	240	**(1,627)**
Non-controlling interests	–	–	–	–	–	**–**
Net profit/(loss) after tax from continuing operations - "cash basis"	2,196	1,335	423	542	(610)	**3,886**

	Half Year Ended 31 December 2020 vs Half Year Ended 31 December 2019 [2]					
	Retail Banking Services [1] %	**Business Banking %**	**Institutional Banking and Markets %**	**New Zealand %**	**IFS and Corporate Centre %**	**Total %**
Net interest income	1	(4)	2	4	12	**-**
Other banking income	(12)	14	5	1	(65)	**(5)**
Total banking income	(1)	-	3	3	(36)	**(1)**
Funds management income	(71)	-	-	(4)	(88)	**(18)**
Insurance income	large	-	-	-	-	**large**
Total operating income	-	-	3	3	(32)	**(1)**
Operating expenses	2	2	(2)	1	43	**7**
Loan impairment expense	16	22	large	29	38	**36**
Net profit before tax	(3)	(4)	(10)	3	large	**(11)**
Corporate tax (expense)/benefit	(4)	(5)	(12)	4	85	**(10)**
Non-controlling interests	-	-	-	-	-	**-**
Net profit after tax from continuing operations - "cash basis"	(3)	(4)	(9)	2	large	**(11)**

1 Retail Banking Services including Mortgage Broking and General Insurance.
2 Comparative information has been restated to conform to presentation in the current period.

Divisional Performance (continued)

Divisional Summary (continued)

	Half Year Ended 31 December 2020 vs Half Year Ended 30 June 2020 [1]					
	Retail Banking Services [2] %	Business Banking %	Institutional Banking and Markets %	New Zealand %	IFS and Corporate Centre %	Total %
Net interest income	2	1	(2)	3	(7)	**1**
Other banking income	(9)	9	47	14	(47)	**5**
Total banking income	-	3	15	5	(26)	**2**
Funds management income	(6)	-	-	5	(50)	**7**
Insurance income	(17)	-	-	-	(50)	**(17)**
Total operating income	-	3	15	5	(25)	**2**
Operating expenses	-	-	(8)	(10)	(3)	**(2)**
Loan impairment expense	(60)	(48)	(38)	(90)	large	**(53)**
Net profit before tax	17	24	large	89	20	**32**
Corporate tax (expense)/benefit	17	23	57	91	5	**31**
Non-controlling interests	-	-	-	-	-	**-**
Net profit after tax from continuing operations - "cash basis"	16	24	large	88	27	**32**

1 Comparative information has been restated to conform to presentation in the current period.
2 Retail Banking Services including Mortgage Broking and General Insurance.

Divisional Performance (continued)

Retail Banking Services

Overview

Retail Banking Services provides simple, convenient and affordable banking and insurance products and services to personal and private bank customers, helping them manage their everyday banking needs, buy a home, protect their assets, or invest for the future. We support our customers through an extensive network of close to 940 branches, more than 2,700 ATMs, Australian-based customer call centres, leading online services and apps, as well as mobile banking specialists, private bankers and support teams. Retail Banking Services also includes the financial results of retail banking activities conducted under the Bankwest brand.

In order to better serve our customers, and align distribution channels and core product offerings, from July 2020 Commonwealth Private was transferred out of the Business Banking division and consolidated into the Retail Banking Services division.

From March 2020, the Aligned Advice related businesses (including Financial Wisdom Limited, Count Financial Limited and Commonwealth Financial Planning Limited-Pathways) were transferred out of the Wealth Management division and consolidated into the Retail Banking Services division. On 7 August 2019, CBA confirmed it would commence the assisted closure of Financial Wisdom Limited (Financial Wisdom) and allow Commonwealth Financial Planning Limited-Pathways (CFP-Pathways) advisers to transition to a self-licensing arrangement or move to another licensee. The Group ceased providing licensee services through CFP-Pathways in March 2020 and through Financial Wisdom in June 2020. On 1 October 2019, CBA completed the sale of Count Financial Limited (Count Financial) to CountPlus Limited resulting in Count Financial results being recognised for the period up to 1 October 2019. As Count Financial does not in itself constitute a major line of the Group's business, the financial results of Count Financial are treated as continuing operations and are included in the account lines of Retail Banking Services' performance.

On 16 December 2020, the Group announced that it had entered into an agreement to merge Aussie Home Loans with Lendi Pty Ltd (Lendi), an online home loan platform. Upon completion, the Group will retain a 45% shareholding in the combined business, with existing Lendi shareholders holding the remaining 55% shareholding. The sale is subject to Australian regulatory approvals, and is expected to complete by mid calendar year 2021. As Aussie Home Loans did not constitute a major line of the Group's business, the financial results of Aussie Home Loans are treated as continuing operations and included in the account lines of Retail Banking Services' performance.

	Half Year Ended [1]					
	Retail Banking (excl. Mortgage Broking and General Insurance)					Total RBS [2]
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs	31 Dec 20
	$M	$M	$M	Jun 20 %	Dec 19 %	$M
Net interest income	**4,925**	4,837	4,860	2	1	**4,923**
Other banking income	**633**	709	734	(11)	(14)	**763**
Total banking income	**5,558**	5,546	5,594	–	(1)	**5,686**
Funds management income	**15**	16	51	(6)	(71)	**15**
Insurance income	**–**	–	–	–	–	**92**
Total operating income	**5,573**	5,562	5,645	–	(1)	**5,793**
Operating expenses	**(2,186)**	(2,178)	(2,157)	–	1	**(2,357)**
Loan impairment expense	**(308)**	(768)	(266)	(60)	16	**(308)**
Net profit before tax	**3,079**	2,616	3,222	18	(4)	**3,128**
Corporate tax expense	**(918)**	(776)	(967)	18	(5)	**(932)**
Cash net profit after tax	**2,161**	1,840	2,255	17	(4)	**2,196**
Cash net profit after tax from Mortgage Broking and General Insurance	**35**	46	1	(24)	large	**n/a**
Total Cash net profit after tax	**2,196**	1,886	2,256	16	(3)	**2,196**

1 Comparative information has been restated to conform to presentation in the current period.
2 RBS including Mortgage Broking and General Insurance.

Divisional Performance (continued)

Retail Banking Services (continued)

	Half Year Ended [1]					
	Retail Banking (excl. Mortgage Broking and General Insurance)					Total RBS [2]
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs	**31 Dec 20**
Income analysis	**$M**	$M	$M	Jun 20 %	Dec 19 %	**$M**
Net interest income						
Home loans	**3,179**	2,893	2,746	10	16	**3,177**
Consumer finance & other [3]	**638**	751	835	(15)	(24)	**638**
Deposits	**1,108**	1,193	1,279	(7)	(13)	**1,108**
Total net interest income	**4,925**	4,837	4,860	2	1	**4,923**
Other banking income						
Home loans	**135**	139	136	(3)	(1)	**135**
Consumer finance [4]	**218**	216	259	1	(16)	**218**
Deposits	**158**	179	192	(12)	(18)	**158**
Distribution & other [5]	**122**	175	147	(30)	(17)	**252**
Total other banking income	**633**	709	734	(11)	(14)	**763**
Total banking income	**5,558**	5,546	5,594	-	(1)	**5,686**

	As at [1]				
Balance Sheet	**31 Dec 20**	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
(excl. Mortgage Broking and General Insurance)	**$M**	$M	$M	Jun 20 %	Dec 19 %
Home loans [6]	**413,689**	400,921	392,888	3	5
Consumer finance [4]	**11,723**	12,262	14,331	(4)	(18)
Other interest earning assets	**1,789**	1,739	1,842	3	(3)
Total interest earning assets	**427,201**	414,922	409,061	3	4
Other assets	**3,314**	3,486	4,056	(5)	(18)
Total assets	**430,515**	418,408	413,117	3	4
Transaction deposits [7]	**44,598**	39,185	36,474	14	22
Savings deposits [7]	**139,144**	128,470	120,399	8	16
Investment deposits & other	**71,337**	78,376	82,967	(9)	(14)
Total interest bearing deposits	**255,079**	246,031	239,840	4	6
Non-interest bearing transaction deposits	**39,863**	33,882	28,472	18	40
Other non-interest bearing liabilities	**3,240**	3,327	3,234	(3)	-
Total liabilities	**298,182**	283,240	271,546	5	10

1 Comparative information has been restated to conform to presentation in the current period.
2 RBS including Mortgage Broking and General Insurance.
3 Consumer finance and other includes personal loans, credit cards and business lending.
4 Consumer finance includes personal loans and credit cards.
5 Distribution includes income associated with the sale of foreign exchange and wealth products. Other includes asset finance, merchants and business lending.
6 Home loans are presented gross of $46,223 million of mortgage offset balances (30 June 2020: $41,337 million; 31 December 2019: $39,644 million). These balances are required to be grossed up under accounting standards but are netted down for the calculation of customer interest payments.
7 Transaction and Savings deposits includes $46,223 million of mortgage offset balances (30 June 2020: $41,337 million; 31 December 2019: $39,644 million).

Divisional Performance (continued)

Retail Banking Services (continued)

Key Financial Metrics (excl. Mortgage Broking and General Insurance)	Half Year Ended [1] 31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Performance indicators					
Net interest margin (%)	**2. 60**	2. 62	2. 65	(2)bpts	(5)bpts
Return on assets (%)	**1. 0**	0. 9	1. 1	10 bpts	(10)bpts
Operating expenses to total operating income (%)	**39. 2**	39. 2	38. 2	-	100 bpts
Impairment expense annualised as a % of average GLAAs (%)	**0. 15**	0. 37	0. 13	(22)bpts	2 bpts
Other information					
Average interest earning assets ($M) [2]	**375,715**	371,519	365,200	1	3
Risk weighted assets ($M) [3]	**165,036**	167,205	167,134	(1)	(1)
90+ days home loan arrears (%)	**0. 59**	0. 63	0. 65	(4)bpts	(6)bpts
90+ days consumer finance arrears (%)	**0. 96**	1. 34	1. 05	(38)bpts	(9)bpts
Number of full-time equivalent staff (FTE)	**13,918**	14,184	13,987	(2)	-

1 Comparative information has been restated to conform to presentation in the current period.
2 Average interest earning assets are presented net of mortgage offset balances, which reduce customer interest payments. Average interest earning assets are also used in the calculation of divisional net interest margin.
3 Includes Mortgage Broking and General Insurance.

Financial Performance and Business Review [1]

Half Year Ended December 2020 versus December 2019

Retail Banking Services cash net profit after tax for the half year ended 31 December 2020 was $2,161 million, a decrease of $94 million or 4% on the prior comparative period. The result was driven by a 1% decrease in total operating income, a 1% increase in operating expenses and a 16% increase in loan impairment expense.

Net Interest Income

Net interest income was $4,925 million, an increase of $65 million or 1% on the prior comparative period. This was driven by 3% growth in average interest earning assets, partly offset by a 2% decrease in net interest margin.

Net interest margin decreased by 5 basis points on the prior comparative period, reflecting:

- Lower deposit margins due to reduced earnings on transaction and savings deposits reflecting decreases in the cash rate, and lower earnings on investment deposits from lower swap rates (down 10 basis points);
- Lower earnings on equity due to the falling interest rate environment (down 6 basis points);
- Unfavourable portfolio mix (down 3 basis points) due to a reduction in higher margin consumer finance balances, more than offsetting the mix benefit from customers switching to at-call deposits from investment deposits; and
- Lower consumer finance margin due to a reduction in the proportion of credit card balances earning interest (down 1 basis point); partly offset by
- Higher home lending margins (up 7 basis points) reflecting repricing (up 22 basis points), partly offset by unfavourable home loan portfolio mix (down 7 basis points) with a shift to lower margin loans (interest only to principal and interest, variable to fixed, and investor to owner occupied), and increased competition (down 8 basis points); and
- Lower wholesale funding costs primarily due to a decrease in the spread between the three month bank bill swap rate and the three month overnight index swap rate (basis risk) notwithstanding the reduced exposure to basis risk due to strong growth in cash rate linked deposits and a mix shift towards fixed rate home loans (up 8 basis points).

Other Banking Income

Other banking income was $633 million, a decrease of $101 million or 14% on the prior comparative period, reflecting:

- Lower credit card income from reduced transaction volumes and loyalty redemptions, mainly driven by the impact of COVID-19;
- Lower foreign exchange income from international travel restrictions due to COVID-19; and
- Lower deposit income due to reduced international spend volumes and lower volume based transaction fees; partly offset by
- Payments received from AIA reflecting progress in meeting partnership milestones following the divestment of CommInsure Life.

Funds Management Income

Funds management income was $15 million, a decrease of $36 million or 71% on the prior comparative period. This was driven by the wind-down of the Aligned Advice businesses.

Operating Expenses

Operating expenses were $2,186 million, an increase of $29 million or 1% on the prior comparative period. This was primarily driven by increased financial assistance and home loan processing volumes, higher investment spend, increased customer remediation, and inflation, partly offset by lower credit card loyalty redemptions as a result of COVID-19 and productivity initiatives including workforce and branch optimisation.

1 In order to provide an underlying view of the performance, the commentary below has been presented excluding the impact of the Mortgage Broking and General Insurance businesses for which commentary has been provided separately.

Divisional Performance (continued)

Retail Banking Services (continued)

Financial Performance and Business Review (continued)

The number of full-time equivalent staff (FTE) decreased by 69 FTE on the prior comparative period, from 13,987 to 13,918 FTE, driven by frontline and head office optimisation, partly offset by increased call centre, financial assistance and risk resourcing.

Investment spend increased on the prior comparative period, driven by risk and compliance initiatives including Program of Action, Privacy and Open Banking.

The total operating expense to total operating income ratio was 39.2%, an increase of 100 basis points on the prior comparative period, mainly due to lower total operating income.

Loan Impairment Expense

Loan impairment expense was $308 million, an increase of $42 million or 16% on the prior comparative period. The result was driven by higher collective provisions mainly due to increased forward looking adjustments reflecting uncertainty in the economic outlook and emerging risks as a result of COVID-19, partly offset by lower consumer finance balances.

Loan impairment expense as a percentage of average gross loans and acceptances increased 2 basis points on the prior comparative period to 0.15%.

Home loan 90+ day arrears decreased by 6 basis points from 0.65% to 0.59%, driven by a combination of repayment deferrals, government support initiatives and decreases in the cash rate.

Consumer finance 90+ day arrears decreased by 9 basis points from 1.05% to 0.96% driven by an improvement in customer origination quality and government support initiatives.

Balance Sheet

Key spot balance sheet movements included:

- Home loan growth of $20.8 billion or 5%, above system growth of 4%. Proprietary mix for CBA branded home loans decreased from 58% to 56% due to strong broker flows, with higher new business application volumes and continued focus on credit decisioning turn-around times;
- Consumer finance decrease of $2.6 billion or 18%, broadly in line with system. The decrease in balances was driven by lower consumer demand for unsecured lending, lower spend due to COVID-19, and increased customer repayments following fiscal and regulatory income support measures; and
- Total deposits growth of $26.6 billion or 10% (interest and non-interest bearing), above system growth. Growth was driven by transaction deposits (up 30% including non-interest bearing balances) primarily in existing customer balances and mortgage offset accounts. Savings deposits increased by 16%, partly offset by a decline in investment deposits (down 14%), reflecting increased liquidity in the economy and higher demand for at-call deposits in the low-rate environment.

Risk Weighted Assets

Risk weighted assets were $165.0 billion, a decrease of $2.1 billion or 1% on the prior comparative period.

- Credit risk weighted assets decreased $1.3 billion or 1% driven by a reduction in consumer finance volumes and improved credit quality, partly offset by home loan volume growth; and
- Operational risk weighted assets decreased $5.2 billion or 18%, mainly driven by the 50% reduction in APRA's operational risk regulatory capital add-on; partly offset by
- IRRBB risk weighted assets increased $4.4 billion, mainly due to the increased size of the replicating portfolio from growth in cash rate linked deposits and changes in interest rate risk management positions.

Retail Banking Services generated $2,146 million of organic capital [1] for the Group in the current half. This contributed 48 basis points to the Group's CET1 ratio.

General Insurance and Mortgage Broking

Cash net profit after tax was $35 million, an increase of $34 million on the prior comparative period. This result was driven by lower claims experience net of reinsurance recoveries in the General Insurance business, mainly due to the absence of bushfire related claims in the current half.

Half Year Ended December 2020 versus June 2020

Cash net profit after tax increased $321 million or 17% on the prior half. The result was driven by flat operating income, flat operating expenses and a 60% decrease in loan impairment expense.

Net Interest Income

Net interest income increased by $88 million or 2% on the prior half. This was driven by the benefit of two additional calendar days in the current half, a 1% increase in average interest earning assets, partly offset by a 1% decrease in net interest margin.

Net interest margin decreased 2 basis points on the prior half, reflecting:

- Lower deposit margins due to reduced earnings on transaction and savings deposits reflecting decreases in the cash rate (down 2 basis points);
- Lower earnings on equity due to the falling interest rate environment (down 4 basis points);
- Lower home lending margins (down 1 basis point) due to unfavourable home loan portfolio mix (down 6 basis points) with a shift to lower margin loans (interest only to principal and interest, and variable to fixed) and increased competition (down 4 basis points), partly offset by repricing (up 9 basis points);
- Lower consumer finance margins due to a reduction in the proportion of credit card balances earning interest (down 1 basis point); and

1 Organic capital generation represents cash net profit after tax less the capital equivalent of the change in regulatory risk weighted assets used to generate those profits. Amounts quoted exclude the payment of dividends and the allocation of Operational RWA from the Enforceable Undertaking with APRA.

Divisional Performance (continued)

Retail Banking Services (continued)

Financial Performance and Business Review (continued)

- Unfavourable portfolio mix (down 1 basis point) driven by a reduction in higher margin consumer finance balances, more than offsetting the mix benefit from customers switching to at-call deposits from investment deposits; partly offset by
- Lower wholesale funding costs primarily due to a decrease in the spread between the three month bank bill swap rate and the three month overnight index swap rate (basis risk) notwithstanding the reduced exposure to basis risk due to strong growth in cash rate linked deposits and a mix shift towards fixed rate home loans (up 7 basis points).

Other Banking Income

Other banking income decreased $76 million or 11% on the prior half, reflecting:

- Lower foreign exchange income from international travel restrictions due to COVID-19;
- Lower deposit income due to reduced volume based transaction fees; and
- Lower AIA partnership payments driven by one additional milestone occurring in the prior half; partly offset by
- Higher credit card interchange income from increased domestic spend due to seasonality and recovery of customer spend in the current half.

Funds Management Income

Funds Management income was down $1 million or 6% on the prior half. This was driven by the wind-down of the Aligned Advice businesses.

Operating Expenses

Operating expenses increased $8 million or flat on the prior half. This was driven by increased financial assistance and home loan processing volumes, higher investment spend, and inflation, partly offset by productivity initiatives including workforce and branch optimisation, and lower credit card loyalty redemptions.

The number of FTE decreased by 266 or 2% on the prior half, from 14,184 to 13,918 FTE, driven by frontline optimisation, partly offset by increased financial assistance and risk resourcing.

The operating expenses to total operating income ratio was 39.2%, flat to the prior half.

Loan Impairment Expense

Loan impairment expense decreased $460 million or 60% on the prior half. The result was driven by higher collective provision charges recognised in the prior half, mainly due to the impact of COVID-19, lower consumer finance balances and reduced arrears.

Loan impairment expense as a percentage of average gross loans and acceptances decreased by 22 basis points on the prior half to 0.15%.

Home loan 90+ day arrears decreased by 4 basis points from 0.63% to 0.59%, driven by a combination of repayment deferrals, government support initiatives and decreases in the cash rate.

Consumer finance 90+ day arrears decreased by 38 basis points from 1.34% to 0.96% driven by an improvement in customer origination quality and government support initiatives.

Balance Sheet

Key spot balance sheet movements included:

- Home loan growth of $12.8 billion or 3%, above system growth of 2%. Proprietary mix for CBA branded home loans decreased from 58% to 56% due to strong broker flows, with higher new business application volumes, and continued focus on credit decisioning turn-around times;
- Consumer finance decrease of $0.5 billion or 4%, broadly in line with system. The decrease in balances was driven by lower consumer demand for unsecured lending, and increased customer repayments following fiscal and regulatory income support measures; and
- Total deposit growth of $15.0 billion or 5% (interest and non-interest bearing), in line with system growth. Growth was driven by transaction deposits (up 16% including non-interest bearing balances) primarily in existing customer balances and mortgage offset accounts. Savings deposits increased by 8%, partly offset by a decline in investment deposits (down 9%) reflecting increased liquidity in the economy and higher demand for at-call deposits in the low-rate environment.

Risk Weighted Assets

Risk weighted assets decreased $2.2 billion or 1% on the prior half.

- Operational risk weighted assets decreased $4.3 billion or 15%, mainly driven by the 50% reduction in APRA's operational risk regulatory capital add-on; partly offset by
- Credit risk weighted assets increased by $0.8 billion or 1% primarily driven by home loan volume growth, partly offset by improved credit quality and a reduction in consumer finance volumes; and
- IRRBB risk weighted assets increased $1.3 billion or 20%, mainly due to the increased size of the replicating portfolio from growth in cash rate linked deposits and changes in interest rate risk management positions.

General Insurance and Mortgage Broking

Cash net profit after tax decreased $11 million on the prior half. This result was driven by higher claims experience net of reinsurance recoveries in the General Insurance business mainly due to the October 2020 Queensland hail storms.

Divisional Performance (continued)

Business Banking

Overview

Business Banking (formerly Business and Private Banking) serves the banking needs of business, corporate and agribusiness customers across the full range of financial services solutions. We also provide Australia's leading equities trading and margin lending services through our CommSec business. Business Banking includes the financial results of business banking activities conducted under the Bankwest brand.

From July 2020, Commonwealth Private was transferred out of the Business Banking division and consolidated into the Retail Banking Services division.

On 28 April 2020, the Group announced the sale of its subsidiary, Australian Investment Exchange Limited (AUSIEX), to Nomura Research Institute (NRI). The sale is subject to regulatory and other conditions, and is expected to complete in the first half of calendar year 2021. As AUSIEX does not constitute a major line of the Group's business, the financial results of AUSIEX are treated as continuing operations and included in the account lines of Business Banking performance.

	Half Year Ended [1]				
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Net interest income	**2,603**	2,579	2,712	1	(4)
Other banking income	**831**	759	730	9	14
Total banking income	**3,434**	3,338	3,442	3	–
Operating expenses	**(1,242)**	(1,245)	(1,213)	–	2
Loan impairment expense	**(286)**	(550)	(234)	(48)	22
Net profit before tax	**1,906**	1,543	1,995	24	(4)
Corporate tax expense	**(571)**	(464)	(600)	23	(5)
Cash net profit after tax	**1,335**	1,079	1,395	24	(4)
Income analysis					
Net interest income					
Small Business Banking	**1,199**	1,207	1,252	(1)	(4)
Commercial Banking	**717**	706	761	2	(6)
Regional and Agribusiness	**383**	372	402	3	(5)
Major Client Group [2]	**206**	191	197	8	5
CommSec	**98**	103	100	(5)	(2)
Total net interest income	**2,603**	2,579	2,712	1	(4)
Other banking income					
Small Business Banking	**229**	198	236	16	(3)
Commercial Banking	**157**	152	175	3	(10)
Regional and Agribusiness	**66**	63	65	5	2
Major Client Group [2]	**123**	111	120	11	3
CommSec	**256**	235	134	9	91
Total other banking income	**831**	759	730	9	14
Total banking income	**3,434**	3,338	3,442	3	–
Income by product					
Business products	**2,007**	1,928	2,122	4	(5)
Retail products	**1,128**	1,134	1,142	(1)	(1)
Equities and Margin Lending	**299**	276	178	8	68
Total banking income	**3,434**	3,338	3,442	3	–

1 Comparative information has been restated to conform to presentation in the current period.
2 From July 2020, Business Banking re-segmented the business resulting in a new standalone segment Major Client Group, which provides specialised, dedicated support and service to the largest customers within Business Banking.

Divisional Performance (continued)

Business Banking (continued)

Balance Sheet	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
	As at [1]				
Home loans [2]	**84,592**	84,752	84,675	-	-
Business loans [3]	**96,110**	92,249	90,015	4	7
Margin loans	**2,252**	2,322	2,492	(3)	(10)
Consumer finance	**1,763**	1,916	2,316	(8)	(24)
Total interest earning assets	**184,717**	181,239	179,498	2	3
Non-lending interest earning assets [4]	**141**	133	62	6	large
Other assets [4]	**753**	1,275	1,246	(41)	(40)
Total assets	**185,611**	182,647	180,806	2	3
Transaction deposits [3,5]	**38,600**	34,439	31,003	12	25
Savings deposits [5]	**67,635**	60,554	51,431	12	32
Investment deposits and other	**32,894**	30,988	36,044	6	(9)
Total interest bearing deposits	**139,129**	125,981	118,478	10	17
Debt issues and other interest bearing liabilities	**3**	25	30	(88)	(90)
Non-interest bearing transaction deposits	**42,492**	33,198	26,540	28	60
Other non-interest bearing liabilities [6]	**1,378**	1,752	1,379	(21)	-
Total liabilities	**183,002**	160,956	146,427	14	25

Key Financial Metrics	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
	Half Year Ended [1]				
Performance indicators					
Net interest margin (%)	**3. 02**	3. 04	3. 16	(2)bpts	(14)bpts
Return on assets (%)	**1. 4**	1. 2	1. 5	20 bpts	(10)bpts
Operating expenses to total banking income (%)	**36. 2**	37. 3	35. 2	(110)bpts	100 bpts
Impairment expense annualised as a % of average GLAAs (%)	**0. 31**	0. 62	0. 26	(31)bpts	5 bpts
Other information					
Average interest earning assets ($M) [7]	**171,123**	170,381	170,671	–	–
Risk weighted assets ($M)	**137,962**	136,288	131,381	1	5
Troublesome and impaired assets ($M) [8]	**4,640**	4,677	4,398	(1)	6
Troublesome and impaired assets as a % of TCE (%) [8]	**3. 63**	3. 89	3. 78	(26)bpts	(15)bpts
Number of full-time equivalent staff (FTE)	**4,640**	4,410	4,239	5	9

1 Comparative information has been restated to conform to presentation in the current period.
2 Home loans are presented gross of $11,257 million of mortgage offset balances (30 June 2020: $9,260 million; 31 December 2019: $9,362 million). These balances are required to be grossed up under accounting standards, but are netted down for the calculation of customer interest payments.
3 Business loans include $244 million of Cash Management Pooling Facilities (CMPF) (30 June 2020: $243 million; 31 December 2019: $359 million). Transaction Deposits include $1,258 million of CMPF liabilities (30 June 2020: $1,220 million; 31 December 2019: $763 million). These balances are required to be grossed up under accounting standards, but are netted down for the calculation of customer interest payments and risk weighted assets.
4 On 28 April 2020, CBA announced that it has entered into an agreement to sell AUSIEX to Nomura Research Institute. The assets related to the AUSIEX business have been reclassified as assets held for sale, of which, $71 million are included within Other assets (30 June 2020: $226m; 31 December 2019: Nil) and $64 million are included within Non-lending interest earning assets (30 June 2020: $23m; 31 December 2019: Nil).
5 Transaction and Savings deposits include $11,257 million of mortgage offset balances (30 June 2020: $9,260 million; 31 December 2019: $9,362 million).
6 Includes $93 million of liabilities related to the AUSIEX business that are classified as liabilities held for sale (30 June 2020: $188 million; 31 December 2019: Nil).
7 Average interest earning assets are presented net of mortgage offset balances, which reduce customer interest payments. Average interest earning assets are also used in the calculation of divisional net interest margin.
8 Commercial troublesome and impaired assets only. Includes commercial and leasing products.

Divisional Performance (continued)

Business Banking (continued)

Financial Performance and Business Review

Half Year Ended December 2020 versus December 2019

Business Banking cash net profit after tax for the half year ended 31 December 2020 was $1,335 million, a decrease of $60 million or 4% on the prior comparative period. The result was driven by flat total banking income, a 2% increase in operating expenses and a 22% increase in loan impairment expense.

Net Interest Income

Net interest income was $2,603 million, a decrease of $109 million or 4% on the prior comparative period. This was driven by a 4% decline in net interest margin and flat average interest earning assets.

Net interest margin decreased 14 basis points on the prior comparative period, reflecting:

- Lower deposit margins due to reduced earnings on transaction and savings deposits reflecting decreases in the cash rate (down 22 basis points);
- Lower business lending margins reflecting a 125 basis points reduction in loans linked to the cash rate to support our customers in response to COVID-19 (down 8 basis points);
- Lower earnings on equity due to the falling interest rate environment (down 6 basis points); and
- Lower consumer finance margins due to a reduction in the proportion of credit card balances earning interest (down 1 basis point); partly offset by
- Favourable portfolio mix (up 21 basis points) driven by strong growth in transaction and savings deposits, partly offset by a decline in higher margin consumer finance balances; and
- Higher home lending margins reflecting repricing, partly offset by increased competition (up 2 basis points).

Other Banking Income

Other banking income was $831 million, an increase of $101 million or 14% on the prior comparative period, reflecting:

- Higher equities income from increased trading volumes and an increase in active customer numbers; partly offset by
- Lower credit card and foreign exchange income mainly driven by a decline in transaction volumes due to COVID-19.

Operating Expenses

Operating expenses were $1,242 million, an increase of $29 million or 2% on the prior comparative period. This was primarily driven by continued investment in business banking product offerings and distribution capabilities, partly offset by productivity initiatives.

The number of full-time equivalent staff (FTE) increased by 401 or 9% on the prior comparative period, from 4,239 to 4,640 FTE, primarily driven by investment in frontline business bankers, CommSec call centre resources and remediation staff, partly offset by productivity initiatives.

Investment spend was primarily focused on further enhancing the customer experience with investment in digitisation and automation, improving the end-to-end processes for key products, and simplifying the product offering for business customers, as well as investment in regulatory, risk and compliance initiatives.

The operating expense to total banking income ratio was 36.2%, an increase of 100 basis points on the prior comparative period, mainly driven by higher operating expenses.

Loan Impairment Expense

Loan impairment expense was $286 million, an increase of $52 million or 22% on the prior comparative period. This was driven by higher collective provisions due to increased forward looking adjustments reflecting uncertainty in the economic outlook and emerging industry sector risks, mainly due to the impact of COVID-19 (in particular Accommodation, Cafes and Restaurants, and Commercial Property). The increase was also driven by portfolio growth, and higher individual provisions driven by a small number of large exposures.

Loan impairment expense as a percentage of average gross loans and acceptances increased 5 basis points on the prior comparative period to 0.31%.

Troublesome and impaired assets (TIA) increased 6% on the prior comparative period, mainly due to lending volume growth. TIA as a percentage of total committed exposure (TCE) decreased 15 basis points to 3.63%, due to the improved asset quality of the portfolio driven by a combination of high quality volume growth from selective tightening of origination criteria in certain industries, and active management of troublesome and impaired assets primarily across the Agriculture, Business Services and Manufacturing industries.

Balance Sheet

Key spot balance sheet movements included:

- Business loan growth of $6.1 billion or 7%, above system, reflecting growth primarily across the Property Investment, Agriculture and Health industries, while continuing to support Australian businesses with over 12,100 loans funded under the Government's SME Guarantee Scheme;
- Home loan decrease of $0.1 billion or flat on the prior comparative period, below system growth of 4%, driven by lower investor home lending, partly offset by growth in owner occupied; and
- Total deposits growth (interest and non-interest bearing) of $36.6 billion or 25%, above system growth of 19%. Growth was driven by higher transaction (up 41%) and savings (up 32%) balances, partly offset by a decrease in investment deposits (down 9%), reflecting increased liquidity in the economy and higher demand for at-call deposits in the low-rate environment.

Risk Weighted Assets

Risk weighted assets were $138.0 billion, an increase of $6.6 billion or 5% on the prior comparative period.

- Credit risk weighted assets increased $5.5 billion or 5% driven by lending volume growth, partly offset by credit quality; and
- IRRBB risk weighted assets increased $3.0 billion, mainly due to the increased size of the replicating portfolio from growth in cash rate linked deposits and changes in interest rate risk management positions; partly offset by

Divisional Performance (continued)

Business Banking (continued)

Financial Performance and Business Review (continued)

- Operational risk weighted assets decreased $1.9 billion or 12%, mainly driven by the 50% reduction in APRA's operational risk regulatory capital add-on.

Business Banking generated $896 million of organic capital [1] for the Group in the current half. This contributed 20 basis points to the Group's CET1 ratio.

Half Year Ended December 2020 versus June 2020

Cash net profit after tax increased $256 million or 24% on the prior half. The result was driven by a 3% increase in total banking income, flat operating expenses and a 48% decrease in loan impairment expense.

Net Interest Income

Net interest income increased $24 million or 1% on the prior half. This was driven by the benefit of two additional calendar days in the current half, partly offset by a 1% decline in net interest margin. Average interest earning assets were flat compared to the prior half.

Net interest margin decreased 2 basis points, reflecting:

- Lower deposit margins due to reduced earnings on transaction and savings balances reflecting decreases in the cash rate (down 7 basis points);
- Lower home lending margins due to increased competition and shift towards lower margin loans, partly offset by repricing (down 2 basis points);
- Lower earnings on equity due to the falling interest rate environment (down 2 basis points);
- Lower consumer finance margins due to a reduction in the proportion of credit card balances earning interest (down 1 basis point); and
- Lower business lending margins reflecting a 125 basis points reduction in loans linked to the cash rate to support our customers in response to COVID-19 (down 2 basis points); partly offset by
- Favourable portfolio mix (up 12 basis points) driven by strong growth in transaction and savings deposits, partly offset by a decline in higher margin consumer finance balances.

Other Banking Income

Other banking income increased $72 million or 9% on the prior half, driven by:

- Higher merchants income mainly due to the non-recurrence of COVID-19 fee waivers in the prior half and improved volumes;
- Higher equities income from increased trading volumes and an increase in active customer numbers; and
- Higher business lending fee income reflecting volume growth.

Operating Expenses

Operating expenses decreased $3 million or flat on the prior half. This was primarily driven by continued investment in business banking product offerings and distribution capabilities, offset by productivity initiatives and lower IT expenses.

The number of FTE increased by 230 or 5% on the prior half, from 4,410 to 4,640 FTE, primarily driven by investment in frontline business bankers and remediation staff, partly offset by productivity initiatives.

The operating expense to total banking income ratio was 36.2%, a decrease of 110 basis points on the prior half due to higher banking income.

Loan Impairment Expense

Loan impairment expense decreased $264 million or 48% on the prior half. This was driven by higher collective provision charges recognised in the prior half, mainly due to the impact of COVID-19.

Loan impairment expense as a percentage of average gross loans and acceptances decreased 31 basis points on the prior half to 0.31%.

Troublesome and impaired assets decreased 1% on the prior half. TIA as a percentage of total committed exposure decreased 26 basis points to 3.63%, driven by business lending volume growth. Asset quality of the portfolio improved due to a combination of high quality volume growth from selective tightening of origination criteria in certain industries, and active management of troublesome and impaired assets primarily across the Agriculture, Business Services and Manufacturing industries.

Balance Sheet

Key spot balance sheet movements included:

- Business loan growth of $3.9 billion or 4%, above system, reflecting growth primarily across the Property Investment, Health and Transport industries, while continuing to support Australian businesses with 4,800 additional loans funded under the Government's SME Guarantee Scheme compared to the prior half;
- Home loan decrease of $0.2 billion or flat, below system growth of 2%, driven by lower investor home lending, partly offset by growth in owner occupied; and
- Total deposits growth (interest and non-interest bearing) of $22.4 billion or 14%, above system growth of 6%. Growth was driven by higher transaction (up 20%), savings (up 12%) and investment deposits (up 6%), reflecting increased liquidity in the economy and higher demand for at-call deposits in the low-rate environment.

Risk Weighted Assets

Risk weighted assets increased $1.7 billion or 1% on the prior half.

- Credit risk weighted assets increased $2.2 billion or 2% driven by lending volume growth, partly offset by improved credit quality and methodology changes; and
- IRRBB risk weighted assets increased $1.0 billion or 22%, mainly due to the increased size of the replicating portfolio from growth in cash rate linked deposits and changes in interest rate risk management positions; partly offset by
- Operational risk weighted assets decreased $1.5 billion or 10%, mainly driven by the 50% reduction in APRA's operational risk regulatory capital add-on.

1 Organic capital generation represents cash net profit after tax less the capital equivalent of the change in regulatory risk weighted assets used to generate those profits. Amounts quoted exclude the payment of dividends and the allocation of Operational RWA from the Enforceable Undertaking with APRA.

Divisional Performance (continued)

Institutional Banking and Markets

Overview

Institutional Banking & Markets serves the commercial and wholesale banking needs of large corporate, institutional and government clients across a full range of financial services solutions including access to debt capital markets, transaction banking, working capital and risk management through dedicated product and industry specialists.

	Half Year Ended [1]				
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Net interest income	**691**	707	676	(2)	2
Other banking income	**546**	371	522	47	5
Total banking income	**1,237**	1,078	1,198	15	3
Operating expenses	**(485)**	(527)	(494)	(8)	(2)
Loan impairment expense	**(177)**	(286)	(67)	(38)	large
Net profit before tax	**575**	265	637	large	(10)
Corporate tax expense	**(152)**	(97)	(172)	57	(12)
Cash net profit after tax	**423**	168	465	large	(9)
Income analysis					
Net interest income					
Institutional Banking	**512**	547	588	(6)	(13)
Markets	**179**	160	88	12	large
Total net interest income	**691**	707	676	(2)	2
Other banking income					
Institutional Banking	**188**	127	234	48	(20)
Markets	**358**	244	288	47	24
Total other banking income	**546**	371	522	47	5
Total banking income	**1,237**	1,078	1,198	15	3
Income by product					
Institutional products	**683**	717	714	(5)	(4)
Asset leasing	**17**	(43)	108	large	(84)
Markets (excluding derivative valuation adjustments)	**540**	440	397	23	36
Total banking income excluding derivative valuation adjustments	**1,240**	1,114	1,219	11	2
Derivative valuation adjustments [2]	**(3)**	(36)	(21)	(92)	(86)
Total banking income	**1,237**	1,078	1,198	15	3

1 Comparative information has been restated to conform to presentation in the current period.
2 Derivative valuation adjustments include both net interest income and other banking income adjustments.

Divisional Performance (continued)

Institutional Banking and Markets (continued)

	As at [1]				
Balance Sheet	**31 Dec 20 $M**	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Interest earning lending assets [2]	**88,075**	94,739	93,746	(7)	(6)
Non-lending interest earning assets	**52,638**	48,014	45,727	10	15
Other assets [3]	**34,011**	28,815	21,157	18	61
Total assets	**174,724**	171,568	160,630	2	9
Transaction deposits [2]	**75,961**	63,520	53,655	20	42
Savings deposits	**13,328**	21,741	7,699	(39)	73
Investment deposits	**34,524**	38,724	49,458	(11)	(30)
Certificates of deposit and other	**22,250**	23,227	17,640	(4)	26
Total interest bearing deposits	**146,063**	147,212	128,452	(1)	14
Due to other financial institutions	**6,774**	9,618	14,684	(30)	(54)
Debt issues and other [4]	**3,043**	3,868	4,172	(21)	(27)
Non-interest bearing liabilities [3]	**25,620**	25,209	17,395	2	47
Total liabilities	**181,500**	185,907	164,703	(2)	10

	Half Year Ended [1]				
Key Financial Metrics	**31 Dec 20**	30 Jun 20	31 Dec 19	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Performance indicators					
Net interest margin (%)	**0. 95**	0. 99	0. 98	(4)bpts	(3)bpts
Return on assets (%)	**0. 5**	0. 2	0. 6	30 bpts	(10)bpts
Operating expenses to total banking income (%)	**39. 2**	48. 9	41. 2	large	(200)bpts
Impairment expense annualised as a % of average GLAAs (%)	**0. 38**	0. 58	0. 14	(20)bpts	24 bpts
Other information					
Average interest earning assets ($M)	**144,716**	144,109	137,024	-	6
Risk weighted assets ($M)	**88,253**	93,325	84,413	(5)	5
Troublesome and impaired assets ($M)	**1,175**	1,346	670	(13)	75
Total committed exposures rated investment grade (%)	**86.7**	86. 5	88. 3	20 bpts	(160)bpts
Number of full-time equivalent staff (FTE)	**1,174**	1,169	1,153	-	2

1 Comparative information has been restated to conform to presentation in the current period.

2 Interest earning lending assets include $22,886 million of Cash Management Pooling Facilities (CMPF) (30 June 2020: $24,868 million; 31 December 2019: $23,852 million). Transaction deposits include $41,098 million of CMPF liabilities (30 June 2020: $34,287 million; 31 December 2019: $30,872 million). These balances are required to be grossed up under accounting standards, but are netted down for the calculation of customer interest payments and risk weighted assets.

3 Other assets include intangible assets and derivative assets. Non-interest bearing liabilities include derivative liabilities.

4 Debt issues and other includes bank acceptances and liabilities at fair value.

Divisional Performance (continued)

Institutional Banking and Markets (continued)

Financial Performance and Business Review

Half Year Ended December 2020 versus December 2019

Institutional Banking and Markets cash net profit after tax for the half year ended 31 December 2020 was $423 million, a decrease of $42 million or 9% on the prior comparative period. The result was driven by a 3% increase in total banking income, a 2% decrease in operating expenses and a $110 million increase in loan impairment expense.

Net Interest Income

Net interest income was $691 million, an increase of $15 million or 2% on the prior comparative period. The result was driven by a 6% increase in average interest earning assets, partly offset by a 3% decrease in net interest margin.

Net interest margin decreased 3 basis points, reflecting:

- Lower earnings on equity due to the falling interest rate environment (down 6 basis points);
- Unfavourable portfolio mix impact from growth in lower margin non-lending interest earning assets (down 4 basis points);
- Reduced deposit revenue reflecting decreases in the cash rate (down 4 basis points); partly offset by
- Higher Global Markets net interest income due to wider bond spreads (offset in other banking income) from a fall in short-end AUD interest rates and an increase in commodities margins (up 11 basis points).

Other Banking Income

Other banking income was $546 million, an increase of $24 million or 5% on the prior comparative period, reflecting:

- Higher Commodities income from precious metal inventory financing and higher Global Markets trading income driven by gains in the Fixed Income and Rates portfolios; and
- Higher Institutional lending commitment and line fees due to lower utilisation from reduced client financing activities as a result of COVID-19; partly offset by
- The impairment of aircraft which are owned by the Group and leased to various airlines in the Structured Asset Finance portfolio; and
- Lower Global Markets sales performance driven by reduced client demand for hedging activities mainly due to lower volatility in the low-rate environment.

Operating Expenses

Operating expenses were $485 million, a decrease of $9 million or 2% on the prior comparative period. This was driven by productivity initiatives and lower business travel expenses due to COVID-19, partly offset by higher investment spend.

The number of full-time equivalent staff (FTE) increased by 21 or 2% on the prior comparative period, from 1,153 to 1,174 FTE. The increase was driven by higher risk and compliance staff, partly offset by productivity initiatives.

Investment spend focused on further strengthening the operational risk and compliance framework, upgrading system infrastructure and responding to new regulatory requirements.

The operating expenses to total banking income ratio was 39.2%, a decrease of 200 basis points on the prior comparative period, mainly driven by higher total banking income.

Loan Impairment Expense

Loan impairment expense was $177 million, an increase of $110 million on the prior comparative period. This was driven by higher collective provisions mainly due to increased forward looking adjustments reflecting uncertainty in the economic outlook and emerging industry sector risks, in particular Aviation, mainly due to COVID-19, partly offset by lower individual provisions.

Loan impairment expense as a percentage of average gross loans and acceptances increased 24 basis points on the prior comparative period to 0.38%.

Asset quality of the portfolio has deteriorated, with the percentage of the book rated as investment grade decreasing by 160 basis points to 86.7% mainly driven by downgrades of exposures, in particular within the Aviation and Entertainment, Leisure and Tourism industries.

Balance Sheet

Key spot balance sheet movements included:

- Lending balance decrease of $5.7 billion or 6%, primarily driven by lower institutional lending due to a continued focus on risk adjusted returns in a highly liquid capital market, and a decrease in pooled facilities;
- Non-lending interest earning assets growth of $6.9 billion or 15%, driven by higher government securities from increased bond issuances, higher sale and repurchase agreements and higher commodities financing balances in the Global Markets business;
- Other assets and non-interest bearing liabilities growth of $12.9 billion or 61% and $8.2 billion or 47% respectively, mainly driven by higher precious metals inventory balances in Other assets and the revaluation of derivative assets and derivative liabilities due to foreign currency and interest rate volatility. Derivative assets and derivative liabilities are required to be grossed up under accounting standards;
- Total interest bearing deposits growth of $17.6 billion or 14% ($27.9 billion from at-call deposits), reflecting increased liquidity in the economy and customer preference for at-call deposits in the low-rate environment; and
- Due to other financial institutions decrease of $7.9 billion or 54%, due to lower central bank deposits reflecting reduced demand for short-term funding.

Risk Weighted Assets

Risk weighted assets were $88.3 billion, an increase of $3.8 billion or 5% on the prior comparative period.

- Traded market risk weighted assets increased $5.8 billion; and
- IRRBB risk weighted assets increased $1.7 billion, mainly due to changes in interest rate risk management positions; partly offset by
- Operational risk weighted assets decreased by $2.0 billion or 24%, mainly driven by the 50% reduction in APRA's operational risk regulatory capital add-on; and

Divisional Performance (continued)

Institutional Banking and Markets (continued)

Financial Performance and Business Review (continued)

- Credit risk weighted assets decreased $1.7 billion or 2%, primarily driven by FX.

Institutional Banking and Markets generated $841 million of organic capital [1] for the Group in the current half. This contributed 19 basis points to the Group's CET1 ratio.

Half Year Ended December 2020 versus June 2020

Cash net profit after tax increased $255 million on the prior half. The result was driven by a 15% increase in total banking income, an 8% decrease in operating expenses, and a 38% decrease in loan impairment expense.

Net Interest Income

Net interest income decreased $16 million or 2% on the prior half. The result was driven by a 4% decrease in net interest margin, partly offset by the impact of two additional calendar days in the current half. Average interest earning assets were flat on the prior half.

Net interest margin decreased 4 basis points, reflecting:

- Unfavourable portfolio mix impact from growth in lower margin non-lending interest earning assets (down 4 basis points);
- Lower earnings on equity due to the falling interest rate environment (down 2 basis points); and
- Reduced deposits revenue mainly driven by decreases in the cash rate (down 2 basis points); partly offset by
- Higher Structured Asset Finance revenue driven by the non-recurrence of a reduction in the estimated residual value of shipping vessels under finance leases in the prior half (up 2 basis points); and
- Higher Global Markets net interest income due to wider bond spreads (offset in other banking income) from a fall in short-end AUD interest rates (up 2 basis points).

Other Banking Income

Other banking income increased of $175 million or 47% on the prior half, reflecting:

- Higher Commodities income from precious metal inventory financing and higher Global Markets trading income driven by gains in the Fixed Income and Rates portfolios; and
- Higher Structured Asset Finance revenue due to lower impairment of aircraft operating leases in the current half;
- Favourable derivative valuation adjustments; and
- Higher Institutional lending commitment and line fees due to lower utilisation from reduced financing activities as a result of COVID-19; partly offset by
- Lower Global Markets sales performance driven by reduced client demand for hedging activities due to lower volatility in the low-rate environment.

Operating Expenses

Operating expenses decreased $42 million or 8% on the prior half. This was primarily driven by favourable FX, lower IT expenses, productivity initiatives, and lower investment spend.

The number of FTE increased by 5 on the prior half, from 1,169 to 1,174 FTE.

The operating expenses to total banking income ratio was 39.2%, a decrease from 48.9% in the prior half, driven by higher total banking income and lower operating expenses.

Loan Impairment Expense

Loan impairment expense decreased $109 million or 38% on the prior half. This was driven by higher collective and individually assessed provision charges recognised in the prior half, mainly due to the impact of COVID-19, partly offset by an increase in forward looking adjustments for the Aviation sector in the current half.

Loan impairment expense as a percentage of average gross loans and acceptances decreased 20 basis points on the prior half to 0.38%.

Asset quality of the portfolio has improved, with the percentage of the book rated as investment grade increasing by 20 basis points to 86.7% mainly due to increased exposures in the Finance & Insurance sector, partly offset by downgrades in the Aviation and Entertainment, Leisure and Tourism industries mainly due to COVID-19.

Balance Sheet

Key spot balance sheet movements included:

- Lending balance decrease of $6.7 billion or 7%, primarily driven by lower institutional lending due to a continued focus on risk adjusted returns in a highly liquid capital market, and a decrease in pooled facilities;
- Non-lending interest earning assets growth of $4.6 billion or 10%, driven by higher sale and repurchase agreements and higher commodities financing balances in the Global Markets business;
- Other assets and Non-interest bearing liabilities growth of $5.2 billion or 18% and $0.4 billion or 2% respectively, mainly driven by higher precious metals inventory balances in Other assets, and the revaluation of derivative liabilities due to foreign currency and interest rate volatility;
- Total interest bearing deposits decrease of $1.1 billion or 1%, reflecting reduction in savings and term deposits, partly offset by an increase in transaction deposits; and
- Due to other financial institutions decrease of $2.8 billion or 30%, from lower central bank deposits reflecting reduced demand for short-term funding.

Risk Weighted Assets

Risk weighted assets decreased $5.1 billion or 5% on the prior half.

- Credit risk weighted assets decreased $2.1 billion or 3%;
- Operational risk weighted assets decreased by $1.9 billion or 23%, mainly driven by the 50% reduction in APRA's operational risk regulatory capital add-on; and
- Traded market risk weighted assets decreased by $1.5 billion or 14%; partly offset by
- IRRBB risk weighted assets increased $0.4 billion or 24%, mainly due to changes in interest rate risk management positions.

1 Organic capital generation represents cash net profit after tax less the capital equivalent of the change in regulatory risk weighted assets used to generate those profits. Amounts quoted exclude the payment of dividends and the allocation of Operational RWA from the Enforceable Undertaking with APRA.

Divisional Performance (continued)

New Zealand

Overview

New Zealand primarily includes the banking and funds management businesses operating under the ASB brand. ASB provides a range of banking, wealth and insurance products and services to its personal, business, rural and corporate customers in New Zealand.

ASB serves the financial needs of its customers across multiple channels including an extensive network of branches, ATMs, contact centres, digital platforms and relationship managers.

On 2 December 2019, ASB completed the sale of its fund administration businesses Aegis Limited and Investment Custodial Services Limited (collectively known as "Aegis"). As Aegis does not itself constitute a major line of the Group's business, the financial results of Aegis are treated as continuing operations and included in the account lines of New Zealand's performance.

	Half Year Ended [1]				
New Zealand (A$M)	**31 Dec 20 A$M**	30 Jun 20 A$M	31 Dec 19 A$M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Net interest income	**999**	970	964	3	4
Other banking income [2]	**200**	176	199	14	1
Total banking income	**1,199**	1,146	1,163	5	3
Funds management income	**68**	65	71	5	(4)
Total operating income	**1,267**	1,211	1,234	5	3
Operating expenses	**(486)**	(541)	(480)	(10)	1
Loan impairment expense	**(27)**	(271)	(21)	(90)	29
Net profit before tax	**754**	399	733	89	3
Corporate tax expense	**(212)**	(111)	(204)	91	4
Cash net profit after tax	**542**	288	529	88	2

1 Comparative information has been restated to conform to presentation in the current period.
2 Other banking income disclosed in AUD includes realised gains or losses associated with the hedging of New Zealand operations earnings.

Divisional Performance (continued)

New Zealand (continued)

New Zealand (NZ$M)	31 Dec 20 NZ$M	30 Jun 20 NZ$M	31 Dec 19 NZ$M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
	Half Year Ended [1]				
Net interest income	**1,071**	1,014	1,032	6	4
Other banking income	**224**	213	247	5	(9)
Total banking income	**1,295**	1,227	1,279	6	1
Funds management income	**73**	67	76	9	(4)
Total operating income	**1,368**	1,294	1,355	6	1
Operating expenses	**(521)**	(570)	(508)	(9)	3
Loan impairment expense	**(30)**	(284)	(22)	(89)	36
Net profit before tax	**817**	440	825	86	(1)
Corporate tax expense	**(230)**	(122)	(232)	89	(1)
Net profit after tax ("cash basis")	**587**	318	593	85	(1)
Represented by:					
ASB	**614**	353	620	74	(1)
Other [2]	**(27)**	(35)	(27)	(23)	–
Cash net profit after tax	**587**	318	593	85	(1)

Key Financial Metrics [3]	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
	Half Year Ended [1]				
Performance indicator					
Operating expenses to total operating income (%)	**38.1**	44.0	37.5	large	60 bpts

1 Comparative information has been restated to conform to presentation in the current period.
2 Other includes ASB funding entities and elimination entries between New Zealand segment entities.
3 Key financial metrics are calculated in New Zealand dollar terms.

Financial Performance and Business Review

Half Year Ended December 2020 versus December 2019

New Zealand cash net profit after tax [1] for the half year ended 31 December 2020 was NZD587 million, a decrease of NZD6 million or 1% on the prior comparative period. The result was driven by a 1% increase in total operating income, a 3% increase in operating expenses and a 36% increase in loan impairment expense.

New Zealand generated AUD402 million of organic capital [2] for the Group in the current half. This contributed 9 basis points to the Group's CET1 ratio.

Half Year Ended December 2020 versus June 2020

New Zealand cash net profit after tax [1] for the half year ended 31 December 2020 increased NZD269 million or 85% on the prior half. The result was driven by a 6% increase in total operating income, a 9% decrease in operating expenses and an 89% decrease in loan impairment expense.

1 The New Zealand result incorporates ASB and allocated CBA capital charges and costs. The CBA Branch results relating to the Institutional Banking and Markets business in New Zealand are not included.
2 Organic capital generation represents cash net profit after tax less the capital equivalent of the change in regulatory risk weighted assets (in accordance with APRA requirements) used to generate those profits. Amounts quoted exclude the payment of dividends.

Divisional Performance (continued)

New Zealand (continued)

ASB (NZ$M)	Half Year Ended [1]				
	31 Dec 20 NZ$M	30 Jun 20 NZ$M	31 Dec 19 NZ$M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Net interest income	**1,107**	1,062	1,068	4	4
Other banking income	**224**	213	247	5	(9)
Total banking income	**1,331**	1,275	1,315	4	1
Funds management income	**73**	67	76	9	(4)
Total operating income	**1,404**	1,342	1,391	5	1
Operating expenses	**(521)**	(570)	(508)	(9)	3
Loan impairment expense	**(30)**	(284)	(22)	(89)	36
Net profit before tax	**853**	488	861	75	(1)
Corporate tax expense	**(239)**	(135)	(241)	77	(1)
Cash net profit after tax	**614**	353	620	74	(1)

Balance Sheet (NZ$M)	As at [1]				
	31 Dec 20 NZ$M	30 Jun 20 NZ$M	31 Dec 19 NZ$M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Home loans	**64,453**	60,336	58,870	7	9
Business lending	**18,132**	17,680	17,601	3	3
Rural lending	**11,013**	10,900	11,010	1	–
Other interest earning assets	**1,875**	1,895	2,209	(1)	(15)
Total lending interest earning assets	**95,473**	90,811	89,690	5	6
Non-lending interest earning assets	**12,174**	12,029	8,951	1	36
Other assets	**1,584**	2,370	1,897	(33)	(16)
Total assets	**109,231**	105,210	100,538	4	9
Interest bearing deposits	**63,640**	63,874	60,257	–	6
Debt issues	**21,651**	19,408	21,216	12	2
Other interest bearing liabilities	**1,367**	2,251	1,454	(39)	(6)
Total interest bearing liabilities	**86,658**	85,533	82,927	1	4
Non-interest bearing deposits	**10,470**	8,123	6,585	29	59
Other non-interest bearing liabilities	**1,336**	1,183	1,126	13	19
Total liabilities	**98,464**	94,839	90,638	4	9

1 Comparative information has been restated to conform to presentation in the current period.

Divisional Performance (continued)

New Zealand (continued)

ASB Key Financial Metrics [2]	Half Year Ended [1] 31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Performance indicators					
Net interest margin (%)	**2. 09**	2. 09	2. 15	-	(6)bpts
Return on assets (%)	**1. 1**	0. 7	1. 2	40 bpts	(10)bpts
Operating expenses to total operating income (%)	**37. 1**	42. 5	36. 5	large	60 bpts
Impairment expense annualised as a % of average GLAAs (%)	**0. 06**	0. 63	0. 05	(57)bpts	1 bpt
Other information					
Average interest earning assets (NZ$M)	**104,904**	102,345	98,839	3	6
Risk weighted assets (NZ$M) [3]	**58,377**	56,548	56,784	3	3
Risk weighted assets (A$M) [4]	**52,020**	50,812	52,612	2	(1)
FUA - average (NZ$M) [5]	**-**	-	16,273	-	large
FUA - spot (NZ$M) [6]	**-**	-	-	-	-
AUM - average (NZ$M)	**19,469**	18,156	17,706	7	10
AUM - spot (NZ$M)	**20,616**	18,500	18,513	11	11
90+ days home loan arrears (%)	**0. 18**	0. 34	0. 14	(16)bpts	4 bpts
90+ days consumer finance arrears (%)	**0. 74**	1. 13	0. 59	(39)bpts	15 bpts
Number of full-time equivalent staff (FTE)	**5,381**	5,122	5,074	5	6

1 Comparative information has been restated to conform to presentation in the current period.
2 Key financial metrics are calculated in New Zealand dollar terms unless otherwise stated.
3 Risk weighted assets (NZ$M) calculated in accordance with RBNZ requirements.
4 Risk weighted assets (A$M) calculated in accordance with APRA requirements.
5 Average balances calculated on the period the Group owned Aegis up until 2 December 2019.
6 Spot balances nil as at 31 December 2020, 30 June 2020 and 31 December 2019 due to the completion of the sale of Aegis on 2 December 2019.

Divisional Performance (continued)

New Zealand (continued)

Financial Performance and Business Review

Half Year Ended December 2020 versus December 2019

ASB cash net profit after tax for the half year ended 31 December 2020 was NZD614 million, a decrease of NZD6 million or 1% on the prior comparative period. The result was driven by a 1% increase in total operating income, a 3% increase in operating expenses and a 36% increase in loan impairment expense.

Net Interest Income

Net interest income was NZD1,107 million, an increase of NZD39 million or 4% on the prior comparative period. The increase was driven by 6% growth in average interest earning assets, partly offset by a 3% decrease in net interest margin.

Net interest margin decreased 6 basis points, reflecting:

- Lower deposit margins due to reduced earnings on transaction and savings deposits reflecting decreases in the cash rate (down 19 basis points); and
- Lower earnings on equity due to the falling interest rate environment (down 5 basis points); partly offset by
- Lower wholesale funding costs due to reduced wholesale funding spreads (up 9 basis points);
- Favourable portfolio mix (up 7 basis points) driven by strong growth in transaction and savings deposits (up 11 basis points), partly offset by unfavourable lending mix driven by proportionally more lower margin home loan balances relative to higher margin consumer finance and business lending balances (down 4 basis points); and
- Higher business and rural lending margins (up 2 basis points).

Other Banking Income

Other banking income was NZD224 million, a decrease of NZD23 million or 9% on the prior comparative period, reflecting:

- Lower Markets income due to lower trading gains and lower sales income from reduced client demand;
- Lower card volumes primarily driven by a decline in international spend due to COVID-19; and
- Lower insurance commission income; partly offset by
- Higher equities fee income driven by increased trading volumes due to increased market volatility.

Funds Management Income

Funds management income was NZD73 million, a decrease of NZD3 million or 4% on the prior comparative period, driven by:

- Lower income due to the completion of the sale of Aegis on 2 December 2019; partly offset by
- Higher average Assets Under Management (AUM) (up 10%), reflecting net inflows and favourable investment markets.

Operating Expenses

Operating expenses were NZD521 million, an increase of NZD13 million or 3% on the prior comparative period. The increase was driven by higher IT costs from investment related spend and software licencing, and increased staff costs primarily driven by higher average full-time equivalent staff (FTE), partly offset by lower credit card loyalty redemptions and lower travel and entertainment due to COVID-19.

The number of FTE increased by 307 or 6% on the prior comparative period from 5,074 to 5,381 FTE, primarily driven by an increase in project related FTE and risk and compliance staff.

Investment spend continues to focus on strengthening the operational risk and compliance framework, customer centric initiatives and enhancing technology platforms.

The operating expense to total operating income ratio for ASB was 37.1%, an increase of 60 basis points on the prior comparative period mainly driven by growth in operating expenses.

Loan Impairment Expense

Loan impairment expense was NZD30 million, an increase of NZD8 million or 36% on the prior comparative period. This was driven by higher collective provisions in the business portfolio mainly due to increased forward looking adjustments reflecting uncertainty in the economic outlook and emerging industry sector risks, in particular Commercial Property, Accommodation, and Cafes and Restaurants, mainly due to the impact of COVID-19, partly offset by lower consumer collective provision charges in the current half.

Home loan 90+ days arrears increased 4 basis points, from 0.14% to 0.18%, and consumer finance 90+ days arrears increased 15 basis points, from 0.59% to 0.74%, reflecting the impact of COVID-19.

Balance Sheet

Key spot balance sheet movements included:

- Home loan growth of NZD5.6 billion or 9%, above system growth of 8% [1], with continued customer preference for fixed rate loans;
- Business loan growth of NZD0.5 billion or 3%, above system decline of 4% [1,2];
- Rural loan growth was flat, above system decline of 1% [1,2]; and
- Total deposit growth of NZD7.3 billion or 11% (interest and non-interest bearing), above system growth of 10% [1], with a customer preference for transaction and savings deposits.

Risk Weighted Assets [3]

Risk weighted assets were NZD58.4 billion, an increase of NZD1.6 billion or 3% on the prior comparative period.

- Credit risk weighted assets increased NZD0.2 billion or flat, driven by an increase in lending volumes, partly offset by an improvement in credit risk estimates and methodology changes;
- Operational risk weighted assets increased NZD0.8 billion or 18%; and
- Market risk weighted assets increased NZD0.6 billion or 21%.

ASB generated AUD436 million of organic capital [4] for the Group in the current half. This contributed 10 basis points to the Group's CET1 ratio.

1 System growth rates have been annualised based on the growth rate for the eleven months to November 2020, due to a delay in the publishing of RBNZ December 2020 data.
2 System growth rates have been normalised to exclude the impact of ANZ's sale of UDC Finance Limited in September 2020.
3 Risk weighted assets reflect the New Zealand dollar amount calculated in accordance with RBNZ requirements.
4 Organic capital generation represents cash net profit after tax less the capital equivalent of the change in regulatory risk weighted assets (in accordance with APRA requirements) used to generate those profits. Amounts quoted exclude the payment of dividends.

Divisional Performance (continued)

New Zealand (continued)

Financial Performance and Business Review (continued)

Half Year Ended December 2020 versus June 2020

Cash net profit after tax increased NZD261 million or 74% on the prior half. The result was driven by a 5% increase in total operating income, a 9% decrease in operating expenses and an 89% decrease in loan impairment expense.

Net Interest Income

Net interest income increased NZD45 million or 4% on the prior half. This result was driven by 3% growth in average interest earning assets and the benefit of two additional calendar days in the current half.

Net interest margin was flat, reflecting:

- Favourable portfolio mix (up 7 basis points) driven by strong growth in transaction and savings deposits (up 8 basis points), partly offset by unfavourable lending mix driven by proportionally more lower margin home loan balances relative to higher margin consumer finance and business lending balances (down 1 basis point);
- Lower wholesale funding costs due to reduced wholesale funding spreads (up 7 basis points); and
- Higher business and rural lending margins (up 2 basis points); offset by
- Lower deposit margins due to reduced earnings on transaction and savings deposits reflecting decreases in the cash rate (down 14 basis points); and
- Lower earnings on equity due to the falling interest rate environment (down 2 basis points).

Other Banking Income

Other banking income increased NZD11 million or 5% on the prior half, reflecting higher card and merchant volumes primarily due to a seasonal increase in spend from the December holiday season.

Funds Management Income

Funds management income increased NZD6 million or 9% on the prior half, driven by higher average AUM (up 7%), reflecting net inflows and favourable investment markets.

Operating Expenses

Operating expenses decreased NZD49 million or 9% on the prior half. The decrease was driven by lower staff expenses primarily due to the non-recurrence of a prior half provision relating to historical holiday pay and a decrease in investment spend.

The number of FTE increased by 259 or 5% on the prior half from 5,122 to 5,381 FTE, primarily driven by growth in project related staff.

The operating expenses to total operating income ratio was 37.1%, a decrease from 42.5% in the prior half, driven by higher operating income and lower operating expenses.

Loan Impairment Expense

Loan impairment expense decreased NZD254 million or 89% on the prior half. This was driven by higher collective and individually assessed provision charges recognised in the prior half, mainly due to the impact of COVID-19.

Home loan 90+ days arrears decreased 16 basis points, from 0.34% to 0.18%, and consumer finance 90+ days arrears decreased 39 basis points, from 1.13% to 0.74%, reflecting positive customer behaviour, and the resumption of collection and write-off activity post the COVID-19 lockdown.

Balance Sheet

Key spot balance sheet movements included:

- Home loan growth of NZD4.1 billion or 7%, above system growth of 5% [1], with continued customer preference for fixed rate loans;
- Business loan growth of NZD0.5 billion or 3%, above system decline of 4% [1,2];
- Rural loan growth of NZD0.1 billion or 1%, above system decline of 1% [1,2]; and
- Total deposit growth of NZD2.1 billion or 3% (interest and non-interest bearing), below system growth of 4% [1], with a customer preference for transaction and savings deposits.

Risk Weighted Assets [3]

Risk weighted assets increased NZD1.8 billion or 3% on the prior half.

- Credit risk weighted assets increased NZD0.7 billion or 1% primarily driven by an increase in residential lending volumes, partly offset by a reduction in sovereign risk weighted assets due to a change in credit risk estimates applied to highly rated sovereign counterparties;
- Operational risk weighted assets increased NZD0.9 billion or 20%; and
- Market risk weighted assets increased NZD0.2 billion or 6%.

1 System growth rates for the half year ended December 2020 are based on the run-rated growth rate for the five months to November 2020, due to a delay in the publishing of RBNZ December 2020 data.
2 System growth rates have been normalised to exclude the impact of ANZ's sale of UDC Finance Limited in September 2020.
3 Risk weighted assets reflect the New Zealand dollar amount calculated in accordance with RBNZ requirements.

Divisional Performance (continued)

International Financial Services

Overview

The continuing operations of International Financial Services (IFS) include the Indonesian retail and business banking operations (PT Bank Commonwealth), and minority investments in China (Bank of Hangzhou and Qilu Bank) and Vietnam (Vietnam International Bank).

On 4 June 2020 CBA completed the sale of its 80% interest in its Indonesian life insurance business PT Commonwealth Life (PTCL) to FWD Group.

On 10 December 2020 CBA completed the sale of its 37.5% equity interest in BoCommLife Insurance Company Limited (BoCommLife) to MS&AD Insurance Group Holdings (MS&AD) [1].

The IFS results have been prepared on a continuing operations basis excluding the financial results of BoCommLife and PTCL (discontinued operations). The financial results of the discontinued operations are excluded from the account lines of the IFS performance and reported as a single cash net profit after tax line item.

	Half Year Ended [2]				
International Financial Services [3]	**31 Dec 20 $M**	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Net interest income	**62**	71	75	(13)	(17)
Other banking income	**155**	82	135	89	15
Total banking income	**217**	153	210	42	3
Operating expenses	**(62)**	(71)	(77)	(13)	(19)
Loan impairment expense	**(9)**	(38)	(21)	(76)	(57)
Net profit before tax	**146**	44	112	large	30
Corporate tax expense	**(19)**	(15)	(14)	27	36
Cash net profit after tax from continuing operations	**127**	29	98	large	30
Cash net (loss)/profit after tax from discontinued operations [4]	**(1)**	3	14	large	large
Cash net profit after tax	**126**	32	112	large	13

	Half Year Ended [2]				
Key Financial Metrics (continuing operations)	**31 Dec 20**	30 Jun 20	31 Dec 19	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Performance indicators					
Return on assets (%)	**5. 0**	1. 1	3. 7	390 bpts	130 bpts
Operating expenses to total banking income (%)	**28. 6**	46. 4	36. 7	large	large
Impairment expense annualised as a % of average GLAAs (%)	**1. 49**	5. 21	2. 77	(372)bpts	(128)bpts
Other information					
Risk weighted assets ($M) [5]	**2,909**	2,971	2,642	(2)	10
Number of full-time equivalent staff (FTE)	**1,264**	1,247	1,340	1	(6)

1 MS&AD Insurance Group Holdings is the ultimate parent company of Mitsui Sumitomo Insurance Co. Ltd.
2 Comparative information has been restated to conform to presentation in the current period.
3 IFS does not include the Business Banking and Institutional Banking and Markets businesses in Asia.
4 Discontinued operations include BoCommLife and PTCL. Cash net profit after tax from discontinued operations decreased by $15 million against the prior comparative period and $4 million against the prior half due to the completion of the sale of PTCL on 4 June 2020.
5 Risk weighted assets include discontinued operations.

Divisional Performance (continued)

International Financial Services (continued)

Financial Performance and Business Review

Half Year Ended December 2020 versus December 2019

International Financial Services (IFS) cash net profit after tax for the half year ended 31 December 2020 was $126 million, an increase of $14 million or 13% on the prior comparative period. Excluding the contribution from discontinued operations, cash net profit after tax was $127 million, an increase of $29 million or 30% on the prior comparative period. The result was driven by a 3% increase in total banking income, a 19% decrease in operating expenses and a 57% decrease in loan impairment expense.

In order to provide an underlying view of the performance, the commentary below has been presented excluding the impact from discontinued operations (BoCommLife and PTCL).

Net Interest Income

Net interest income was $62 million, a decrease of $13 million or 17% on the prior comparative period. Excluding the impact of FX, net interest income decreased by $9 million or 12% driven by lower earnings on equity due to the falling interest rate environment and a 13% decrease in average lending balances in PT Bank Commonwealth (PTBC) primarily due to the impact of COVID-19, partly offset by lower funding costs.

Other Banking Income

Other banking income was $155 million, an increase of $20 million or 15% on the prior comparative period, driven by higher net profits from minority investments.

Operating Expenses

Operating expenses were $62 million, a decrease of $15 million or 19% on the prior comparative period. Excluding the impact of FX, operating expenses decreased by $9 million or 12% mainly as a result of productivity and simplification initiatives.

The number of full-time equivalent staff (FTE) decreased by 76 or 6% on the prior comparative period, from 1,340 to 1,264 FTE, driven by productivity and simplification initiatives.

Loan Impairment Expense

Loan impairment expense was $9 million, a decrease of $12 million or 57% on the prior comparative period. This was driven by lower collective provisions in PTBC due to improved collections and recoveries.

Loan impairment expense as a percentage of average gross loans and acceptances decreased by 128 basis points on the prior comparative period to 1.49%.

Balance Sheet

Spot lending balances decreased by 27% (19% excluding FX) due to lower customer demand and continued focus on credit quality in PTBC.

Risk Weighted Assets [1]

Risk weighted assets were $2.9 billion, an increase of $0.3 billion or 10% on the prior comparative period.

- IRRBB risk weighted assets increased $0.6 billion; partly offset by
- Credit risk weighted assets decreased $0.2 billion or 13%; and
- Operational risk weighted assets decreased $0.1 billion or 13%.

IFS generated $133 million of organic capital [2] for the Group in the current half. This contributed 3 basis points to the Group's CET1 ratio.

Half Year Ended December 2020 versus June 2020

Cash net profit after tax increased $94 million on the prior half. Excluding the contribution from discontinued operations, cash net profit after tax increased $98 million on the prior half. The result was driven by a 42% increase in total banking income, a 13% decrease in operating expenses and a 76% decrease in loan impairment expense.

In order to provide an underlying view of the performance, the commentary below has been presented excluding the impact from discontinued operations (BoCommLife and PTCL).

Net Interest Income

Net interest income decreased $9 million or 13% on the prior half. Excluding the impact of FX, net interest income decreased by $5 million or 7%, driven by lower earnings on equity due to the falling interest rate environment and a 9% decrease in average lending balances in PTBC primarily due to COVID-19, partly offset by lower funding costs.

Other Banking Income

Other banking income increased $73 million or 89% on the prior half, driven by higher net profits from minority investments.

Operating Expenses

Operating expenses decreased $9 million or 13% on the prior half. Excluding the impact of FX, operating expenses decreased by $3 million or 4% as a result of productivity and simplification initiatives in PTBC.

The number of FTE increased by 17 or 1% on the prior half, from 1,247 to 1,264 FTE mainly due to growth in technology and operations staff in PTBC, partly offset by productivity initiatives.

1 Risk Weighted Assets include discontinued operations.

2 Organic capital generation represents cash net profit after tax less the capital equivalent of the change in regulatory risk weighted assets used to generate those profits. Amounts quoted exclude the payment of dividends and the allocation of Operational RWA from the Enforceable Undertaking with APRA.

Divisional Performance (continued)

International Financial Services (continued)

Financial Performance Business Review (continued)

Loan Impairment Expense

Loan impairment expense decreased $29 million or 76% on the prior half. This was driven by higher collective and individually assessed provisions recognised in the prior half, mainly due to the impact of COVID-19.

Loan impairment expense as a percentage of average gross loans and acceptances decreased by 372 basis points on the prior half.

Balance Sheet

Spot lending balances decreased by 19% (10% excluding FX) due to lower customer demand and continued focus on credit quality in PTBC.

Risk Weighted Assets [1]

Risk weighted assets were $2.9 billion, a decrease of $0.1 billion or 2% on the prior half.

1 Risk Weighted Assets include discontinued operations.

Divisional Performance (continued)

Corporate Centre

Overview

Corporate Centre includes the results of unallocated Bank support functions such as Treasury, Investor Relations, Group Strategy, Legal and Corporate Affairs. It also includes Bank-wide elimination entries arising on consolidation, centrally raised provisions and other unallocated revenue and expenses.

Treasury is primarily focused on the management of the Bank's interest rate risk, funding and liquidity requirements, and management of the Bank's capital.

The Treasury function includes:

- Portfolio Management: manages the interest rate risk of the Bank's non-traded Balance Sheet using transfer pricing to consolidate risk into Treasury, and hedging the residual mismatch between assets and liabilities using swaps, futures and options;
- Group Funding and Liquidity: manages the Bank's long-term and short-term wholesale funding requirements, and the Bank's prudent liquidity requirements; and
- Capital and Regulatory Strategy: manages the Bank's capital requirements.

	Half Year Ended [1]				
Corporate Centre (including eliminations)	**31 Dec 20 $M**	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Net interest income	**93**	96	64	(3)	45
Other banking income	**(76)**	67	91	large	large
Total banking income	**17**	163	155	(90)	(89)
Funds management income	**(3)**	(6)	(24)	(50)	(88)
Insurance income	**(1)**	(2)	(1)	(50)	-
Total operating income	**13**	155	130	(92)	(90)
Operating expenses	**(934)**	(953)	(621)	(2)	50
Loan impairment (expense)/benefit	**(75)**	44	(40)	large	88
Net loss before tax	**(996)**	(754)	(531)	32	88
Corporate tax benefit	**259**	244	144	6	80
Cash net loss after tax from continuing operations	**(737)**	(510)	(387)	45	90
Cash net profit/(loss) after tax from discontinued operations	**6**	2	(3)	large	large
Cash net loss after tax	**(731)**	(508)	(390)	44	87

1 Comparative information has been restated to conform to presentation in the current period.

Financial Performance and Business Review

Half Year Ended December 2020 versus December 2019

Corporate Centre cash net loss after tax for the half year ended 31 December 2020 was $731 million, an increase of $341 million or 87% on the prior comparative period. Excluding the contribution from discontinued operations, cash net loss after tax was $737 million, an increase of $350 million or 90% on the prior comparative period. The result was primarily driven by a 90% decrease in total operating income, a 50% increase in operating expenses and an 88% increase in loan impairment expense.

Net Interest Income

Net interest income was $93 million, an increase of $29 million or 45% on the prior comparative period. This was primarily driven by higher earnings from the liquids portfolio mainly due to growth in liquid balances.

Other Banking Income

Other banking income decreased $167 million on the prior comparative period. This was mainly driven by the upfront costs related to the Group's term debt buyback program (of approximately $60 million) and lower gains from the sale of liquid assets.

Divisional Performance (continued)

Corporate Centre (continued)

Financial Performance and Business Review (continued)

Operating Expenses

Operating expenses were $934 million, an increase of $313 million or 50% on the prior comparative period. This was primarily driven by higher remediation provisions, higher investment spend, increased long service leave and superannuation provisions due to a lower discount rate in the falling interest rate environment, and increased occupancy costs from the completion of new corporate offices and COVID-19 related cleaning and maintenance costs.

Loan Impairment Expense

Loan impairment expense was $75 million, an increase of $35 million on the prior comparative period. This was mainly driven by higher central management overlays.

Risk Weighted Assets

Risk weighted assets were $7.3 billion, a decrease of $3.7 billion or 33% on the prior comparative period.

- Credit risk weighted assets decreased $0.8 billion or 9%;
- Operational risk weighted assets decreased $0.6 billion or 27%;
- IRRBB risk weighted assets decreased $2.1 billion, mainly due to changes in interest rate risk management positions; and
- Traded market risk weighted assets decreased $0.2 billion or 41%.

Corporate Centre consumed $2,563 million of organic capital [1] for the Group in the current half, largely due to the payment of dividends. This impacted the Group's CET1 ratio by 58 basis points.

Half Year Ended December 2020 versus June 2020

Cash net loss after tax for the half year ended 31 December 2020 increased $223 million or 44% on the prior half. Excluding the contribution from discontinued operations, cash net loss increased $227 million or 45% on the prior half. The result was primarily driven by a 92% decrease in total operating income, a 2% decrease in operating expenses and a $119 million increase in loan impairment expense.

Net Interest Income

Net interest income decreased $3 million or 3% on the prior half. This was mainly driven by lower earnings on equity due to the falling interest rate environment, partly offset by higher earnings from the management of interest rate risk in the banking book.

Other Banking Income

Other banking income decreased $143 million on the prior half. This was primarily driven by the upfront costs related to the Group's term debt buyback program (of approximately $60 million), lower hedging gains and a non-recurrence of one-off provision release in the prior half.

Operating Expenses

Operating expenses decreased $19 million or 2% on the prior half. This was mainly driven by lower remediation provisions, partly offset by higher investment spend, increased long service leave and superannuation provisions due to a lower discount rate in the falling interest rate environment, increased occupancy costs from the completion of new corporate offices and COVID-19 related maintenance costs.

Loan Impairment Expense

Loan impairment expense increased $119 million on the prior half. This was due to a central management overlay taken in the current half and the non-recurrence of the impairment benefit in the prior half from the release of a centrally held provision for drought affected agriculture and associated regional communities in NSW and Queensland.

Risk Weighted Assets

Risk weighted assets increased $3.1 billion or 73% on the prior half.

- Credit risk weighted assets increased $0.1 billion or 1%;
- Operational risk weighted assets increased $0.1 billion or 3%;
- IRRBB risk weighted assets increased $2.9 billion or 52%, mainly due to changes in interest rate risk management positions.

1 Organic capital generation represents cash net profit after tax less the capital equivalent of the change in regulatory risk weighted assets used to generate those profits. Amounts quoted include discontinued operations and exclude the allocation of Operational RWA from the Enforceable Undertaking with APRA.

Divisional Performance (continued)

Wealth Management (Discontinued Operations)

Overview

Wealth Management provides superannuation, investment and retirement products which help to improve the financial wellbeing of our customers.

On 2 August 2019, CBA completed the sale of its global asset management business, Colonial First State Global Asset Management (CFSGAM) to Mitsubishi UFJ Trust and Banking Corporation (MUTB), as a result CBA recognised the financial results of CFSGAM for the period up until 2 August 2019. CFSGAM is classified as discontinued operations.

On 1 November 2019, CBA announced that the joint co-operation agreement with AIA Australia Limited (AIA) in relation to CBA's Australian life insurance business (CommInsure Life) has been implemented, as a result CBA recognised the financial results of CommInsure Life [1] for the period up until 1 November 2019. CommInsure Life is classified as discontinued operations.

From March 2020, the Aligned Advice related businesses (including Financial Wisdom, Count Financial and CFP-Pathways) were transferred out of the Wealth Management division and consolidated into the Retail Banking Services division.

On 13 May 2020, CBA announced it has entered into an agreement to sell a 55% interest in Colonial First State (CFS) to KKR, as a result, CFS is classified as discontinued operations. Following the announcement, all of Wealth Management is now classified as discontinued operations.

Discontinued Operations

	Half Year Ended [2]				
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Funds management income	**344**	376	508	(9)	(32)
Insurance income	**–**	–	30	–	large
Total operating income	**344**	376	538	(9)	(36)
Operating expenses	**(224)**	(355)	(360)	(37)	(38)
Net profit before tax	**120**	21	178	large	(33)
Corporate tax expense	**(36)**	(11)	(51)	large	(29)
Cash net profit after tax from discontinued operations	**84**	10	127	large	(34)
Colonial First State and other	**84**	10	121	large	(31)
CFS Global Asset Management	**–**	–	24	–	large
Life Insurance Business [1]	**–**	–	(18)	–	large
Cash net profit after tax from discontinued operations	**84**	10	127	large	(34)

1 CommInsure's life business (the "Life Business") includes life insurance and a life related investments business.
2 Comparative information has been restated to conform to presentation in the current period.

Divisional Performance (continued)

Wealth Management (Discontinued Operations) (continued)

	Half Year Ended [1]								
	Discontinued operations								
	Colonial First State & other			CFS Global Asset Management [2]			Life Insurance Business [3]		
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M
Funds management income	**344**	376	397	**–**	–	83	**–**	–	28
Insurance income	**–**	–	–	**–**	–	–	**–**	–	30
Total operating income	**344**	376	397	**–**	–	83	**–**	–	58
Operating expenses	**(224)**	(355)	(224)	**–**	–	(52)	**–**	–	(84)
Net profit/(loss) before tax	**120**	21	173	**–**	–	31	**–**	–	(26)
Corporate tax (expense)/benefit	**(36)**	(11)	(52)	**–**	–	(7)	**–**	–	8
Cash net profit/(loss) after tax	**84**	10	121	**–**	–	24	**–**	–	(18)

	Half Year Ended [1]				
Key Financial Metrics	**31 Dec 20**	30 Jun 20	31 Dec 19	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Performance indicators					
Operating expenses to total operating income (%)	**65. 1**	94. 4	66. 9	large	(180)bpts
FUA - average ($M) [4]	**149,491**	152,195	158,654	(2)	(6)
FUA - spot ($M) [4]	**155,248**	147,621	160,988	5	(4)
Risk weighted assets ($M)	**168**	137	53	23	large
Number of full-time equivalent staff (FTE) [5]	**1,330**	1,375	1,244	(3)	7

	Half Year Ended [1]								
Funds Under Administration (FUA) - spot	30 Jun 20 $M	Inflows $M	Outflows $M	Net Flows $M	Other [6] $M	31 Dec 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
FirstChoice	90,771	7,199	(8,079)	(880)	7,569	**97,460**	97,391	7	-
CFSWrap	31,408	2,710	(3,629)	(919)	2,496	**32,985**	33,608	5	(2)
CFS Non-Platform	14,909	5,463	(8,166)	(2,703)	1,597	**13,803**	19,025	(7)	(27)
Other [7]	10,533	769	(785)	(16)	483	**11,000**	10,964	4	-
Total	147,621	16,141	(20,659)	(4,518)	12,145	**155,248**	160,988	5	(4)

1 Comparative information has been restated to conform to presentation in the current period.
2 CFS Global Asset Management results are for the period up until 2 August 2019.
3 Life Insurance Business results are for the period up until 1 November 2019.
4 Average and spot FUA includes Colonial First State (including Commonwealth Bank Group Super) and excludes CommInsure Life Investments.
5 FTE represents Colonial First State FTE and does not include any support unit FTE.
6 Includes investment income.
7 Other includes Commonwealth Bank Group Super.

Divisional Performance (continued)

Wealth Management (Discontinued Operations) (continued)

Financial Performance and Business Review (Discontinued Operations)

Half Year Ended December 2020 versus December 2019

Wealth Management cash net profit after tax for the half year ended 31 December 2020 was $84 million, a decrease of $43 million or 34% on the prior comparative period. This reflects a $37 million decrease in cash net profit after tax from CFS and other, and the impact from the deconsolidation of CFSGAM (2 August 2019) and the Life Business (1 November 2019) in the prior comparative period.

CFS and other cash net profit after tax for the half year ended 31 December 2020 was $84 million, a decrease of $37 million or 31% on the prior comparative period. The result was driven by a 13% decrease in funds management income, with flat operating expenses. Funds management income decreased mainly due to lower average FUA reflecting net outflows, and the impact of platform pricing changes in response to the regulatory and market environment.

Risk Weighted Assets

Risk weighted assets were $0.2 billion, an increase of $0.1 billion on the prior comparative period.

- IRRBB risk weighted assets increased by $0.1 billion.

Wealth Management generated $80 million of organic capital [1] for the Group in the current half. This contributed 2 basis points to the Group's CET1 ratio.

Half Year Ended December 2020 versus June 2020

Wealth Management cash net profit after tax increased $74 million on the prior half. This reflects a $74 million increase in cash net profit after tax from CFS and other, driven by a 37% reduction in operating expenses due to higher legal, remediation and compliance provisions in the prior half, partly offset by a 9% reduction in funds management income due to further platform pricing changes in response to the regulatory and market environment, and the impact of net outflows, partly offset by improved market performance.

There was no impact from the deconsolidation of CFSGAM or the Life Insurance Business in the current or prior half.

Risk Weighted Assets

Risk weighted assets were $0.2 billion, flat on the prior half.

1 Organic capital generation represents cash net profit after tax less the capital equivalent of the change in regulatory risk weighted assets used to generate those profits. Amounts quoted exclude the payment of dividends and the allocation of Operational RWA from the Enforceable Undertaking with APRA.

Directors' Report and Financial Statements

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Contents

6. Directors' Report and Financial Statements

Directors' Report

The Directors of the Commonwealth Bank of Australia present their report, together with the financial statements of the Commonwealth Bank of Australia and its controlled entities (collectively referred to as 'the Group') for the half year ended 31 December 2020.

Directors

The names of the Directors holding office at any time during or since the end of the half year were:

Catherine Livingstone AO	Chairman
Matt Comyn	Managing Director and Chief Executive Officer
Shirish Apte	Director
Genevieve Bell AO	Director
Simon Moutter	Director (appointed effective 1 September 2020)
Paul O'Malley	Director
Mary Padbury	Director
Wendy Stops	Director (retired effective 13 October 2020)
Anne Templeman-Jones	Director
Robert Whitfield AM	Director

Review and Results of Operations

The Group's statutory net profit after tax for the half year ended 31 December 2020 was $4,877 million, a decrease of $1,284 million or 21% on the prior comparative period. The decrease was driven by lower net operating income, higher operating expenses and loan impairment expense, and lower net profit from discontinued operations.

On 2 August 2019, the Group completed the sale of Colonial First State Global Asset Management (CFSGAM) to Mitsubishi UFJ Trust and Banking Corporation (MUTB).

On 1 October 2019, the Group completed the sale of its 100% interest in Count Financial Limited (Count Financial) to CountPlus Limited (CountPlus).

On 1 November 2019, the Group announced the implementation of a joint cooperation agreement (JCA) which resulted in the full economic interests associated with CommInsure Life being transferred to AIA, and AIA obtaining direct management and control of the business (excluding the Group's 37.5% equity interest in BoCommLife). As a result, CommInsure Life (excluding BoCommLife) was deconsolidated and derecognised on 1 November 2019. The aggregate proceeds are being received in instalments. On 30 September 2020, the Group announced that ultimate completion of the divestment is expected to occur via a statutory asset transfer in the first half of the calendar year 2021.

On 28 April 2020, the Group announced the sale of its subsidiary, Australian Investment Exchange Limited (AUSIEX), to Nomura Research Institute (NRI). The sale is subject to regulatory and other conditions, and is expected to complete in the first half of calendar year 2021.

On 13 May 2020, the Group entered into an agreement to sell a 55% interest in Colonial First State (CFS) to KKR. The sale is subject to regulatory approvals, and is expected to complete in the first half of calendar year 2021.

On 4 June 2020, the Group completed the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL), to FWD Group (FWD). As part of the sale, CBA's Indonesian banking subsidiary, PT Bank Commonwealth (PTBC), has entered into a 15 year life insurance distribution partnership with FWD.

The Group ceased providing licensee services through Commonwealth Financial Planning Limited-Pathways (CFP Pathways) in March 2020 and through Financial Wisdom Limited (Financial Wisdom) in June 2020.

On 10 December 2020, the Group completed the sale of its 37.5% equity interest in BoCommLife Insurance Company Limited (BoCommLife) to MS&AD Insurance Group Holdings, Inc., the ultimate parent company of Mitsui Sumitomo Insurance Co.

On 16 December 2020, the Group announced that it had entered into an agreement to merge Aussie Home Loans with Lendi Pty Ltd (Lendi). Upon completion, the Group will retain a 45% shareholding in the combined business, with existing Lendi shareholders holding the remaining 55% shareholding. The transaction is expected to complete by mid calendar year 2021.

CFS and the Group's interest in BoCommLife have been classified as discontinued operations in the Group's financial statements for the half year ended 31 December 2020. The assets and liabilities of CFS, AUSIEX and Aussie Home Loans are classified as held for sale as at 31 December 2020.

There have been no other significant changes in the nature of the principal activities of the Group during the half year.

The performance of the Group's business segments for the half year ended 31 December 2020 was as follows:

- The statutory net profit after tax from Retail Banking Services was $2,189 million, a decrease of $116 million or 5% on the prior comparative period. The decrease was driven by lower total operating income, an increase in operating expenses and loan impairment expense, the non-recurrence of the net gain on disposal of Count Financial, and transaction and separation costs associated with the disposal of Aussie Home Loans.
- The statutory net profit after tax from Business Banking was $1,321 million, a decrease of $75 million or 5% on the prior comparative period. The decrease was driven by higher operating expenses and loan impairment expense, and transaction costs associated with the disposal of AUSIEX.
- The statutory net profit after tax from Institutional Banking and Markets was $423 million, a decrease of $42 million or 9% on the prior comparative period. The decrease was driven by an increase in loan impairment expense, partly offset by higher total banking income and lower total operating expenses.
- The statutory net profit after tax from New Zealand was $490 million, a decrease of $15 million or 3% on the prior comparative period. The decrease was primarily driven by higher total operating expenses and loan impairment expense, an increase in hedging and IFRS volatility losses, and the non-recurrence of the gain on disposal of Aegis, partly offset by higher total operating income.

Directors' Report

- The statutory net profit after tax including discontinued operations from International Financial Services was $499 million, an increase of $383 million on the prior comparative period. The increase was primarily driven by the net gain on disposal of BoCommLife, higher total banking income, lower operating expenses and loan impairment expense.
- The statutory net profit after tax from Wealth Management was $726 million, a decrease of $972 million or 57% on the prior comparative period. The decrease was primarily driven by lower funds management income, transaction costs in relation to the disposal of CFS, and non-recurrence of the impact of the disposal of CFSGAM and the deconsolidation of CommInsure Life in the prior comparative period.

Additional analysis of operations for the half year ended 31 December 2020 is set out in the Highlights and Group and Divisional Performance Analysis sections.

The Board has received written statements from the Chief Executive Officer and Chief Financial Officer that the accompanying Financial Statements have been prepared in accordance with Australian Accounting Standards, Corporations Regulations 2001 and Corporations Act.

Material Business risks

The Group recognises that risk is inherent in business and that effective risk management is a key component of sound corporate governance and is essential in delivering our business objectives.

The Group seeks to adopt a comprehensive approach to risk management through its Risk Management Framework. This framework covers the Group's systems, policies, processes and people who monitor, mitigate and report risk.

The Group's material risk types and its approach to managing them during the period are described in the 2020 Annual Report on pages 57-61 and in Note 9 of the Financial report on pages 201-234. A description of the material trends in our current external operating context, and the way that the Bank has responded to support better customer and risk outcomes, is provided in Managing our changing risk landscape on pages 55-56 of the 2020 Annual Report.

In addition, commentary on the Group's ongoing litigations, investigations and reviews for half year ended 31 December 2020 is included in Note 7.2 of the Financial Statements for the half year ended 31 December 2020.

Rounding and Presentation of Amounts

Unless otherwise indicated, the Group has rounded off amounts in this Directors' Report and the accompanying financial statements to the nearest million dollars in accordance with ASIC Corporations Instrument 2016/191.

Auditor's Independence Declaration

We have obtained the following independence declaration from the Group's auditors, PricewaterhouseCoopers:

pwc

Auditor's Independence Declaration

As lead auditor for the review of Commonwealth Bank of Australia for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Commonwealth Bank of Australia and the entities it controlled during the period.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
10 February 2021

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Signed in accordance with a resolution of the Directors.

Catherine Livingstone AO
Chairman
10 February 2021

Matt Comyn
Managing Director and Chief Executive Officer
10 February 2021

Financial Statements

Consolidated Income Statement

For the half year ended 31 December 2020

	Note	Half Year Ended 31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M
Interest income:				
Effective interest income	2.1	**12,642**	14,007	15,719
Other interest income	2.1	**144**	209	227
Interest expense	2.1	**(3,415)**	(4,956)	(6,596)
Net interest income		**9,371**	9,260	9,350
Other banking income [1]	2.2	**2,354**	2,408	2,594
Net banking operating income		**11,725**	11,668	11,944
Net funds management operating income	2.2	**80**	75	98
Net insurance operating income	2.2	**91**	109	32
Total net operating income before operating expenses and impairment		**11,896**	11,852	12,074
Operating expenses	2.3	**(5,627)**	(5,718)	(5,211)
Loan impairment expense	3.2	**(882)**	(1,869)	(649)
Net profit before income tax		**5,387**	4,265	6,214
Income tax expense	2.5	**(1,610)**	(1,258)	(1,762)
Net profit after income tax from continuing operations		**3,777**	3,007	4,452
Non-controlling interests in net profit after income tax from continuing operations		**–**	–	–
Net profit attributable to equity holders of the Bank from continuing operations		**3,777**	3,007	4,452
Net profit after income tax from discontinued operations	7.3	**1,100**	466	1,712
Non-controlling interests in net profit after income tax from discontinued operations	7.3	**–**	–	(3)
Net profit attributable to equity holders of the Bank		**4,877**	3,473	6,161

1 Other banking income is presented net of directly associated depreciation and impairment charges.

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

Earnings per share for profit attributable to equity holders of the parent entity during the year:

	Half Year Ended 31 Dec 20 Cents per Share	30 Jun 20	31 Dec 19
Earnings per share from continuing operations:			
Basic	**213. 4**	170. 0	251. 7
Diluted	**202. 4**	165. 5	243. 4
Earnings per share:			
Basic	**275. 5**	196. 3	348. 4
Diluted	**259. 4**	189. 9	334. 0

Financial Statements (continued)

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2020

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Net profit after income tax for the period from continuing operations	**3,777**	3,007	4,452
Other comprehensive income/(expense):			
Items that may be reclassified subsequently to profit/(loss):			
Foreign currency translation reserve net of tax	**(296)**	(204)	18
(Losses) and gains on cash flow hedging instruments net of tax	**(519)**	965	(239)
Gains and (losses) on debt investment securities at fair value through other comprehensive income net of tax	**463**	(77)	(122)
Total of items that may be reclassified	**(352)**	684	(343)
Items that will not be reclassified to profit/(loss):			
Actuarial (losses) and gains from defined benefit superannuation plans net of tax	**(272)**	210	(94)
Gains on equity investment securities at fair value through other comprehensive income net of tax	**226**	32	2
Revaluation of properties net of tax	**1**	17	2
Total of items that will not be reclassified	**(45)**	259	(90)
Other comprehensive income net of income tax from continuing operations	**(397)**	943	(433)
Total comprehensive income for the period from continuing operations	**3,380**	3,950	4,019
Net profit after income tax for the period from discontinued operations	**1,100**	466	1,712
Other comprehensive income/(expense) for the period from discontinued operations net of income tax [1]	**33**	(17)	(39)
Total comprehensive income for the period	**4,513**	4,399	5,692
Total comprehensive income for the period is attributable to:			
Equity holders of the Bank	**4,513**	4,399	5,689
Non-controlling interests	**–**	–	3
Total comprehensive income net of tax	**4,513**	4,399	5,692

1 The half year ended 31 December 2020 includes $2 million loss on foreign currency translation net of tax (30 June 2020: $1 million loss; 31 December 2019: $47 million loss) and $35 million gain on revaluation of investment securities net of tax (30 June 2020: $16 million loss; 31 December 2019: $8 million gain).

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	Cents per Share		
Dividends per share attributable to shareholders of the Bank:			
Ordinary shares	**150**	98	200

Financial Statements (continued)

Consolidated Balance Sheet

As at 31 December 2020

		As at		
		31 Dec 20 [1]	30 Jun 20	31 Dec 19
Assets	Note	$M	$M	$M
Cash and liquid assets		**63,019**	44,165	37,105
Receivables from financial institutions		**7,280**	8,547	7,710
Assets at fair value through Income Statement		**50,702**	46,545	39,813
Derivative assets		**32,398**	30,285	24,818
Investment securities:				
At amortised cost		**4,391**	5,173	6,285
At fair value through other comprehensive income		**89,672**	79,549	73,113
Loans, bills discounted and other receivables	3.1	**785,429**	771,547	765,464
Property, plant and equipment		**5,468**	5,602	5,205
Investments in associates and joint ventures		**2,865**	3,034	3,054
Intangible assets		**6,943**	6,944	7,729
Deferred tax assets		**2,522**	2,060	1,892
Other assets		**5,428**	8,839	6,474
Assets held for sale	7.3	**1,617**	1,770	1,206
Total assets		**1,057,734**	1,014,060	979,868
Liabilities				
Deposits and other public borrowings	4.1	**746,466**	701,999	662,824
Payables to financial institutions [2]		**31,010**	16,429	23,822
Liabilities at fair value through Income Statement		**7,255**	4,397	4,752
Derivative liabilities		**33,482**	31,347	24,692
Current tax liabilities		**105**	795	458
Deferred tax liabilities		**224**	30	–
Provisions		**3,552**	3,408	2,999
Debt issues		**122,548**	142,503	153,327
Bills payable and other liabilities		**9,826**	13,188	9,854
Liabilities held for sale	7.3	**655**	594	562
		955,123	914,690	883,290
Loan capital		**27,608**	27,357	25,425
Total liabilities		**982,731**	942,047	908,715
Net assets		**75,003**	72,013	71,153
Shareholders' Equity				
Ordinary share capital	5.1	**38,417**	38,131	38,126
Reserves	5.1	**2,287**	2,666	1,910
Retained profits	5.1	**34,294**	31,211	31,066
Shareholders' Equity attributable to equity holders of the Bank		**74,998**	72,008	71,102
Non-controlling interests	5.1	**5**	5	51
Total Shareholders' Equity		**75,003**	72,013	71,153

1 Current period balances have been impacted by the announced divestment of Aussie Home Loans and the completed disposal of BoCommLife. For details on the Group's discontinued operations and businesses held for sale, refer to Note 7.3.

2 Payables to financial institutions as at 31 December 2020 include $19,163 million in relation to funds drawn under the RBA's Term Funding Facility (TFF) (30 June 2020: $1,500 million). The Group's total available TFF allocation as at 31 December 2020 was $40,958 million (30 June 2020: $26,646 million).

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Financial Statements (continued)

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2020

	Ordinary share capital $M	Reserves $M	Retained profits $M	Total $M	Non-controlling interests $M	Total Shareholders' Equity $M
As at 30 June 2019	38,020	3,092	28,482	**69,594**	55	**69,649**
Change on adoption of AASB 16	–	–	(146)	**(146)**	–	**(146)**
Restated opening balance	38,020	3,092	28,336	**69,448**	55	**69,503**
Net profit after income tax from continuing operations	–	–	4,452	**4,452**	–	**4,452**
Net profit after income tax from discontinued operations	–	–	1,709	**1,709**	3	**1,712**
Net other comprehensive income from continuing operations	–	(339)	(94)	**(433)**	–	**(433)**
Net other comprehensive income from discontinued operations	–	(39)	–	**(39)**	–	**(39)**
Total comprehensive income for the period	–	(378)	6,067	**5,689**	3	**5,692**
Transactions with Equity holders in their capacity as Equity holders: [1]						
Dividends paid on ordinary shares	–	–	(4,089)	**(4,089)**	–	**(4,089)**
Dividend reinvestment plan (net of issue costs)	(1)	–	–	**(1)**	–	**(1)**
Share-based payments	–	(65)	–	**(65)**	–	**(65)**
Purchase of treasury shares	(54)	–	–	**(54)**	–	**(54)**
Decrease in treasury shares on deconsolidation of CommInsure Life	79	–	–	**79**	–	**79**
Sale and vesting of treasury shares	82	–	–	**82**	–	**82**
Other changes	–	(739)	752	**13**	(7)	**6**
As at 31 December 2019	38,126	1,910	31,066	**71,102**	51	**71,153**
Net profit after income tax from continuing operations	–	–	3,007	**3,007**	–	**3,007**
Net profit after income tax from discontinued operations	–	–	466	**466**	–	**466**
Net other comprehensive income from continuing operations	–	733	210	**943**	–	**943**
Net other comprehensive income from discontinued operations	–	(17)	–	**(17)**	–	**(17)**
Total comprehensive income for the period	–	716	3,683	**4,399**	–	**4,399**
Transactions with Equity holders in their capacity as Equity holders: [1]						
Dividends paid on ordinary shares	–	–	(3,540)	**(3,540)**	–	**(3,540)**
Share-based payments	–	42	–	**42**	–	**42**
Purchase of treasury shares	(11)	–	–	**(11)**	–	**(11)**
Sale and vesting of treasury shares	16	–	–	**16**	–	**16**
Other changes	–	(2)	2	**–**	(46)	**(46)**
As at 30 June 2020	38,131	2,666	31,211	**72,008**	5	**72,013**
Net profit after income tax from continuing operations	–	–	3,777	**3,777**	–	**3,777**
Net profit after income tax from discontinued operations	–	–	1,100	**1,100**	–	**1,100**
Net other comprehensive income from continuing operations	–	(125)	(272)	**(397)**	–	**(397)**
Net other comprehensive income from discontinued operations	–	33	–	**33**	–	**33**
Total comprehensive income for the period	–	(92)	4,605	**4,513**	–	**4,513**
Transactions with Equity holders in their capacity as Equity holders: [1]						
Dividends paid on ordinary shares	–	–	(1,735)	**(1,735)**	–	**(1,735)**
Dividend reinvestment plan (net of issue costs)	264	–	–	**264**	–	**264**
Share-based payments	–	(74)	–	**(74)**	–	**(74)**
Purchase of treasury shares	(62)	–	–	**(62)**	–	**(62)**
Sale and vesting of treasury shares	84	–	–	**84**	–	**84**
Other changes	–	(213)	213	**–**	–	**–**
As at 31 December 2020	38,417	2,287	34,294	**74,998**	5	**75,003**

1 Current year and prior years include discontinued operations.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Financial Statements (continued)

Condensed Consolidated Statement of Cash Flows [1,2]

For the half year ended 31 December 2020

	Half Year Ended [3]		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Cash flows from operating activities before changes in operating assets and liabilities	**4,317**	6,443	4,108
Changes in operating assets and liabilities arising from cash flow movements	**26,788**	20,637	7,672
Net cash provided by operating activities	**31,105**	27,080	11,780
Net proceeds from disposal of entities and businesses (net of cash and cash equivalents disposed)	**868**	1,023	3,988
Other cash used in investing activities	**(474)**	(733)	(582)
Net cash provided by investing activities	**394**	290	3,406
Dividends paid [4]	**(1,471)**	(3,547)	(4,082)
Proceeds from issuance of debt securities	**10,133**	17,729	19,901
Redemption of issued debt securities	**(23,134)**	(34,117)	(30,544)
Other cash provided by financing activities	**1,867**	275	2,153
Net cash used in financing activities	**(12,605)**	(19,660)	(12,572)
Net increase in cash and cash equivalents	**18,894**	7,710	2,614
Effect of foreign exchange rates on cash and cash equivalents	**(1,923)**	16	1
Cash and cash equivalents at beginning of period	**27,351**	19,625	17,010
Cash and cash equivalents at end of period	**44,322**	27,351	19,625

1 It should be noted that the Group does not use this accounting Statement of Cash Flows in the internal management of its liquidity positions.
2 Includes discontinued operations.
3 Comparative information has been restated to conform to presentation in the current period.
4 Includes DRP satisfied by on-market purchase and transfer of shares.

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. Overview

1.1 General Information, Basis of Accounting, Adoption of Amended Accounting Standards and Future Accounting Developments

General Information

Commonwealth Bank of Australia (the Bank) is Australia's leading provider of integrated financial services, including retail, business and institutional banking, funds management, superannuation, insurance, investment and share-broking products and services. The Bank has branches across Australia and New Zealand as well as Europe, North America and Asia.

The financial statements of the Bank and its subsidiaries (the Group) for the half year ended 31 December 2020, were approved and authorised for issue by the Board of Directors on 10 February 2021. The Directors have the power to amend and reissue the financial statements.

The financial report includes the consolidated financial statements of the Group, accompanying notes, Directors' Declaration and the Independent Auditor's Review Report.

The Bank is a for-profit entity incorporated and domiciled in Australia. It is a company limited by shares that are publicly traded on the Australian Securities Exchange. The registered office is Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW 2000, Australia.

On 2 August 2019, the Group completed the sale of Colonial First State Global Asset Management (CFSGAM) to Mitsubishi UFJ Trust and Banking Corporation (MUTB).

On 1 October 2019, the Group completed the sale of its 100% interest in Count Financial Limited (Count Financial) to CountPlus Limited (CountPlus).

On 1 November 2019, the Group announced the implementation of a joint cooperation agreement (JCA) which resulted in the full economic interests associated with CommInsure Life being transferred to AIA, and AIA obtaining direct management and control of the business (excluding the Group's 37.5% equity interest in BoCommLife Insurance Company Limited (BoCommLife)). As a result, CommInsure Life (excluding BoCommLife) was deconsolidated and derecognised on 1 November 2019. The aggregate proceeds are being received in instalments. On 30 September 2020, the Group announced that ultimate completion of the divestment is expected to occur via a statutory asset transfer in the first half of the calendar year 2021.

On 28 April 2020, the Group announced the sale of its subsidiary, Australian Investment Exchange Limited (AUSIEX), to Nomura Research Institute (NRI). The sale is subject to regulatory and other conditions, and is expected to complete in the first half of calendar year 2021.

On 13 May 2020, the Group entered into an agreement to sell a 55% interest in Colonial First State (CFS) to KKR. The sale is subject to regulatory approvals, and is expected to complete in the first half of calendar year 2021.

On 4 June 2020, the Group completed the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL), to FWD Group (FWD). As part of the sale, CBA's Indonesian banking subsidiary, PT Bank Commonwealth (PTBC), has entered into a 15 year life insurance distribution partnership with FWD.

The Group ceased providing licensee services through Commonwealth Financial Planning Limited-Pathways (CFP-Pathways) in March 2020 and through Financial Wisdom Limited (Financial Wisdom) in June 2020.

On 10 December 2020, the Group completed the sale of its 37.5% equity interest in BoCommLife to MS&AD Insurance Group Holdings, Inc., the ultimate parent company of Mitsui Sumitomo Insurance Co.

On 16 December 2020, the Group announced that it had entered into an agreement to merge Aussie Home Loans with Lendi Pty Ltd (Lendi). Upon completion, the Group will retain a 45% shareholding in the combined business, with existing Lendi shareholders holding the remaining 55% shareholding. The transaction is expected to complete by mid calendar year 2021.

CFS and the Group's interest in BoCommLife have been classified as discontinued operations in the Group's financial statements for the half year ended 31 December 2020. The assets and liabilities of CFS, AUSIEX and Aussie Home Loans are classified as held for sale as at 31 December 2020.

There have been no other significant changes in the nature of the principal activities of the Group during the half year.

Basis of Accounting

The general purpose financial report for the half year ended 31 December 2020 has been prepared in accordance with the requirements of the Corporations Act 2001 (Cth) and AASB 134 *'Interim Financial Reporting'* which ensures compliance with IAS 34 *Interim Financial Reporting*. The Group is a for-profit entity for the purpose of preparing this report.

This half year financial report does not include all notes of the type normally included within an Annual Financial Report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Group as that given by the Annual Financial Report.

As a result, this half year financial report should be read in conjunction with the 30 June 2020 Annual Financial Report of the Group and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 (Cth) and the ASX Listing Rules.

The amounts contained in this half year financial report are presented in Australian dollars and rounded to the nearest million dollars unless otherwise stated, under the option available under ASIC Corporations Instrument 2016/191. For the purpose of this half year financial report, the half year has been treated as a discrete reporting period.

Except as discussed below, the accounting policies adopted in the preparation of the half year financial report are consistent with those adopted by the Group and disclosed in the Annual Financial Report for the year ended 30 June 2020.

Notes to the Financial Statements (continued)

1.1 General Information, Basis of Accounting, Adoption of Amended Accounting Standards and Future Accounting Developments (continued)

Where necessary, comparative information has been restated to conform to presentation in the current period. All changes have been footnoted throughout the financial statements. Discontinued operations are excluded from the results of the continuing operations and are presented as a single line item "net profit after tax from discontinued operations" in the Consolidated Income Statement. Assets and liabilities of discontinued operations have been presented separately as held for sale on the consolidated Balance Sheet.

Impacts of coronavirus (COVID-19)

The Group has carefully considered the impact of COVID-19 in preparing its financial statements for the half year ended 31 December 2020, including the application of critical estimates and judgements. The key impacts on the financial statements are as follows:

- Provisions for impairment (Refer to Note 3.2)
- Assessment of impairment of non-financial assets.

The Group assessed Property, plant and equipment, right-of-use assets, and assets held as lessor for indicators of impairment. Due to the prolonged impact of COVID-19 on the global aviation sector and the protraction of international travel restrictions, a further impairment of several aircraft of $124 million was recognised, which is presented within Other banking income. In determining the value in use of the aircraft, the Group incorporates the cash inflows over the lease term, as well as the expected selling price on expiry of the lease. Continued market disruption across the aviation industry, lower demand for used aircraft, and a decline in asset prices, resulted in a reduction in the assets' expected recoverable values below their carrying values. There remains significant uncertainty regarding the severity of the impact of COVID-19 on the aviation sector, and the duration of restrictions on domestic and international travel.

Adoption of Amended Accounting Standards and Future Accounting Developments

Amendments to accounting standards

AASB 3 *Business Combinations* has been amended to assist entities in determining whether a transaction in which activities and assets are acquired should be accounted for as a business combination, or as an asset acquisition. The amendments were adopted with effect from 1 July 2020, but did not have an impact on the Group.

Future Accounting Developments

AASB 17 *Insurance Contracts* will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, with effect from 1 July 2023. On 30 July 2020, a number of amendments to AASB 17 were issued under AASB 2020-05 *Amendments to Australian Accounting Standards – Insurance Contracts*, including an additional scope exclusion for credit cards and similar contracts that provide insurance coverage, as well as an optional scope exclusion for loan contracts that transfer significant insurance risk. The impact of AASB 17 is dependent on the Group's composition at the time of adoption. The Group is still assessing the impact of AASB 17.

AASB 101 *Presentation of Financial Statements* has been amended to clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period, and such right has substance. The amendments also clarify that settlement of a liability refers to a transfer to the counterparty that results in the extinguishment of the liability. The amendments will apply to the Group with effect from 1 July 2022, but will not have an impact.

Other amendments that are not yet effective are not expected to result in significant changes to the Group's accounting policies.

Interest Rate Benchmark Reform

Accounting amendments and the impact on financial reporting

The Group has exposure to various London Interbank Offer Rates (LIBORs), namely, USD LIBOR, GBP LIBOR, JPY LIBOR and CHF LIBOR, through Derivatives, Loans, Investment securities, as well as Loan capital, Deposits and other public borrowings, and Debt issues. LIBOR rates are expected to be discontinued from 1 January 2022. Prior to that date, market participants are expected to transition large parts, but not necessarily all, of their exposures to newly adopted alternative risk-free reference rates (RFRs). In addition, the use of LIBOR in new contracts is expected to be phased out before the actual discontinuance of the rate. While the Bank Bill Swap Rate (BBSW) and EURIBOR are not expected to be discontinued, the transition away from LIBORs to alternative RFRs is expected to impact the use of BBSW and EURIBOR in financial instruments such as cross-currency swaps and multi-currency lending facilities.

The transition from the various LIBORs is expected to have an impact on various elements of financial instrument accounting, including hedge accounting, loan modifications, as well as fair value methodologies and disclosures.

In October 2019, the AASB issued AASB 2019–3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*. These amendments provide relief from the potential accounting effects of uncertainty in the period leading up to the reform and were early adopted by the Group during the financial year ended 30 June 2020. The amendments did not have a significant impact on the Group.

AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2* was issued by the AASB on 22 September 2020. The amendments apply only to those changes to financial instruments and hedging relationships that are a direct consequence of IBOR reform and where cash flows are amended on an economically equivalent basis. The key amendments include the following:

- A practical expedient for changes in contractual cash flows required by the reform - an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes, but will instead update the effective interest rate to reflect the change to the alternative RFR;

Notes to the Financial Statements (continued)

1.1 General Information, Basis of Accounting, Adoption of Amended Accounting Standards and Future Accounting Developments (continued)

- Hedge accounting - an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets all the other hedge accounting criteria; and
- Additional disclosures - an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

While the amendments apply with mandatory effect from 1 July 2021, early adoption is permitted. The Group is considering whether it will early adopt the amendments for its Annual Financial Report for the year ended 30 June 2021, when the market, clients, and the Group are expected to transition exposures from LIBOR to RFRs.

IBOR reform program

In October 2018, the Group formed the Interest Rate Benchmark Reform Program (the Program). The Program includes a formal governance structure to ensure clear accountability for all decisions, and incorporates the requisite risk, treasury, finance, legal, business, and support functions. The Program will ensure that customer outcomes are appropriate and will seek to minimise any disruption to business, and mitigate operational and conduct risks. The Group expects that transition will require the implementation of changes to systems, processes, and valuation models, as well as the management of tax and accounting outcomes. The Group will continue to monitor the impact on its capital position but expects the impact to be limited.

Notes to the Financial Statements (continued)

2. Our Performance

Overview

The Group earns its returns from providing a broad range of banking and wealth management products and services to retail and wholesale customers in Australia, New Zealand and other jurisdictions.

Lending and deposit taking are the Group's primary business activities with net interest income being the main contributor to the Group's results. Net interest income is derived from the difference between interest earned on lending and investment assets and interest incurred on customer deposits and wholesale debt raised to fund these assets.

The Group further generates income from lending fees and commissions, general insurance products and trading activities. It also incurs costs associated with running the business such as staff, occupancy and technology related expenses.

The Performance section provides details of the main contributors to the Group's returns and analysis of its financial performance by business segments and geographical regions.

2.1 Net Interest Income

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Interest Income			
Effective interest income:			
Loans and bills discounted	**12,341**	13,376	14,768
Other financial institutions	**11**	37	73
Cash and liquid assets	**36**	142	214
Investment securities:			
At amortised cost	**26**	44	70
At fair value through Other Comprehensive Income	**228**	408	594
Total effective interest income	**12,642**	14,007	15,719
Other interest income:			
Assets at fair value through Income Statement	**144**	209	227
Total interest income	**12,786**	14,216	15,946
Interest Expense			
Deposits	**2,278**	3,140	4,164
Other financial institutions	**38**	153	238
Liabilities at fair value through Income Statement	**11**	26	48
Debt issues	**522**	1,031	1,498
Loan capital	**343**	398	427
Lease liabilities	**42**	34	37
Bank levy	**181**	174	184
Total interest expense	**3,415**	4,956	6,596
Net interest income	**9,371**	9,260	9,350

Notes to the Financial Statements (continued)

2.1 Net Interest Income (continued)

Accounting Policies

Interest income and interest expense on financial assets and liabilities measured at amortised cost, and debt financial assets measured at fair value through OCI, are recognised using the effective interest rate method. Interest income is calculated on financial assets classified within Stage 1 and Stage 2 by applying the effective interest rate to the gross carrying amount of the assets. Interest income on financial assets in Stage 3 is recognised by applying the effective interest rate to the gross carrying amount net of provisions for impairment. Interest income on finance leases is recognised progressively over the life of the lease, consistent with the outstanding investment and unearned income balance.

Interest income and expense on financial assets and liabilities that are classified at fair value through the Income Statement are accounted for on a contractual rate basis and include amortisation of premiums/discounts.

Fees, transaction costs and issue costs integral to the financial assets and liabilities are capitalised and included in the interest recognised over the expected life of the instrument. This includes fees for providing a loan or a lease arrangement.

Interest expense also includes payments made under a liquidity facility arrangement with the Reserve Bank of Australia, the Major Bank Levy (Bank Levy) expense and other financing charges.

2.2 Other Operating Income

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Other Banking Income			
Commissions	**1,299**	1,236	1,321
Lending fees	**525**	503	483
Trading income	**535**	432	508
Net (loss)/gain on non-trading financial instruments [1]	**(84)**	94	45
Net gain on sale of property, plant and equipment	**–**	14	18
Net gain/(loss) from hedging ineffectiveness	**17**	(32)	18
Dividends	**1**	1	2
Share of profit from associates and joint ventures net of impairment	**131**	74	96
Other [2,3]	**(70)**	86	103
Total other banking income	**2,354**	2,408	2,594
Net Funds Management Operating Income			
Funds management income	**89**	82	114
Claims, policyholder liability and commission expense	**(9)**	(7)	(16)
Net funds management operating income	**80**	75	98
Net Insurance Operating Income			
Premiums from insurance contracts	**345**	346	352
Investment revenue	**–**	1	1
Claims, policyholder liability and commission expense from insurance contracts	**(254)**	(238)	(321)
Net insurance operating income	**91**	109	32
Total other operating income	**2,525**	2,592	2,724

1 Includes gains/(losses) on non-trading derivatives that are held for risk management purposes.

2 The half year ended 31 December 2020 includes depreciation of $40 million in relation to assets held for lease as lessor by the Group (30 June 2020: $43 million; 31 December 2019: $40 million).

3 The half year ended 31 December 2020 includes a further $124 million impairment loss recognised by the Group in relation to certain aircraft owned by the Group and leased to various airlines (30 June 2020: $92 million). The impairment loss was driven by the impact of COVID-19 on the aviation sector.

Notes to the Financial Statements (continued)

2.2 Other Operating Income (continued)

Accounting Policies

Lending fees and commission income are accounted for as follows:

- facility fees earned for managing and administering credit and other facilities for customers are generally charged to the customer on a monthly or annual basis and are recognised as revenue over the service period. Annual fees are deferred on Balance Sheet in Bills payable and Other liabilities and recognised on a straight-line basis over the year. Transaction based fees are charged and recognised at the time of the transaction;
- commitment fees and fees in relation to guarantee arrangements are deferred and recognised over the life of the contractual arrangements;
- fee income is earned for providing advisory or arrangement services, placement and underwriting services. These fees are recognised and charged when the related service is completed which is typically at the time of the transaction; and
- trail commissions are recognised at the start of a contract when the performance obligation has been met, typically when a customer is introduced to a new project. The Group recognises the net present value of expected future trail commission income. For investment referral services, the Group is unable to forecast the trail commission revenue in line with the highly probable test in AASB 15 *Revenue from Contracts with Customers*. Therefore, trail commission revenue on investment referral balances is recognised when received or paid.

Establishment fees on financing facilities are deferred and amortised to interest income over the expected life of the loan and are not recognised when the commitment is issued.

Trading income represents both realised and unrealised gains and losses from changes in the fair value of trading assets, liabilities and derivatives, which are recognised in the period in which they arise.

Net gain/(loss) on non-trading financial instruments includes realised gains and losses from non-trading financial assets and liabilities as well as realised and unrealised gains and losses on non-trading derivatives that are held for risk management purposes.

Net gain/(loss) on the disposal of property, plant and equipment is the difference between proceeds received and its carrying value.

Net hedging ineffectiveness is measured on fair value, cash flow and net investment hedges.

Dividends received on non-trading equity investments are recognised on the ex-dividend date or when the right to receive the payment is established.

Funds management operating income includes fees earned where the Group acts as the Responsible Entity, Trustee or Manager for a number of wholesale, superannuation, and investment funds or trusts. Fund management services are a single performance obligation and fees are recognised over the service period. Management fees are calculated and deducted from the funds on a monthly basis. Performance fees are deemed to be a variable component of the fund management service and only recognised when it is highly probable that a significant reversal of the fees will not occur.

General insurance premiums received and receivable are recognised as revenue when they are earned, based on actuarial assessment of the likely pattern in which risk will emerge. The portion not yet earned based on the pattern assessment is recognised as an unearned premium liability. Claims are recognised as an expense when the liability is established.

The Group equity accounts for its share of the profits or losses of associate or joint venture investments, net of impairment recognised. Dividends received are recognised as a reduction of the investment's carrying amount.

Other income includes rental income on operating leases which are recognised on a straight-line basis over the lease term. This is offset by depreciation and impairment expense on the associated operating lease assets held by the Group.

Other income also includes the impact of foreign currency revaluations for foreign currency monetary assets and liabilities. These assets and liabilities are retranslated at the spot rate at balance sheet date. Exchange differences arising upon settling or translating monetary items at different rates to those at which they were initially recognised or previously reported, are recognised in the Income Statement.

Critical accounting judgements and estimates

The amount of trail commission revenue is dependent on assumptions about the behavioural life of the underlying transaction generating the commission. Trail commission income is only recognised to the extent it is highly probable it will not reverse in future periods.

Notes to the Financial Statements (continued)

2.3 Operating Expenses

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Staff Expenses			
Salaries and related on-costs	**2,733**	2,640	2,599
Share-based compensation	**45**	55	48
Superannuation	**225**	210	199
Total staff expenses	**3,003**	2,905	2,846
Occupancy and Equipment Expenses			
Lease expenses	**86**	80	83
Depreciation of property, plant and equipment	**373**	368	358
Other occupancy expenses	**119**	112	55
Total occupancy and equipment expenses	**578**	560	496
Information Technology Services			
Application, maintenance and development	**322**	276	291
Data processing	**94**	94	88
Desktop	**69**	69	49
Communications	**87**	102	90
Amortisation of software assets [1]	**325**	363	562
Software write-offs	**–**	3	11
IT equipment depreciation	**66**	64	69
Total information technology services	**963**	971	1,160
Other Expenses			
Postage and stationery	**66**	78	70
Transaction processing and market data	**69**	71	64
Fees and commissions:			
Professional fees	**252**	234	170
Other	**125**	140	122
Advertising, marketing and loyalty	**195**	217	207
Amortisation of intangible assets (excluding software and merger related amortisation)	**3**	2	3
Non-lending losses	**214**	495	68
Other	**98**	16	–
Total other expenses	**1,022**	1,253	704
Operating expenses before restructuring, separation and transaction costs	**5,566**	5,689	5,206
Restructuring, separation and transaction costs	**61**	29	5
Total operating expenses [2]	**5,627**	5,718	5,211

1 The half year ended 31 December 2020 includes $82 million of amortisation of prepaid software licenses (30 June 2020: $83 million; 31 December 2019: $87 million). The half year ended 31 December 2019 also includes approximately a $220 million one-off impact of accelerated amortisation following a review of the amortisation method and useful life of certain technology assets.

2 The half year ended 31 December 2020 includes $118 million of additional provisions for historical Aligned Advice remediation issues and associated program costs, and $123 million of Banking and other Wealth related customer remediation and other litigation provisions. The half year ended 30 June 2020 includes a $300 million provision for historical Aligned Advice remediation issues and associated program costs, $94 million of Wealth and Banking customer refunds and associated program costs, and a $60 million increase in provisions for other remediation items.

Notes to the Financial Statements (continued)

2.3 Operating Expenses (continued)

Accounting Policies

Salaries and related on-costs include annual leave, long service leave, employee incentives and relevant taxes. Staff expenses are recognised over the period the employee renders the service. Long service leave is discounted to present value using assumptions relating to staff departures, leave utilisation and future salary.

Share-based compensation includes plans which may be both cash settled and equity settled. Cash settled share-based remuneration is recognised as a liability and re-measured to fair value until settled. The changes in fair value are recognised as staff expenses. Equity settled remuneration is fair valued at the grant date and amortised to staff expenses over the vesting period, with a corresponding increase in the employee compensation reserve.

Superannuation expense includes expenses relating to defined contribution and defined benefit superannuation plans. Defined contribution expense is recognised in the period the service is provided, whilst the defined benefit expense, which measures current and past service costs is determined by an actuarial calculation.

Occupancy and equipment expenses include depreciation which is calculated using the straight-line method over the asset's estimated useful life. Right-of-use assets are depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within Depreciation of property, plant and equipment.

IT services expenses are recognised as incurred unless they qualify for capitalisation as computer software due to the expenditure generating probable future economic benefits. If capitalised, the computer software is subsequently amortised over its estimated useful life. The Group assesses at each Balance Sheet date useful lives and residual values and whether there is any objective evidence of impairment. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Other expenses are recognised as the relevant service is rendered. Operating expenses related to provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated.

Critical accounting judgements and estimates

Actuarial valuations of the Group's defined benefit superannuation plans' obligations are dependent on a series of assumptions set out in Note 10.2 in the 2020 Annual Report including inflation rates, discount rates and salary growth rates. Changes in these assumptions impact the fair value of the plans' obligations, assets, superannuation expense and actuarial gains and losses recognised in Other comprehensive income.

Measurement of the Group's share-based compensation is dependent on assumptions, including grant date fair values. Information on these is set out in Note 10.1 in the 2020 Annual Report.

Refer to note 6.2 in the 2020 Annual Report for more information on the judgements and estimates associated with goodwill.

2.4 Financial Reporting by Segments

The principal activities of the Group are carried out in the business segments below. These segments are based on the distribution channels through which customer relationships are managed. Business segments are managed on the basis of net profit after tax ("cash basis").

During the half year ended 31 December 2020, the Group made a number of structural changes to its operating segments. This includes the transfer of Commonwealth Private out of the Business Banking division and consolidation into the Retail Banking Services division in order to better serve our customers, and align distribution channels and core product offerings. There were also other re-segmentations, allocations and reclassifications, including refinements to the allocation of support units and other costs. These changes have not impacted the Group's net profit, but have resulted in changes to the presentation of the Income Statement and the Balance Sheet of the affected segments. These changes have been applied retrospectively.

Notes to the Financial Statements (continued)

2.4 Financial Reporting by Segments (continued)

	Half Year Ended 31 December 2020 [1]						
	Retail Banking Services $M	Business Banking $M	Institutional Banking and Markets $M	New Zealand $M	IFS and Corporate Centre $M	Wealth Management $M	Total $M
Net interest income	4,923	2,603	691	999	155	–	**9,371**
Other banking income:							
Commissions	557	512	80	138	12	–	**1,299**
Lending fees	74	230	189	33	(1)	–	**525**
Trading and other income	132	89	277	29	68	–	**595**
Total other banking income	763	831	546	200	79	–	**2,419**
Total banking income	5,686	3,434	1,237	1,199	234	–	**11,790**
Funds management income	15	–	–	68	(3)	–	**80**
Insurance income	92	–	–	–	(1)	–	**91**
Total operating income	5,793	3,434	1,237	1,267	230	–	**11,961**
Operating expenses	(2,357)	(1,242)	(485)	(486)	(996)	–	**(5,566)**
Loan impairment expense	(308)	(286)	(177)	(27)	(84)	–	**(882)**
Net profit before tax	3,128	1,906	575	754	(850)	–	**5,513**
Corporate tax (expense)/benefit	(932)	(571)	(152)	(212)	240	–	**(1,627)**
Non-controlling interests	–	–	–	–	–	–	**–**
Net profit after tax from continuing operations - "cash basis"	2,196	1,335	423	542	(610)	–	**3,886**
Net profit after tax from discontinued operations	–	–	–	–	5	84	**89**
Net profit after tax - "cash basis" [2]	2,196	1,335	423	542	(605)	84	**3,975**
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	(7)	(14)	–	–	289	642	**910**
Hedging and IFRS volatility	–	–	–	(52)	44	–	**(8)**
Net profit after tax - "statutory basis"	2,189	1,321	423	490	(272)	726	**4,877**
Additional information							
Amortisation and depreciation	(75)	(86)	(33)	(66)	(507)	–	**(767)**
Balance Sheet							
Total assets	432,646	185,611	174,724	102,663	160,273	1,817	**1,057,734**
Total liabilities	299,351	183,002	181,500	95,561	214,691	8,626	**982,731**

1 Information has been presented on a continuing operations basis unless otherwise stated.
2 These amounts exclude non-cash items, such as unrealised gain and losses relating to hedging and IFRS volatility, and gains and losses, post-completion adjustments (such as purchase price adjustments, and finalisation of accounting adjustments for goodwill and foreign currency translation reserve recycling), and transaction and separation costs associated with previously announced divestments.

Notes to the Financial Statements (continued)

2.4 Financial Reporting by Segments (continued)

	Half Year Ended 30 June 2020 [1,2]						
	Retail Banking Services $M	Business Banking $M	Institutional Banking and Markets $M	New Zealand $M	IFS and Corporate Centre $M	Wealth Management $M	Total $M
Net interest income	4,837	2,579	707	970	167	–	**9,260**
Other banking income:							
Commissions	574	447	74	131	10	–	**1,236**
Lending fees	81	214	180	31	(3)	–	**503**
Trading and other income	184	98	117	14	142	–	**555**
Total other banking income	839	759	371	176	149	–	**2,294**
Total banking income	5,676	3,338	1,078	1,146	316	–	**11,554**
Funds management income	16	–	–	65	(6)	–	**75**
Insurance income	111	–	–	–	(2)	–	**109**
Total operating income	5,803	3,338	1,078	1,211	308	–	**11,738**
Operating expenses	(2,352)	(1,245)	(527)	(541)	(1,024)	–	**(5,689)**
Loan impairment (expense)/benefit	(768)	(550)	(286)	(271)	6	–	**(1,869)**
Net profit/(loss) before tax	2,683	1,543	265	399	(710)	–	**4,180**
Corporate tax (expense)/benefit	(797)	(464)	(97)	(111)	229	–	**(1,240)**
Non-controlling interests	–	–	–	–	–	–	**–**
Net profit/(loss) after tax from continuing operations - "cash basis"	1,886	1,079	168	288	(481)	–	**2,940**
Net profit after tax from discontinued operations	–	–	–	–	5	10	**15**
Net profit/(loss) after tax - "cash basis" [3]	1,886	1,079	168	288	(476)	10	**2,955**
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	(8)	(17)	–	(1)	160	327	**461**
Hedging and IFRS volatility	–	–	–	159	(102)	–	**57**
Net profit/(loss) after tax - "statutory basis"	1,878	1,062	168	446	(418)	337	**3,473**
Additional information							
Amortisation and depreciation	(88)	(100)	(39)	(63)	(507)	–	**(797)**
Balance Sheet							
Total assets	420,430	182,647	171,568	98,539	139,203	1,673	**1,014,060**
Total liabilities	284,351	160,956	185,907	91,796	210,113	8,924	**942,047**

1 Information has been presented on a continuing operations basis unless otherwise stated.
2 Comparative information has been restated to conform to presentation in the current period.
3 These amounts exclude non-cash items, such as unrealised gain and losses relating to hedging and IFRS volatility, and gains and losses, post-completion adjustments (such as purchase price adjustments, and finalisation of accounting adjustments for goodwill and foreign currency translation reserve recycling), and transaction and separation costs associated with previously announced divestments.

Notes to the Financial Statements (continued)

2.4 Financial Reporting by Segments (continued)

	Half Year Ended 31 December 2019 [1, 2]						
	Retail Banking Services $M	Business Banking $M	Institutional Banking and Markets $M	New Zealand $M	IFS and Corporate Centre $M	Wealth Management $M	Total $M
Net interest income	4,859	2,712	676	964	139	–	**9,350**
Other banking income:							
Commissions	681	400	79	156	5	–	**1,321**
Lending fees	82	218	155	32	(4)	–	**483**
Trading and other income	103	112	288	11	225	–	**739**
Other banking income	866	730	522	199	226	–	**2,543**
Total banking income	5,725	3,442	1,198	1,163	365	–	**11,893**
Funds management income	51	–	–	71	(24)	–	**98**
Insurance income	33	–	–	–	(1)	–	**32**
Total operating income	5,809	3,442	1,198	1,234	340	–	**12,023**
Operating expenses	(2,321)	(1,213)	(494)	(480)	(698)	–	**(5,206)**
Loan impairment expense	(266)	(234)	(67)	(21)	(61)	–	**(649)**
Net profit/(loss) before tax	3,222	1,995	637	733	(419)	–	**6,168**
Corporate tax (expense)/benefit	(966)	(600)	(172)	(204)	130	–	**(1,812)**
Non-controlling interests	–	–	–	–	–	–	**–**
Net profit/(loss) after tax from continuing operations - "cash basis"	2,256	1,395	465	529	(289)	–	**4,356**
Net profit after tax from discontinued operations	–	–	–	–	11	127	**138**
Net profit/(loss) after tax - "cash basis" [3]	2,256	1,395	465	529	(278)	127	**4,494**
Gain/(loss) on acquisition, disposal, closure and demerger of businesses	49	1	–	9	1	1,571	**1,631**
Hedging and IFRS volatility	–	–	–	(33)	69	–	**36**
Net profit/(loss) after tax - "statutory basis"	2,305	1,396	465	505	(208)	1,698	**6,161**
Additional information							
Amortisation and depreciation	(106)	(89)	(29)	(61)	(707)	–	**(992)**
Balance Sheet							
Total assets	415,151	180,806	160,630	96,844	123,098	3,339	**979,868**
Total liabilities	272,662	146,427	164,703	90,432	225,820	8,671	**908,715**

1 Information has been presented on a continuing operations basis unless otherwise stated.
2 Comparative information has been restated to conform to presentation in the current period.
3 These amounts exclude non-cash items, such as unrealised gain and losses relating to hedging and IFRS volatility, and gains and losses, post-completion adjustments (such as purchase price adjustments, and finalisation of accounting adjustments for goodwill and foreign currency translation reserve recycling), and transaction and separation costs associated with previously announced divestments.

Notes to the Financial Statements (continued)

2.4 Financial Reporting by Segments (continued)

Geographical Information Financial Performance and Position	Half Year Ended [1] 31 Dec 20 $M	 31 Dec 20 %	 31 Dec 19 $M	 31 Dec 19 %
Income				
Australia	**10,200**	**85. 8**	10,371	85. 9
New Zealand	**1,289**	**10. 8**	1,255	10. 4
Other locations [2]	**407**	**3. 4**	448	3. 7
Total Income	**11,896**	**100. 0**	12,074	100. 0
Non-Current Assets [3]				
Australia	**14,183**	**92. 9**	14,887	93. 1
New Zealand	**841**	**5. 5**	872	5. 5
Other locations [2]	**252**	**1. 6**	229	1. 4
Total non-current assets	**15,276**	**100. 0**	15,988	100. 0

1 Information is presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 7.3.
2 Other locations include: United Kingdom, the Netherlands, United States, Japan, Singapore, Malta, Hong Kong, Indonesia, China, Vietnam and India.
3 Non-current assets include Property, plant and equipment, Investments in associates and joint ventures, and Intangible assets.

The geographical segment represents the location in which the transaction was recognised.

Accounting Policy

Operating segments are reported based on the Group's organisational and management structures. Senior management review the Group's internal reporting based on these segments, in order to assess performance and allocate resources.

All transactions between segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated in Corporate Centre.

Notes to the Financial Statements (continued)

2.5 Income Tax Expense

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Profit before income tax	**5,387**	4,265	6,214
Prima facie income tax at 30%	**1,616**	1,280	1,864
Effect of amounts which are non-deductible/(non-assessable) in calculating taxable income:			
Offshore tax rate differential	**(20)**	(5)	(11)
Offshore banking unit	**(3)**	(3)	(16)
Income tax over provided in previous years	**–**	(17)	(36)
Gains/(losses) on disposals	**4**	(8)	(66)
Other	**13**	11	27
Total income tax expense	**1,610**	1,258	1,762
Effective tax rate (%)	**29. 9**	29. 5	28. 4

Accounting Policy

Income tax on the profit or loss for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the Balance Sheet method where temporary differences are identified by comparing the carrying amounts of assets and liabilities for financial reporting purposes to their tax bases.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities (i.e. through use or through sale), using tax rates which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available for it to be used against. The Group recognised and disclosed separate deferred tax assets and deferred tax liabilities arising from arrangements where the Group is a lessee. Deferred tax assets and liabilities are offset where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

The Bank and its wholly owned Australian subsidiaries elected to be treated as a single entity "the tax consolidated group" under the tax consolidation regime from 1 July 2002. CommInsure Life will remain a member of the tax consolidated Group until final completion via statutory asset transfer and deregistration. The members of the tax consolidated group have entered into tax funding and tax sharing agreements, which set out the funding obligations of members.

Any current tax liabilities / assets and deferred tax assets from unused tax losses from subsidiaries in the tax consolidated group are recognised by the Bank legal entity and funded in line with the tax funding arrangement.

The measurement and disclosure of deferred tax assets and liabilities have been performed on a modified stand-alone basis under UIG 1052 *Tax Consolidation Accounting*.

Critical accounting judgements and estimates

Provisions for taxation require significant judgement with respect to outcomes that are uncertain. For such uncertainties, the Group has estimated the tax provisions based on the expected outcomes. A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available for it to be used against.

Notes to the Financial Statements (continued)

3. Our Lending Activities

Overview

Lending is the Group's primary business activity, generating most of its net interest income and lending fees. The Group satisfies customers' needs for borrowed funds by providing a broad range of lending products in Australia, New Zealand and other jurisdictions. As a result of its lending activities the Group assumes the credit risk arising from the potential that borrowers will fail to meet their obligations in accordance with agreed lending terms.

This section provides details of the Group's lending portfolio by type of product and geographical regions, analysis of the credit quality of the Group's lending portfolio and the related impairment provisions.

3.1 Loans, Bills Discounted and Other Receivables

	As at		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Australia			
Overdrafts	**25,005**	27,593	26,762
Home loans [1, 2]	**498,305**	485,795	477,701
Credit card outstandings	**8,998**	9,005	10,942
Lease financing	**3,891**	4,073	4,258
Bills discounted	**6**	354	1,061
Term loans and other lending	**148,367**	146,225	142,214
Total Australia	**684,572**	673,045	662,938
New Zealand			
Overdrafts	**948**	1,024	1,132
Home loans [1, 2]	**60,421**	56,361	56,555
Credit card outstandings	**973**	911	1,106
Lease financing	**1**	6	7
Term loans and other lending	**30,132**	29,416	30,414
Total New Zealand	**92,475**	87,718	89,214
Other Overseas			
Overdrafts	**358**	457	537
Home loans	**592**	724	834
Term loans and other lending	**14,962**	16,731	17,860
Total Other Overseas	**15,912**	17,912	19,231
Gross loans, bills discounted and other receivables	**792,959**	778,675	771,383
Less:			
Provisions for Loan Impairment:			
Collective provision	**(5,806)**	(5,277)	(3,980)
Individually assessed provisions	**(872)**	(967)	(959)
Unearned income:			
Term loans	**(639)**	(627)	(667)
Lease financing	**(213)**	(257)	(313)
	(7,530)	(7,128)	(5,919)
Net loans, bills discounted and other receivables	**785,429**	771,547	765,464

1 Home loans balance includes residential mortgages that have been assigned to securitisation vehicles and covered bond trusts. Further detail on these residential mortgages is disclosed in Note 4.4 of the 2020 Annual Financial Report.

2 These balances are presented gross of mortgage offset balances as required under accounting standards.

Notes to the Financial Statements (continued)

3.1 Loans, Bills Discounted and Other Receivables (continued)

Accounting Policies

Loans, bills discounted and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, and discounted bills. These financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The contractual cash flows on these financial assets comprise the payment of principal and interest only. These instruments are accordingly measured at amortised cost.

Loans, bills discounted and other receivables are recognised on settlement date, when funding is advanced to the borrowers. They are initially recognised at their fair value plus directly attributable transaction costs such as broker fees. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method and are presented net of provisions for impairment. For the accounting policy for provisions for impairment, refer to Note 3.2. For information on the Group's management of credit risk, refer to Note 9.2 of the 2020 Annual Financial Report.

Finance leases, where the Group acts as lessor, are also included in Loans, bills discounted and other receivables. Finance leases are those where substantially all the risks and rewards of the lease asset have been transferred to the lessee. Lease receivables are recognised at an amount equal to the net investment in the lease. Finance lease income reflects a constant periodic return on this net investment and is recognised within interest income in the Income Statement.

Critical accounting judgements and estimates

When applying the effective interest method the Group has estimated the behavioural term of each loan portfolio by reference to historical prepayment rates and the contractual maturity.

3.2 Provisions for Impairment and Asset Quality

The following table provides information about movements in the Group's provision for impairment losses.

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Provision for impairment losses			
Collective provision			
Opening balance	**5,396**	4,067	3,904
Net collective provision funding	**768**	1,597	446
Impairment losses written off	**(300)**	(357)	(406)
Impairment losses recovered	**69**	84	101
Other	**10**	5	22
Closing balance	**5,943**	5,396	4,067
Individually assessed provisions			
Opening balance	**967**	959	895
Net new and increased individual provisioning	**236**	371	287
Write-back of provisions no longer required	**(122)**	(99)	(84)
Discount unwind to interest income	**(7)**	(5)	(11)
Impairment losses written off	**(201)**	(281)	(163)
Other	**(1)**	22	35
Closing balance	**872**	967	959
Total provisions for impairment losses	**6,815**	6,363	5,026
Less: Provision for Off Balance Sheet exposures	**(137)**	(119)	(87)
Total provisions for loan impairment	**6,678**	6,244	4,939

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Loan impairment expense			
Net collective provision funding	**768**	1,597	446
Net new and increased individual provisioning	**236**	371	287
Write-back of individually assessed provisions	**(122)**	(99)	(84)
Total loan impairment expense	**882**	1,869	649

	As at		
	31 Dec 20	30 Jun 20	31 Dec 19
	%	%	%
Provision ratios			
Total provisions for impaired assets as a % of gross impaired assets	**38. 07**	35. 37	36. 12
Total provisions for impairment losses as a % of gross loans and acceptances	**0. 86**	0. 82	0. 65

Movement in provisions for impairment and credit exposures by ECL stage

The following table provides movements in the Group's impairment provisions and credit exposures by expected credit loss (ECL) stage for the half years ended 31 December 2020, 30 June 2020 and 31 December 2019.

Movements in credit exposures and provisions for impairment in the following tables represent the sum of monthly movements over the half-year periods and are attributable to the following items:

- **Transfers to/(from):** movements due to transfers of credit exposures between Stage 1, Stage 2 and Stage 3. Excludes the impact of re-measurements of provisions for impairment between 12 months and lifetime ECL.
- **Net re-measurement on transfers between stages:** movements in provisions for impairment due to re-measurement between 12 months and lifetime ECL as a result of transfers of credit exposures between stages.
- **Net financial assets originated:** net movements in credit exposures and provisions for impairment due to new financial assets originated as well as changes in existing credit exposures due to maturities, repayments or credit limit changes.
- **Movements in existing IAP (including IAP write-backs):** net movements in existing Individually Assessed Provisions (IAP) excluding write-offs.
- **Movement due to risk parameter and other changes:** movements in provisions for impairment due to changes in credit risk parameters, forward looking economic scenarios or other assumptions as well as other changes in underlying credit quality that do not lead to transfers between Stage 1, Stage 2 and Stage 3.
- **Write-offs:** derecognition of credit exposures and provisions for impairment upon write-offs.
- **Recoveries:** increases in provisions for impairment due to recoveries of loans previously written off.
- **Foreign exchange and other movements:** other movements in credit exposures and provisions for impairment including the impact of changes in foreign exchange rates.

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

	Group[1]							
	Stage 1 [2] Collectively assessed		Stage 2 [3] Collectively assessed		Stage 3 [4] Collectively and individually assessed		Total	
	Gross exposure $M	ECL $M	Gross exposure $M	ECL $M	Gross exposure $M	ECL $M	Gross exposure $M	ECL $M
Opening balance as at 1 July 2019	**747,769**	**905**	**164,292**	**2,519**	**6,697**	**1,375**	**918,758**	**4,799**
Transfers to/(from)								
Stage 1	53,771	650	(53,751)	(648)	(20)	(2)	**–**	**–**
Stage 2	(66,060)	(251)	67,971	432	(1,911)	(181)	**–**	**–**
Stage 3	(289)	(4)	(3,389)	(184)	3,678	188	**–**	**–**
Net re-measurement on transfers between stages	–	(520)	–	601	–	244	**–**	**325**
Net financial assets originated	31,521	138	(18,250)	(369)	(1,265)	(90)	**12,006**	**(321)**
Movement in existing IAP (including IAP write-backs)	–	–	–	–	–	174	**–**	**174**
Movements due to risk parameters and other changes	–	39	–	256	–	176	**–**	**471**
Loan impairment expense for the period		52		88		509		**649**
Write-offs	–	–	–	–	(569)	(569)	**(569)**	**(569)**
Recoveries	–	–	–	–	–	101	**–**	**101**
Foreign exchange and other movements	1,454	8	233	7	(32)	31	**1,655**	**46**
Closing balance as at 31 December 2019	**768,166**	**965**	**157,106**	**2,614**	**6,578**	**1,447**	**931,850**	**5,026**
Transfers to/(from)								
Stage 1	41,797	734	(41,711)	(724)	(86)	(10)	**–**	**–**
Stage 2	(116,092)	(354)	118,125	548	(2,033)	(194)	**–**	**–**
Stage 3	(499)	(4)	(3,746)	(229)	4,245	233	**–**	**–**
Net re-measurement on transfers between stages	–	(559)	–	1,044	–	291	**–**	**776**
Net financial assets originated	43,794	207	(30,938)	(396)	(1,086)	(98)	**11,770**	**(287)**
Movement in existing IAP (including IAP write-backs)	–	–	–	–	–	225	**–**	**225**
Movements due to risk parameters and other changes	–	579	–	480	–	96	**–**	**1,155**
Loan impairment expense for the period		603		723		543		**1,869**
Write-offs	–	–	–	–	(638)	(638)	**(638)**	**(638)**
Recoveries	–	–	–	–	–	84	**–**	**84**
Foreign exchange and other movements	(1,889)	1	(293)	9	(45)	12	**(2,227)**	**22**
Closing balance as at 30 June 2020	**735,277**	**1,569**	**198,543**	**3,346**	**6,935**	**1,448**	**940,755**	**6,363**
Transfers to/(from)								
Stage 1	88,910	925	(88,840)	(921)	(70)	(4)	**–**	**–**
Stage 2	(95,047)	(439)	96,971	739	(1,924)	(300)	**–**	**–**
Stage 3	(382)	(5)	(3,160)	(252)	3,542	257	**–**	**–**
Net re-measurement on transfers between stages	–	(571)	–	466	–	314	**–**	**209**
Net financial assets originated	55,085	205	(24,260)	(438)	(1,183)	(108)	**29,642**	**(341)**
Movement in existing IAP (including IAP write-backs)	–	–	–	–	–	50	**–**	**50**
Movements due to risk parameters and other changes	–	(5)	–	545	–	424	**–**	**964**
Loan impairment expense for the period		110		139		633		**882**
Write-offs	–	–	–	–	(501)	(501)	**(501)**	**(501)**
Recoveries	–	–	–	–	–	69	**–**	**69**
Foreign exchange and other movements	(2,291)	3	(744)	6	(69)	(7)	**(3,104)**	**2**
Closing balance as at 31 December 2020	**781,552**	**1,682**	**178,510**	**3,491**	**6,730**	**1,642**	**966,792**	**6,815**

1 Comparative information has been restated to conform to presentation in the current period.

2 Movements in credit exposures exclude Cash and liquid assets and Receivables from financial institutions. Movements in provisions for impairment losses include provisions in relation to Cash and liquid assets and Receivables from financial institutions. As at 31 December 2020, collective provisions in Stage 1 include $14 million in relation to these financial assets (30 June 2020: $12 million; 31 December 2019: $10 million).

3 The assessment of SICR includes the impact of forward looking multiple economic scenarios in addition to adjustments for emerging risks at an industry, geographic location or particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 57% of Stage 2 exposures as at 31 December 2020 (30 June 2020: 65%; 31 December 2019: 64%).

4 As at 31 December 2020, Stage 3 includes $4,765 million of collectively assessed (30 June 2020: $4,598 million; 31 December 2019: $4,460 million) and $1,965 million of individually assessed credit exposures (30 June 2020: $2,337 million; 31 December 2019: $2,118 million). Stage 3 provisions for impairment include $770 million of collective provisions (30 June 2020: $481 million; 31 December 2019: $488 million) and $872 million of individually assessed provisions (30 June 2020: $967 million; 31 December 2019: $959 million).

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

Accounting Policy

By providing loans to customers, the Group bears the risk that the future circumstances of customers might change, including their ability to repay their loans in part or in full. While the Group's credit and responsible lending policies aim to minimise this risk, there will always be instances where the Group will not receive the full amount owed and hence a provision for impairment is required.

A description of the key components of the Group's AASB 9 impairment methodology is provided below.

Expected credit loss (ECL) model

The ECL model applies to all financial assets measured at amortised cost, debt securities measured at fair value through other comprehensive income, finance lease receivables, loan commitments and financial guarantee contracts not measured at fair value through profit or loss (FVTPL). The model applies a three-stage approach to recognition of expected credit losses. Financial assets migrate through these stages based on changes in credit risk since origination:

- **Stage 1 – 12 months ECL – Performing Loans**
  On origination, financial assets recognise an impairment provision equivalent to 12 months ECL. 12 months ECL is the credit losses expected to arise from defaults occurring over the next 12 months.
- **Stage 2 – Lifetime ECL – Performing loans that have experienced a significant increase in credit risk (SICR)**
  Financial assets that have experienced a SICR since origination are transferred to Stage 2 and recognise an impairment provision equivalent to lifetime ECL. Lifetime ECL is the credit losses expected to arise from defaults occurring over the remaining life of financial assets. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer considered significant the exposure is reclassified to Stage 1 and the impairment provision reverts to 12 months ECL.
- **Stage 3 – Lifetime ECL – Non-performing loans**
  Financial assets in default recognise a provision equivalent to lifetime ECL. This includes assets that are considered impaired as well as assets that are considered to be in default but are not impaired because, for example, no loss is expected based on the security position.

Credit losses for financial assets in Stage 1 and Stage 2 are assessed for impairment collectively, whilst those in Stage 3 are subjected to either collective or individual assessment of expected credit losses.

Significant increase in credit risk (SICR)

SICR is assessed by comparing the risk of default occurring over the expected life of the financial asset at reporting date to the corresponding risk of default at origination. The Group considers all available qualitative and quantitative information that is relevant to assessing SICR.

For non-retail portfolios, such as the corporate risk rated portfolio and the asset finance portfolio, the risk of default is defined using the existing Risk Rated Probability of Default (PD) Masterscale. The PD Masterscale is used in internal credit risk management and includes 23 risk grades that are assigned at a customer level using rating tools reflecting customer specific financial and non-financial information and management's experienced credit judgement. Internal credit risk ratings are updated regularly on the basis of the most recent financial and non-financial information.

The Group uses a Retail Masterscale in the ECL measurement on personal loans, credit cards, home loans and SME retail portfolios. The Retail Masterscale has 15 risk grades that are assigned to retail accounts based on their credit quality scores determined through a credit quality scorecard. Risk grades for retail exposures are updated monthly as credit quality scorecards are recalculated based on new behavioural information.

For significant portfolios, the primary indicator of SICR is a significant deterioration in an exposure's internal credit rating grade between origination and reporting date. Application of the primary SICR indicator uses a sliding threshold such that an exposure with a higher credit quality at origination would need to experience a more significant downgrade compared to a lower credit quality exposure before SICR is triggered. The level of downgrade required to trigger SICR for each origination grade have been defined for each significant portfolio.

The assessment of SICR includes the impact of forward looking multiple economic scenarios in addition to adjustments for emerging risks at an industry, geographic location or particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 57% of Stage 2 exposures as at 31 December 2020 (30 June 2020: 65%, 31 December 2019: 64%).

The Group also uses secondary SICR indicators as backstops in combination with the primary SICR indicator, including:

- arrears status, including the AASB 9 rebuttable presumption of 30 days past due;
- a retail exposure entering a financial hardship status;
- a non-retail exposure's referral to Group Credit Structuring.

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

For a number of small portfolios, which are not considered significant individually or in combination, the Group applies simplified provisioning approaches that differ from the description above. 30 days past due is used as a primary indicator of SICR on exposures in these portfolios.

The offer or uptake of an initial COVID-19 related repayment deferral does not itself constitute a SICR event unless the exposure is considered to have experienced a SICR based on other available information. During the period the Group completed its reassessment of the internal credit risk ratings for non-retail exposures in segments most impacted by COVID-19, including those on repayment deferrals, to determine if changes in customers' circumstances were sufficient to constitute SICR. Subsequent to an initial deferral some customers have been provided with a further deferral extension or other contract modification such as a term extension, or switch from principal and interest repayments to interest only repayments. Where an extension of a deferral is granted or a modification is given outside of commercial terms those exposures are considered to have experienced a SICR event. Modifications that are routinely offered in the normal course of business, such as interest only switches, do not therefore constitute a SICR event.

Definition of default, impaired and write-offs

The definition of default used in measuring ECL is aligned to the definition used for internal credit risk management purposes across all portfolios. Default occurs when there are indicators that a debtor is unlikely to meet contractual credit obligations to the Group in full, or the exposure is 90 days past due.

Facilities are classified as impaired where there is doubt as to whether the full amounts due, including interest and other contractual payments, will be received in a timely manner. Loans are written off when there is no reasonable expectation of recovery.

The offer or uptake of a COVID-19 related repayment deferral does not constitute a default or credit impairment unless the exposure is considered to be in default or impaired based on the criteria outlined above.

ECL measurement

ECL is a probability weighted expected credit loss estimated by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The Group uses the following AASB 9 collective provisioning models in calculating ECL for significant portfolios:

- **Retail lending:** Personal Loans model, Credit Cards model, Home Loans model;
- **Non-retail lending:** Corporate Risk rated model, Asset Finance model, Retail SME model.

For each significant portfolio ECL is calculated as a product of the following credit risk factors at a facility level:

- **Probability of default (PD):** The likelihood that a debtor will be unable to pay its obligations in full without having to take actions such as realising on security or that the debtor will become 90 days overdue on obligation or contractual commitment;
- **Exposure at default (EAD):** Expected Balance Sheet exposure at default. The Group generally calculates EAD as the higher of the drawn balance and total credit limit, except for the credit cards portfolio, for which EAD calculation also takes into account the probability of unused limits being drawn down; and
- **Loss given default (LGD):** The amount that is not expected to be recovered following default.

Secured retail exposures and defaulted non-retail exposures are assessed for impairment through an Individually Assessed Provisions (IAP) process if expected losses are in excess of $20,000. Impairment provisions on these exposures are calculated directly as the difference between the defaulted asset's carrying value and the present value of expected future cash flows including cash flows from realisation of collateral, where applicable.

Lifetime of an exposure

For exposures in Stage 2 and Stage 3 impairment provisions are determined as a lifetime expected loss. The Group uses a range of approaches to estimate expected lives of financial instruments subject to ECL requirements:

- **Non-revolving products in corporate portfolios:** Expected life is determined as a maximum contractual period over which the Group is exposed to credit risk;
- **Non-revolving retail products:** For fixed term products such as personal loans and home loans, expected life is determined using behavioural term analysis and does not exceed the maximum contractual period; and
- **Revolving products in corporate and retail portfolios:** For revolving products that include both a loan and an undrawn commitment, such as credit cards and corporate lines of credit, the Group's contractual ability to cancel the undrawn limits and demand repayments does not limit the exposure to credit losses to the contractual notice period. For such products, ECL is measured over the behavioural life.

Forward-looking information

Credit risk factors of PD and LGD used in ECL calculation are point-in-time estimates based on current conditions and adjusted to include the impact of multiple probability-weighted future forecast economic scenarios.

Forward looking PD and LGD factors are modelled for each significant portfolio based on macro-economic factors that are most closely correlated with credit losses in the relevant portfolios. Each of the four scenarios (refer below) includes a forecast of relevant macro-economic variables which differ by portfolio:

- **Retail portfolios:** Cash rate, unemployment rate, GDP per capita and House price index.
- **Non-retail lending:** Unemployment rate, business investment index, disposable income, ASX 200 and the AUD/USD exchange rate.

New Zealand equivalents of a subset of the above macro-economic variables are used for retail credit exposures originated in New Zealand.

3.2 Provisions for Impairment and Asset Quality (continued)

The Group uses the following four alternative macro-economic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL for significant portfolios:

- **Central scenario:** This scenario considers Central Bank and other forecasts as well as the Group's base case assumptions used in business planning and forecasting.
- **Downside scenario:** This scenario is set relative to the Central scenario based on macroeconomic conditions that represent plausible but less likely alternatives to the Central scenario.
- **Upside scenario:** This scenario is included to account for the potential impact of less likely, more favourable macro-economic conditions. Relative to the Central scenario, the Upside scenario features a more rapid recovery in economic output and return to normal labour market conditions over the short term with further improvement over the medium term. In addition to this, the scenario features a stronger exchange rate, stronger growth in house prices, business investment, disposable income and the share market as well as modest increases in interest rates over the medium term.
- **Severe downside scenario:** This scenario is included to account for a potentially severe impact of less likely, extremely adverse macro-economic conditions. Relative to the Central and Downside scenarios, this scenario features a sharper contraction with a slow recovery in economic output, heightened and prolonged weakness in the labour market, and more severe declines in house prices and the share market. In addition to this, the scenario features a more severe and prolonged contraction in business investment and a weaker exchange rate, while interest rates remain accommodative.

The table below provides a summary of macro-economic variables used in the Central and Downside scenarios as at 31 December 2020.

	Central Calendar year			Downside Calendar year		
	2021	2022	2023	2021	2022	2023
GDP [1]	100. 8	104. 8	108. 0	93. 2	95. 8	98. 2
Unemployment rate (%) [2]	6. 5	6. 0	5. 5	10. 4	9. 3	8. 0
Cash rate (%) [2]	0. 10	0. 10	0. 10	0. 10	0. 10	0. 10
House prices (annual % change)	8. 0	4. 0	4. 5	(15. 0)	(5. 0)	1. 0
Business investment (annual % change)	4. 0	9. 0	4. 2	(10. 0)	(1. 2)	2. 5
AUD/USD exchange rate [2]	0. 78	0. 77	0. 77	0. 65	0. 65	0. 65
Disposable income (annual % change)	2. 4	1. 8	2. 0	(3. 8)	(0. 7)	1. 0
ASX 200 (annual % change)	12. 3	5. 5	4. 2	(15. 0)	2. 3	3. 4
NZ unemployment rate (%) [2]	6. 1	5. 6	5. 4	9. 5	7. 0	6. 5
NZ cash rate (%) [2]	0. 25	0. 25	0. 50	(0. 25)	(0. 25)	(0. 25)
NZ house prices (annual % change)	8. 9	6. 1	6. 4	(15. 0)	(5. 0)	1. 4

1 Indexed to December 2019.
2 Spot rate at December each year, unless otherwise stated.

The requirement to probability-weight possible future outcomes captures the uncertainty inherent in the credit outlook, and changes in that uncertainty over time. Weights are assigned to each scenario based on management's best estimate of the proportion of potential future loss outcomes that each scenario represents. The same economic scenarios and probability weights apply across all portfolios. The Group's assessment of SICR also incorporates the impact of multiple probability-weighted future forecast economic scenarios on exposures' internal risk grades using the same four forecast macroeconomic scenarios as described above.

Notwithstanding improvements in the base case economic outlook over the half year ended 31 December 2020, the Group has revised the weightings used in the multiple economic scenarios to reflect management's assessment of sector-specific risks posed by continued uncertainty in relation to the potential impacts of COVID-19, fiscal measures and emerging geopolitical issues. In addition, the ECL attributable to forward looking adjustments has increased over the half year ended 31 December 2020.

In estimating impairment provisions on individually significant defaulted exposures, the Group generally applies prudent assumptions in estimating recovery cash flows. Incorporating multiple forecast economic scenarios in estimates is not expected to significantly affect the level of impairment provisions on these credit exposures.

Incorporation of experienced credit judgement

Management exercises credit judgement in assessing if an exposure has experienced SICR and in determining the amount of impairment provisions at each reporting date. Where applicable, credit risk factors (PD and LGD) are adjusted upwards to incorporate reasonable and supportable forward looking information about known or expected risks for specific segments of portfolios that would otherwise not have been considered in the modelling process. Credit judgement is used to determine the degree of adjustment to be applied and considers information such as emerging risks at an industry, geographical and portfolio segment level.

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

Sensitivity of provisions for impairment to changes in forward looking assumptions

As described above, the Group applies four alternative macro-economic scenarios (Central, Upside, Downside and Severe downside scenarios) to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL.

The table below provides approximate levels of provisions for impairment under the Central and Downside scenarios assuming 100% weighting was applied to each scenario and holding all other assumptions constant. As noted above, these scenarios and their associated weights have been selected based on the expected range of potential future loss outcomes.

	31 Dec 20 $M	30 Jun 20 $M
100% Central scenario	5,022	5,262
100% Downside scenario	8,978	9,014

Sensitivity of provisions for impairment to SICR assessment criteria

If 1% of Stage 1 credit exposures as at 31 December 2020 was included in Stage 2, provisions for impairment would increase by approximately $136 million (30 June 2020: $108 million).

If 1% of Stage 2 credit exposures as at 31 December 2020 was included in Stage 1, provisions for impairment would decrease by approximately $31 million (30 June 2020: $29 million).

Modifications relating to COVID-19

The Group has extended a number of support measures to customers impacted by COVID-19, including loan repayment deferrals, switches from principal and interest repayments to interest only repayments and other modifications including the extension of loan maturity dates. The Bank recognised approximately $270 million of interest related to retail loans in deferral (June 2020: $310 million) and approximately $15 million of interest related to non-retail loans in deferral (June 2020: $150 million). Deferral extensions were treated as non-substantial modifications and therefore accounted for as a continuation of the existing loan with no material modification gains or losses having been recognised. Other contract modifications are treated as substantial or non-substantial based on the terms on which they are granted.

During the half year ended 31 December 2020 loans with a gross carrying value of approximately $10,303 million were granted COVID-19 related repayment deferrals or other contractual modifications when they were included in either Stage 2 or Stage 3 (30 June 2020: $26,886 million). Loans with a gross carrying value of approximately $23,281 million, that were subject to COVID-19 related modifications when in Stage 2 or Stage 3, remained in either Stage 2 or Stage 3 at 31 December 2020 (30 June 2020: $25,179 million). The following table provides a summary of gross carrying values of credit exposures subject to COVID-19 related modifications.

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

	31 Dec 20 $M	30 Jun 20 [1] $M
Retail secured		
Stage 1	**5,069**	35,777
Stage 2	**14,497**	20,028
Stage 3	**342**	1,304
Total retail secured	**19,908**	**57,109**
Retail unsecured		
Stage 1	**277**	588
Stage 2	**11**	128
Stage 3	**7**	20
Total retail unsecured	**295**	**736**
Non–retail		
Stage 1	**426**	6,717
Stage 2	**2,033**	10,144
Stage 3	**139**	252
Total non-retail	**2,598**	**17,113**
Total credit exposures		
Stage 1	**5,772**	43,082
Stage 2	**16,541**	30,300
Stage 3	**488**	1,576
Total	**22,801**	**74,958**

1 Comparative information has been restated to conform to presentation in the current period.

The majority of credit exposures subject to COVID-19 related modifications are secured. The Group takes into account market values of available collateral in calculating provisions for impairment. As at 31 December 2020, the provision for impairment held by the Group in relation to credit exposures subject to COVID-19 related modifications was $323 million (30 June 2020: $818 million).

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

Asset Quality

The tables below provide information about the credit quality of the Group's assets.

	As at 31 December 2020				
	Home Loans $M	Other Personal [1] $M	Asset Financing $M	Other Commercial Industrial $M	Total $M
Loans which were neither past due nor impaired					
Investment Grade	327,637	4,437	1,882	90,457	**424,413**
Pass Grade	215,689	11,323	8,423	106,920	**342,355**
Weak	4,846	967	500	4,562	**10,875**
Total loans which were neither past due nor impaired	548,172	16,727	10,805	201,939	**777,643**
Loans which were past due but not impaired [2]					
Past due 1 - 29 days	4,640	342	119	1,005	**6,106**
Past due 30 - 59 days	1,673	106	33	235	**2,047**
Past due 60 - 89 days	879	70	19	92	**1,060**
Past due 90 - 179 days	1,223	9	2	132	**1,366**
Past due 180 days or more	1,281	9	1	465	**1,756**
Total loans past due but not impaired	9,696	536	174	1,929	**12,335**

1 Included in these balances are credit card facilities and other unsecured portfolio managed facilities up to 90 days past due. At 90 days past due all unsecured portfolio managed facilities are classified as impaired.
2 Includes assets in Stage 3 that have defaulted, but have not been classified as credit impaired as the loans are well secured and expected to be recovered.

	As at 30 June 2020				
	Home Loans $M	Other Personal [1] $M	Asset Financing $M	Other Commercial Industrial $M	Total $M
Loans which were neither past due nor impaired					
Investment Grade	316,878	4,095	1,793	93,837	**416,603**
Pass Grade	209,952	12,988	8,698	103,537	**335,175**
Weak	4,118	1,370	302	4,534	**10,324**
Total loans which were neither past due nor impaired	530,948	18,453	10,793	201,908	**762,102**
Loans which were past due but not impaired [2]					
Past due 1 - 29 days	4,343	484	171	829	**5,827**
Past due 30 - 59 days	1,964	152	78	258	**2,452**
Past due 60 - 89 days	1,246	160	45	100	**1,551**
Past due 90 - 179 days	1,369	29	3	158	**1,559**
Past due 180 days or more	1,341	16	1	444	**1,802**
Total loans past due but not impaired	10,263	841	298	1,789	**13,191**

1 Included in these balances are credit card facilities and other unsecured portfolio managed facilities up to 90 days past due. At 90 days past due all unsecured portfolio managed facilities are classified as impaired.
2 Includes assets in Stage 3 that have defaulted, but have not been classified as credit impaired as the loans are well secured and expected to be recovered.

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

	As at 31 December 2019				
	Home Loans $M	Other Personal [1] $M	Asset Financing $M	Other Commercial Industrial $M	Total $M
Loans which were neither past due nor impaired					
Investment Grade	313,199	4,319	727	93,310	**411,555**
Pass Grade	197,186	13,930	7,054	105,089	**323,259**
Weak	12,129	1,609	306	4,682	**18,726**
Total loans which were neither past due nor impaired	522,514	19,858	8,087	203,081	**753,540**
Loans which were past due but not impaired [2]					
Past due 1 - 29 days	5,541	725	162	1,585	**8,013**
Past due 30 - 59 days	1,787	196	39	205	**2,227**
Past due 60 - 89 days	919	119	18	98	**1,154**
Past due 90 - 179 days	1,196	19	1	227	**1,443**
Past due 180 days or more	1,283	9	–	419	**1,711**
Total loans past due but not impaired	10,726	1,068	220	2,534	**14,548**

1 Included in these balances are credit card facilities and other unsecured portfolio managed facilities up to 90 days past due. At 90 days past due all unsecured portfolio managed facilities are classified as impaired.
2 Includes assets in Stage 3 that have defaulted, but have not been classified as credit impaired as the loans are well secured and expected to be recovered.

The following tables provide information about the Group's impaired assets.

	Half Year Ended		
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M
Movement in gross impaired assets			
Gross impaired assets - opening balance	**3,548**	3,383	3,622
New and increased	**799**	1,299	1,332
Balances written off	**(444)**	(579)	(475)
Returned to performing or repaid	**(977)**	(879)	(1,342)
Portfolio managed - new/increased/return to performing/repaid	**174**	324	246
Gross impaired assets - closing balance [1,2]	**3,100**	3,548	3,383

	As at		
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M
Impaired assets by size of asset			
Less than $1 million	**1,305**	1,846	1,949
$1 million to $10 million	**755**	790	789
Greater than $10 million	**1,040**	912	645
Gross impaired assets [1,2]	**3,100**	3,548	3,383
Less total provisions for impaired assets [3]	**(1,180)**	(1,255)	(1,222)
Net impaired assets	**1,920**	2,293	2,161

1 As at 31 December 2020, impaired assets include those assets in Stage 3 that are considered impaired, as well as $136 million of restructured assets in Stage 2 (30 June 2020: $77 million; 31 December 2019: $42 million). Provisions for impaired assets include $10 million for restructured assets in Stage 2 (30 June 2020: nil; 31 December 2019: $3 million).
2 Includes $2,981 million of loans and advances and $119 million of other financial assets (30 June 2020: $3,382 million of loans and advances and $166 million of other financial assets; 31 December 2019: $3,295 million of loans and advances and $88 million of other financial assets).
3 Includes $872 million of individually assessed provisions and $308 million of collective provisions (30 June 2020: $967 million of individually assessed provisions and $288 million of collective provisions; 31 December 2019: $959 million of individually assessed provisions and $263 million of collective provisions).

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

Distribution of financial instruments by credit quality

The following tables provide information about the gross carrying amount of the Group's credit exposures by credit grade and ECL stage. For the definition of the Group's credit grades refer to Note 9.2 of the 2020 Annual Report.

	31 Dec 20				
	Stage 1 collectively assessed $M	Stage 2 [1] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Loans, bills and discounted and other receivables					
Credit grade					
Investment	399,537	29,432	–	–	**428,969**
Pass	232,793	109,483	–	–	**342,276**
Weak	2,697	11,656	4,649	1,860	**20,862**
Gross carrying amount	**635,027**	**150,571**	**4,649**	**1,860**	**792,107**
Undrawn credit commitments					
Credit grade					
Investment	94,282	9,295	–	–	**103,577**
Pass	39,144	11,502	–	–	**50,646**
Weak	244	1,232	94	33	**1,603**
Total undrawn credit commitments	**133,670**	**22,029**	**94**	**33**	**155,826**
Total credit exposures	**768,697**	**172,600**	**4,743**	**1,893**	**947,933**
Impairment provision	**1,651**	**3,387**	**768**	**872**	**6,678**
Provisions to credit exposure, %	**0. 2**	**2. 0**	**16. 2**	**46. 1**	**0. 7**
Financial guarantees and other off Balance Sheet instruments					
Credit grade					
Investment	9,400	1,028	–	–	**10,428**
Pass	3,427	4,527	–	–	**7,954**
Weak	28	355	22	72	**477**
Total financial guarantees and other off Balance Sheet instruments	**12,855**	**5,910**	**22**	**72**	**18,859**
Impairment provision	**31**	**104**	**2**	**–**	**137**
Provisions to credit exposure, %	**0. 2**	**1. 8**	**9. 1**	**–**	**0. 7**
Total credit exposures					
Credit grade					
Investment	503,219	39,755	–	–	**542,974**
Pass	275,364	125,512	–	–	**400,876**
Weak	2,969	13,243	4,765	1,965	**22,942**
Total credit exposures	**781,552**	**178,510**	**4,765**	**1,965**	**966,792**
Total impairment provision	**1,682**	**3,491**	**770**	**872**	**6,815**
Provisions to credit exposure, %	**0. 2**	**2. 0**	**16. 2**	**44. 4**	**0. 7**

1 The assessment of SICR includes the impact of forward looking multiple economic scenarios in addition to adjustments for emerging risks at an industry, geographic location or particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 57% of Stage 2 exposures as at 31 December 2020.

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

	31 Dec 20				
	Stage 1 collectively assessed $M	Stage 2 [1] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Retail secured					
Credit grade					
Investment	371,066	16,289	–	–	**387,355**
Pass	204,337	37,477	–	–	**241,814**
Weak	1,572	6,174	3,357	687	**11,790**
Total retail secured	**576,975**	**59,940**	**3,357**	**687**	**640,959**
Impairment provision	**798**	**644**	**435**	**203**	**2,080**
Provisions to credit exposure, %	**0. 1**	**1. 1**	**13. 0**	**29. 5**	**0. 3**
Retail unsecured					
Credit grade					
Investment	14,897	1,449	–	–	**16,346**
Pass	11,902	2,219	–	–	**14,121**
Weak	742	965	209	8	**1,924**
Total retail unsecured	**27,541**	**4,633**	**209**	**8**	**32,391**
Impairment provision	**516**	**791**	**187**	**5**	**1,499**
Provisions to credit exposure, %	**1. 9**	**17. 1**	**89. 5**	**62. 5**	**4. 6**
Non-retail					
Credit grade					
Investment	117,256	22,017	–	–	**139,273**
Pass	59,125	85,816	–	–	**144,941**
Weak	655	6,104	1,199	1,270	**9,228**
Total non-retail	**177,036**	**113,937**	**1,199**	**1,270**	**293,442**
Impairment provision	**368**	**2,056**	**148**	**664**	**3,236**
Provisions to credit exposure, %	**0. 2**	**1. 8**	**12. 3**	**52. 3**	**1. 1**
Total credit exposures					
Credit grade					
Investment	503,219	39,755	–	–	**542,974**
Pass	275,364	125,512	–	–	**400,876**
Weak	2,969	13,243	4,765	1,965	**22,942**
Total credit exposures	**781,552**	**178,510**	**4,765**	**1,965**	**966,792**
Impairment provision	**1,682**	**3,491**	**770**	**872**	**6,815**
Provisions to credit exposure, %	**0. 2**	**2. 0**	**16. 2**	**44. 4**	**0. 7**

1 The assessment of SICR includes the impact of forward looking multiple economic scenarios in addition to adjustments for emerging risks at an industry, geographic location or particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 57% of Stage 2 exposures as at 31 December 2020.

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

	30 Jun 20				
	Stage 1 collectively assessed $M	Stage 2 [1] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Loans, bills and discounted and other receivables					
Credit grade					
Investment	387,863	39,677	–	–	**427,540**
Pass	219,819	110,821	–	–	**330,640**
Weak	2,569	10,384	4,490	2,168	**19,611**
Gross carrying amount	**610,251**	**160,882**	**4,490**	**2,168**	**777,791**
Undrawn credit commitments					
Credit grade					
Investment	78,651	16,443	–	–	**95,094**
Pass	32,916	14,293	–	–	**47,209**
Weak	255	497	81	86	**919**
Total undrawn credit commitments	**111,822**	**31,233**	**81**	**86**	**143,222**
Total credit exposures	**722,073**	**192,115**	**4,571**	**2,254**	**921,013**
Impairment provision	**1,549**	**3,249**	**479**	**967**	**6,244**
Provisions to credit exposure, %	**0. 2**	**1. 7**	**10. 5**	**42. 9**	**0. 7**
Financial guarantees and other off Balance Sheet instruments					
Credit grade					
Investment	9,877	1,380	–	–	**11,257**
Pass	3,300	4,734	–	–	**8,034**
Weak	27	314	27	83	**451**
Total financial guarantees and other off Balance Sheet instruments	**13,204**	**6,428**	**27**	**83**	**19,742**
Impairment provision	**20**	**97**	**2**	**–**	**119**
Provisions to credit exposure, %	**0. 2**	**1. 5**	**7. 4**	**–**	**0. 6**
Total credit exposures					
Credit grade					
Investment	476,391	57,500	–	–	**533,891**
Pass	256,035	129,848	–	–	**385,883**
Weak	2,851	11,195	4,598	2,337	**20,981**
Total credit exposures	**735,277**	**198,543**	**4,598**	**2,337**	**940,755**
Total impairment provision	**1,569**	**3,346**	**481**	**967**	**6,363**
Provisions to credit exposure, %	**0. 2**	**1. 7**	**10. 5**	**41. 4**	**0. 7**

1 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures as at 30 June 2020.

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

	30 Jun 20				
	Stage 1 collectively assessed $M	Stage 2 [1] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Retail secured					
Credit grade					
Investment	346,983	28,658	–	–	**375,641**
Pass	193,030	35,643	–	–	**228,673**
Weak	1,626	4,589	3,197	815	**10,227**
Total retail secured	**541,639**	**68,890**	**3,197**	**815**	**614,541**
Impairment provision	**663**	**628**	**153**	**237**	**1,681**
Provisions to credit exposure, %	**0. 1**	**0. 9**	**4. 8**	**29. 1**	**0. 3**
Retail unsecured					
Credit grade					
Investment	13,395	2,564	–	–	**15,959**
Pass	13,000	2,572	–	–	**15,572**
Weak	898	1,165	270	10	**2,343**
Total retail unsecured	**27,293**	**6,301**	**270**	**10**	**33,874**
Impairment provision	**592**	**937**	**216**	**3**	**1,748**
Provisions to credit exposure, %	**2. 2**	**14. 9**	**80. 0**	**30. 0**	**5. 2**
Non–retail					
Credit grade					
Investment	116,013	26,278	–	–	**142,291**
Pass	50,005	91,633	–	–	**141,638**
Weak	327	5,441	1,131	1,512	**8,411**
Total non-retail	**166,345**	**123,352**	**1,131**	**1,512**	**292,340**
Impairment provision	**314**	**1,781**	**112**	**727**	**2,934**
Provisions to credit exposure, %	**0. 2**	**1. 4**	**9. 9**	**48. 1**	**1. 0**
Total credit exposures					
Credit grade					
Investment	476,391	57,500	–	–	**533,891**
Pass	256,035	129,848	–	–	**385,883**
Weak	2,851	11,195	4,598	2,337	**20,981**
Total credit exposures	**735,277**	**198,543**	**4,598**	**2,337**	**940,755**
Impairment provision	**1,569**	**3,346**	**481**	**967**	**6,363**
Provisions to credit exposure, %	**0. 2**	**1. 7**	**10. 5**	**41. 4**	**0. 7**

1 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures as at 30 June 2020.

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

	31 Dec 19				
	Stage 1 collectively assessed $M	Stage 2 [1] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Loans, bills and discounted and other receivables					
Credit grade					
Investment	388,914	26,137	–	–	**415,051**
Pass	243,835	82,002	–	–	**325,837**
Weak	7,862	15,250	4,362	2,041	**29,515**
Gross carrying amount	**640,611**	**123,389**	**4,362**	**2,041**	**770,403**
Undrawn credit commitments					
Credit grade					
Investment	78,409	14,954	–	–	**93,363**
Pass	35,372	12,311	–	–	**47,683**
Weak	303	639	73	77	**1,092**
Total undrawn credit commitments	**114,084**	**27,904**	**73**	**77**	**142,138**
Total credit exposures	**754,695**	**151,293**	**4,435**	**2,118**	**912,541**
Impairment provision	**956**	**2,542**	**482**	**959**	**4,939**
Provisions to credit exposure, %	**0. 1**	**1. 7**	**10. 9**	**45. 3**	**0. 5**
Financial guarantees and other off Balance Sheet instruments					
Credit grade					
Investment	9,859	1,773	–	–	**11,632**
Pass	3,570	3,807	–	–	**7,377**
Weak	42	233	25	–	**300**
Total financial guarantees and other off Balance Sheet instruments	**13,471**	**5,813**	**25**	**–**	**19,309**
Impairment provision	**9**	**72**	**6**	**–**	**87**
Provisions to credit exposure, %	**0. 1**	**1. 2**	**24. 0**	**–**	**0. 5**
Total credit exposures					
Credit grade					
Investment	477,182	42,864	–	–	**520,046**
Pass	282,777	98,120	–	–	**380,897**
Weak	8,207	16,122	4,460	2,118	**30,907**
Total credit exposures	**768,166**	**157,106**	**4,460**	**2,118**	**931,850**
Total impairment provision	**965**	**2,614**	**488**	**959**	**5,026**
Provisions to credit exposure, %	**0. 1**	**1. 7**	**10. 9**	**45. 3**	**0. 5**

1 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 64% of Stage 2 credit exposures as at 31 December 2019.

Notes to the Financial Statements (continued)

3.2 Provisions for Impairment and Asset Quality (continued)

	31 Dec 19				
	Stage 1 collectively assessed $M	Stage 2 [1] collectively assessed $M	Stage 3 collectively assessed $M	Stage 3 individually assessed $M	Total $M
Retail secured					
Credit grade					
Investment	339,739	23,896	–	–	**363,635**
Pass	193,305	29,388	–	–	**222,693**
Weak	6,767	9,442	3,052	884	**20,145**
Total retail secured	**539,811**	**62,726**	**3,052**	**884**	**606,473**
Impairment provision	**317**	**399**	**173**	**280**	**1,169**
Provisions to credit exposure, %	**0. 1**	**0. 6**	**5. 7**	**31. 7**	**0. 2**
Retail unsecured					
Credit grade					
Investment	13,881	2,669	–	–	**16,550**
Pass	13,979	3,182	–	–	**17,161**
Weak	1,046	1,224	250	11	**2,531**
Total retail unsecured	**28,906**	**7,075**	**250**	**11**	**36,242**
Impairment provision	**463**	**925**	**187**	**2**	**1,577**
Provisions to credit exposure, %	**1. 6**	**13. 1**	**74. 8**	**18. 2**	**4. 4**
Non–retail					
Credit grade					
Investment	123,562	16,299	–	–	**139,861**
Pass	75,493	65,550	–	–	**141,043**
Weak	394	5,456	1,158	1,223	**8,231**
Total non-retail	**199,449**	**87,305**	**1,158**	**1,223**	**289,135**
Impairment provision	**185**	**1,290**	**128**	**677**	**2,280**
Provisions to credit exposure, %	**0. 1**	**1. 5**	**11. 1**	**55. 4**	**0. 8**
Total credit exposures					
Credit grade					
Investment	477,182	42,864	–	–	**520,046**
Pass	282,777	98,120	–	–	**380,897**
Weak	8,207	16,122	4,460	2,118	**30,907**
Total credit exposures	**768,166**	**157,106**	**4,460**	**2,118**	**931,850**
Impairment provision	**965**	**2,614**	**488**	**959**	**5,026**
Provisions to credit exposure, %	**0. 1**	**1. 7**	**10. 9**	**45. 3**	**0. 5**

1 The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 64% of Stage 2 credit exposures as at 31 December 2019.

Notes to the Financial Statements (continued)

4. Our Deposits and Funding Activities

Overview

Stable and well diversified funding sources are critical to the Group's ability to fund its lending and investing activities and support its business growth.

Our main sources of funding include customer deposits and term funds raised in domestic and offshore wholesale markets via issuing debt securities and loan capital. The Group also relies on repurchase agreements as a source of short-term wholesale funding. Refer to Note 9.4 of the 2020 Annual Report for the Group's management of liquidity and funding risk.

4.1 Deposits and Other Public Borrowings

	As at		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Australia			
Certificates of deposit	**25,379**	30,126	26,067
Term deposits	**124,950**	129,338	146,168
On-demand and short-term deposits	**398,998**	371,165	326,839
Deposits not bearing interest	**84,025**	69,143	56,261
Securities sold under agreements to repurchase	**20,848**	14,717	19,580
Total Australia	**654,200**	614,489	574,915
New Zealand			
Certificates of deposit	**3,489**	3,758	3,235
Term deposits	**26,167**	30,717	32,498
On-demand and short-term deposits	**32,100**	27,406	23,531
Deposits not bearing interest	**9,815**	7,588	6,326
Securities sold under agreements to repurchase	**–**	93	381
Total New Zealand	**71,571**	69,562	65,971
Other Overseas			
Certificates of deposit	**10,409**	9,911	13,895
Term deposits	**3,610**	4,691	6,531
On-demand and short-term deposits	**840**	1,090	1,087
Deposits not bearing interest	**51**	189	40
Securities sold under agreements to repurchase	**5,785**	2,067	385
Total Other Overseas	**20,695**	17,948	21,938
Total deposits and other public borrowings	**746,466**	701,999	662,824

Accounting Policy

Deposits from customers include certificates of deposit, term deposits, savings deposits, other demand deposits and debentures. Deposits are initially recognised at their fair value less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost. Interest incurred is recognised within Net interest income using the effective interest method.

Securities sold under repurchase agreements are retained on the Balance Sheet where substantially all the risks and rewards of ownership remain with the Group. A liability for the agreed repurchase amount is recognised within deposits and other public borrowings.

Notes to the Financial Statements (continued)

5. Our Capital, Equity and Reserves

Overview

The Group maintains a strong capital position in order to satisfy regulatory capital requirements, provide financial security to its depositors and creditors and adequate return to its shareholders. The Group's Shareholders' Equity includes issued ordinary shares, retained earnings and reserves.

This section provides analysis of the Group's shareholders' equity including changes during the period.

5.1 Shareholders' Equity

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Ordinary share capital			
Shares on issue:			
Opening balance	**38,282**	38,282	38,283
Dividend reinvestment plan (net of issue costs) [1, 2]	**264**	–	(1)
	38,546	38,282	38,282
Less treasury shares:			
Opening balance	**(151)**	(156)	(263)
Purchase of treasury shares [3]	**(62)**	(11)	(54)
Sale and vesting of treasury shares [3]	**84**	16	82
Decrease in treasury shares on deconsolidation of CommInsure Life	**–**	–	79
Total treasury shares	**(129)**	(151)	(156)
Closing balance	**38,417**	38,131	38,126
Retained profits			
Opening balance	**31,211**	31,066	28,482
Changes on adoption of AASB 16	**–**	–	(146)
Restated opening balance	**31,211**	31,066	28,336
Actuarial (losses)/gains from defined benefit superannuation plans	**(272)**	210	(94)
Realised gains and dividend income on treasury shares	**–**	–	13
Net profit attributable to equity holders of the Bank	**4,877**	3,473	6,161
Total available for appropriation	**35,816**	34,749	34,416
Transfers from general reserve [4]	**–**	–	733
Transfers from asset revaluation reserve	**6**	2	6
Transfer from foreign currency revaluation reserve [5]	**207**	–	–
Interim dividend - cash component	**–**	(3,021)	–
Interim dividend - dividend reinvestment plan [2]	**–**	(519)	–
Final dividend - cash component	**(1,471)**	–	(3,474)
Final dividend - dividend reinvestment plan [1, 2]	**(264)**	–	(615)
Closing Balance	**34,294**	31,211	31,066

1 The DRP in respect of the final 2019/2020 dividend was satisfied by the issue of 3,856,903 shares at $68.53. The total value of shares issued under the DRP rules net of issues costs was $264 million.

2 The DRP in respect of the interim 2019/2020 and final 2018/2019 dividends were satisfied in full through the on-market purchase and transfer of 7,080,363 shares at $73.37, and 7,810,285 shares at $78.61, respectively.

3 Relates to the movements in treasury shares held within the employee share scheme plans. Comparative periods also include movements in treasury shares held within life insurance statutory funds prior to deconsolidation of CommInsure Life on 1 November 2019.

4 Following deconsolidation of CommInsure Life on 1 November 2019, the Group is no longer required to quarantine undistributable profits in General reserve. As a result General reserve was reclassified to Retained profits during the half year ended 31 December 2019.

5 Relates to a historical Group restructuring.

Notes to the Financial Statements (continued)

5.1 Shareholders' Equity (continued)

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Reserves			
General reserve			
Opening balance	**–**	–	733
Transfer to retained profits [1]	**–**	–	(733)
Closing balance	**–**	–	–
Asset revaluation reserve			
Opening balance	**257**	242	246
Revaluation of properties	**–**	24	–
Transfer to retained profits	**(6)**	(2)	(6)
Income tax effect	**1**	(7)	2
Closing balance	**252**	257	242
Foreign currency translation reserve			
Opening balance	**678**	883	912
Transfer to retained profits [2]	**(207)**	–	–
Currency translation adjustments of foreign operations	**(320)**	(202)	(35)
Currency translation of net investment hedge	**9**	(8)	3
Income tax effect	**13**	5	3
Closing balance	**173**	678	883
Cash flow hedge reserve			
Opening balance	**1,513**	548	787
Gains/(losses) on cash flow hedging instruments:			
Recognised in other comprehensive income	**(1,045)**	1,524	(281)
Transferred to Income Statement:			
Interest income	**(1,221)**	(1,091)	(917)
Interest expense	**1,055**	1,027	827
Other banking income	**440**	(61)	17
Income tax effect	**252**	(434)	115
Closing balance	**994**	1,513	548
Employee compensation reserve			
Opening balance	**138**	96	161
Current period movement	**(74)**	42	(65)
Closing balance	**64**	138	96
Investment securities revaluation reserve			
Opening balance	**80**	141	253
Net gains/(losses) on revaluation of investment securities	**1,097**	(107)	(93)
Net gains on investment securities transferred to Income Statement on disposal	**(57)**	(5)	(44)
Income tax effect	**(316)**	51	25
Closing balance	**804**	80	141
Total Reserves	**2,287**	2,666	1,910
Shareholders' Equity attributable to Equity holders of the Bank	**74,998**	72,008	71,102
Shareholders' Equity attributable to Non-controlling interests	**5**	5	51
Total Shareholders' Equity	**75,003**	72,013	71,153

1 Following deconsolidation of CommInsure Life on 1 November 2019, the Group is no longer required to quarantine undistributable profits in General reserve. As a result General reserve was reclassified to Retained profits during the half year ended 31 December 2019.

2 Relates to a historical Group restructuring.

Notes to the Financial Statements (continued)

5.1 Shareholders' Equity (continued)

Accounting Policy

Shareholders' Equity includes Ordinary share capital, Retained profits and Reserves. Policies for each component are set out below:

Ordinary share capital:

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs. Where the Bank or other entities within the Group purchase shares in the Bank, the consideration paid is deducted from total Shareholders' Equity and the shares are treated as treasury shares until they are subsequently sold, reissued or cancelled. Where such shares are sold or reissued, any consideration received is included in Shareholders' Equity.

Retained profits:

Retained profits include the accumulated profits and certain amounts recognised directly in retained profits less dividends paid.

Reserves:

General reserve

In prior periods General reserve was derived from profits and was available for dividend payments except for undistributable profits in respect of the Group's life insurance business. Following deconsolidation of CommInsure Life on 1 November 2019, the Group is no longer required to quarantine undistributable profits in General reserve. As a result General reserve was reclassified to Retained profits during the half year ended 31 December 2019.

Asset revaluation reserve

The Asset revaluation reserve is used to record revaluation adjustments on the Group's property assets. Where an asset is sold or disposed of, any balance in the reserve in relation to the asset is transferred directly to retained profits.

Foreign currency translation reserve

Exchange differences arising on translation of the Group's foreign operations are accumulated in the Foreign currency translation reserve. Assets and liabilities are translated at the prevailing exchange rate at Balance Sheet date; revenue and expenses are translated at the transaction date; and all resulting exchange differences are recognised in the Foreign currency translation reserve. When a foreign operation is disposed of, exchange differences are recycled out of the reserve and recognised in the Income Statement.

Cash flow hedge reserve

The Cash flow hedge reserve is used to record fair value gains or losses associated with the effective portion of designated cash flow hedging instruments. Amounts are reclassified to the Income Statement when the hedged transaction impacts the Income Statement.

Employee compensation reserve

The Employee compensation reserve is used to recognise the fair value of shares and other equity instruments issued to employees under the employee share plans and bonus schemes.

Investment securities revaluation reserve

The Investment securities revaluation reserve includes changes in the fair value of investment securities measured at fair value through OCI. For debt securities, these changes are reclassified to the Income Statement when the asset is derecognised. For equity securities, these changes are not reclassified to the Income Statement when derecognised.

Notes to the Financial Statements (continued)

6. Fair Values

Overview

The Group holds a range of financial instruments as a result of its lending, investing and funding activities. Some of the financial instruments are actively traded on stock exchanges or in over-the-counter markets whilst others do not have liquid markets. This section provides information about fair values of the Group's financial instruments including a description of valuation methodologies used, the classification of financial instruments according to liquidity and the observability of inputs used in deriving the fair values.

6.1 Disclosures about Fair Values

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost.

(a) Fair Value Information for Financial Instruments not measured at Fair Value

The estimated fair values of the Group's financial instruments not measured at fair value as at 31 December 2020 are presented below.

	31 Dec 20		30 Jun 20	
	Carrying value $M	Fair Value $M	Carrying value $M	Fair Value $M
Financial assets				
Investment securities at amortised cost	**4,391**	**4,404**	5,173	5,160
Loans, bills discounted and other receivables	**785,429**	**787,694**	771,547	771,763
Financial liabilities				
Deposits and other public borrowings	**746,466**	**746,866**	701,999	702,438
Debt issues	**122,548**	**123,690**	142,503	142,466
Loan capital	**27,608**	**28,151**	27,357	26,711

(b) Fair Value Hierarchy for Financial Assets and Liabilities measured at Fair Value

The classification in the fair value hierarchy of the Group's financial assets and liabilities measured at fair value is presented in the table below. An explanation of how fair values are calculated and the levels in the fair value hierarchy are included in the accounting policy within this note.

	Fair Value as at 31 December 2020				Fair Value as at 30 June 2020			
	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets measured at fair value on a recurring basis								
Assets at fair value through Income Statement:								
Trading	34,631	5,787	–	**40,418**	33,001	5,422	–	38,423
Other	76	10,042	166	**10,284**	77	7,992	53	8,122
Derivative assets	210	32,100	88	**32,398**	192	29,966	127	30,285
Investment securities at fair value through other comprehensive Income	68,710	20,089	873	**89,672**	60,336	18,648	565	79,549
Assets held for sale	–	253	–	**253**	–	260	–	260
Total financial assets measured at fair value	103,627	68,271	1,127	**173,025**	93,606	62,288	745	156,639
Financial liabilities measured at fair value on a recurring basis								
Liabilities at fair value through Income Statement	2,922	4,333	–	**7,255**	3,615	782	–	4,397
Derivative liabilities	65	33,391	26	**33,482**	69	31,248	30	31,347
Total financial liabilities measured at fair value	2,987	37,724	26	**40,737**	3,684	32,030	30	35,744

Notes to the Financial Statements (continued)

6.1 Disclosures about Fair Values (continued)

(c) Analysis of Movements between Fair Value Hierarchy Levels

During the half year ended 31 December 2020 there have been no reclassifications between Level 1 and Level 2.

The table below summarises movements in Level 3 balances during the half year. Transfers have been reflected as if they had taken place at the end of the reporting periods. Transfers in and out of Level 3 were due to changes in the observability of inputs.

Level 3 Movement Analysis for the half year ended 31 December 2020

	Financial Assets			Financial Liabilities
	Derivative Assets $M	Investment Securities at Fair Value through OCI $M	Assets at Fair Value through Income Statement $M	Derivative Liabilities $M
As at 30 June 2020	127	565	53	(30)
Purchases	–	–	113	–
Sales/Settlements	(18)	(2)	–	–
Gains/(losses) in the period:				
Recognised in the Income Statement	(2)	–	–	–
Recognised in the Statement of Comprehensive Income	–	307	–	4
Transfers in	–	3	–	–
Transfers out	(19)	–	–	–
Derecognised on deconsolidation of controlled entities	–	–	–	–
As at 31 December 2020	88	873	166	(26)
Gains/(losses) recognised in the Income Statement for financial instruments held as at 31 December 2020	(8)	–	–	–

Accounting Policy

Valuation

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. On initial recognition, the transaction price generally represents the fair value of the financial instrument, unless there is observable information from an active market that provides a more appropriate fair value.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. Assets and long positions are measured at a quoted bid price; liabilities and short positions are measured at a quoted asking price. Where the Group has positions with offsetting market risks, mid-market prices are used to measure the offsetting risk positions and a quoted bid or asking price adjustment is applied only to the net open position as appropriate.

Non-market quoted financial instruments are mostly valued using valuation techniques based on observable inputs except where observable market data is unavailable. Where market data is unavailable the financial instrument is initially recognised at the transaction price, which is generally the best indicator of fair value. This may differ from the value obtained from the valuation model. The timing of the recognition in the Income Statement of this initial difference in fair value depends on the individual facts and circumstances of each transaction, but is never later than when the market data becomes observable. The difference may be either amortised over the life of the transaction, recognised when the inputs become observable or on derecognition of the instrument, as appropriate.

Notes to the Financial Statements (continued)

6.1 Disclosures about Fair Values (continued)

Accounting Policy (continued)

The fair value of Over-the-Counter (OTC) derivatives includes credit valuation adjustments (CVA) for derivative assets to reflect the credit worthiness of the counterparty. Fair value of uncollateralised derivative assets and uncollateralised derivative liabilities incorporate funding valuation adjustments (FVA) to reflect funding costs and benefits to the Group. These adjustments are applied after considering any relevant collateral or master netting arrangements.

Fair Value Hierarchy

The Group utilises various valuation techniques and applies a hierarchy for valuation inputs that maximise the use of observable market data, if available. Under AASB 13 *Fair Value Measurement* all financial and non-financial assets and liabilities measured or disclosed at fair value are categorised into one of the following three fair value hierarchy levels:

Quoted Prices in Active Markets – Level 1

This category includes assets and liabilities for which the valuation is determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Financial instruments included in this category are liquid government bonds, bank bills, listed equities and exchange traded derivatives.

Valuation Technique Using Observable Inputs – Level 2

This category includes assets and liabilities that have been valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset or liability, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.

Financial instruments included in this category are financial institution and corporate bonds, certificates of deposit, commercial papers, mortgage-backed securities and OTC derivatives including interest rate swaps, cross currency swaps and foreign currency options.

Valuation Technique Using Significant Unobservable Inputs – Level 3

This category includes assets and liabilities where the valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally derived and extrapolated from observable inputs to match the risk profile of the financial instrument, and are calibrated against current market assumptions, historic transactions and economic models, where available. These inputs may include the timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility.

Financial instruments included in this category for the Group are certain exotic OTC derivatives and unlisted equity investments.

As at 31 December 2020, Level 3 investment securities at fair value through other comprehensive income include unlisted equity instruments of $813 million (30 June 2020: $506 million). The valuation of this investment is based on a methodology that leverages revenue multiples of market listed comparable entities and significant unobservable inputs including adjustments for marketability and liquidity. The range of revenue multiples applied by the Group as at 31 December 2020 was 12x-13x (30 June 2020: 9x-10x). The effect of adjusting these inputs by +/-15% representing a range of reasonably possible alternatives would be to increase the fair value by up to $122 million (30 June 2020: $75 million) or to decrease the fair value by up to $122 million (30 June 2020: $75 million) with all of the potential effect impacting Investment securities revaluation reserve.

Critical accounting judgements and estimates

Valuation techniques are used to estimate the fair value of financial instruments. When using valuation techniques the Group makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that the Group believes market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Data inputs that the Group relies upon when valuing financial instruments relate to counterparty credit risk, volatility, correlation and extrapolation.

Periodically, the Group calibrates its valuation techniques and tests them for validity using prices from any observable current market transaction in the same instruments (i.e. without modification or repackaging) and any other available observable market data.

7. Other Information

7.1 Contingent Liabilities, Contingent Assets and Commitments arising from the banking business

Details of contingent liabilities and Off Balance Sheet instruments are presented below and in Note 7.2, in relation to litigation, investigations and reviews. The face (contract) value of credit risk related instruments as disclosed below represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations. The credit equivalent amounts are a measure of potential loss to the Group in the event of non-performance by the counterparty. The credit commitments shown in the table below also constitute contingent assets. These commitments would be classified as loans, bills discounted and other receivables in the Balance Sheet should they be drawn upon by the customer.

	Face Value		Credit Equivalent	
	31 Dec 20	30 Jun 20	**31 Dec 20**	30 Jun 20
Credit risk related instruments	**$M**	$M	**$M**	$M
Guarantees	**6,086**	6,448	**4,840**	5,034
Documentary letters of credit	**142**	272	**110**	210
Performance related contingencies	**5,342**	5,071	**2,671**	2,535
Commitments to provide credit	**183,992**	168,537	**175,152**	159,761
Other commitments	**1,378**	2,015	**1,369**	2,005
Total credit risk related instruments	**196,940**	182,343	**184,142**	169,545

Accounting Policy

Credit default financial guarantees are unconditional undertakings given to support the obligations of a customer to third parties. Other forms of financial guarantees include documentary letters of credit which are undertakings by the Group to pay or accept drafts drawn by a supplier of goods against presentation of documents in the event of payment default by a customer. Financial guarantees are recognised within other liabilities and are initially measured at their fair value, equal to the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Income Statement, and the expected credit loss. Any increase in the liability relating to financial guarantees is recorded in the Income Statement. The premium received is recognised in the Income Statement in other operating income on a straight-line basis over the life of the guarantee.

Performance related contingencies are undertakings that oblige the Group to pay third parties should a customer fail to fulfil a contractual non-monetary obligation. Performance related contingencies are performance guarantees and do not meet the definition of a financial guarantee, because they do not transfer credit risk. Performance guarantees are recognised when it is probable that an obligation has arisen. The amount of any provision is the best estimate of the amount required to fulfil the obligation.

Commitments to provide credit include all obligations on the part of the Group to provide credit facilities (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Group subject to notice conditions. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Under AASB 9 loan commitments must be measured with reference to the quantum of expected credit losses required to be recognised. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Group together with the drawn component as a single credit exposure. The exposure at default on the entire facility is therefore used to calculate the cumulative expected credit losses. Upon a loan drawdown by the counterparty, the amount of the loan is accounted for in accordance with accounting policies for loans and receivables disclosed in Note 3.1.

Other commitments to provide credit include commitments with certain drawdowns, standby letters of credit and bill endorsements.

The details of the Group's accounting policies and critical judgements and estimates involved in calculating the AASB 9 impairment provisions are provided in Note 3.2.

Notes to the Financial Statements (continued)

7.2 Customer Remediation, Litigation, Investigations and reviews, other matters

Customer Remediation

Provisions for customer remediation require significant levels of estimation and judgement. The amount raised depends on a number of different assumptions, such as the number of years impacted, the forecast refund rate and the average cost per case. The Group is committed to comprehensively and efficiently addressing the full range of remediation issues impacting customers of the Banking and Wealth Management businesses. Significant resources have been committed to a comprehensive program of work, to ensure that all issues are identified and addressed.

Aligned Advice remediation – ongoing service fees

Aligned advisors were not employed by the Group but were representatives authorised to provide financial advice under the licences of the Group's subsidiaries, Financial Wisdom Limited (FWL), Count Financial Limited (Count Financial) and Commonwealth Financial Planning Limited-Pathways (CFP-Pathways).

The Group completed the sale of Count Financial to CountPlus Limited (CountPlus) on 1 October 2019, and ceased providing licensee services through CFP-Pathways and Financial Wisdom in March and June 2020, respectively. The Bank entered into reimbursement agreements with Financial Wisdom and CFP-Pathways, and an indemnity deed with CountPlus, to cover potential remediation of past issues including ongoing service fees charged where no service was provided. For details on the reimbursement agreements and the indemnity deed, refer to Note 11.2 of the 2020 Annual Report.

During the half year ended 31 December 2020, the Group recognised an increase in the provision for Aligned Advice remediation issues and program costs of $118 million, including ongoing service fees charged where no service was provided.

As at 31 December 2020, the provision held by the Group in relation to Aligned Advice remediation was $896 million (30 June 2020: $804 million; 31 December 2019: $529 million). The provision includes $436 million for customer fee refunds (30 June 2020: $418 million; 31 December 2019: $251 million), $329 million for interest on fees subject to refunds (30 June 2020: $280 million; 31 December 2019: $123 million) and $131 million for costs to implement the remediation program (30 June 2020: $106 million; 31 December 2019: $155 million).

The Group's estimate of the proportion of fees to be refunded is based on sample testing and assumes an average refund rate across licensees of 37% (30 June 2020: 37%; 31 December 2019: 24%). This compares to a refund rate of 22%, which was paid for our salaried advisors. An increase/(decrease) in the failure rate by 1% would result in an increase/(decrease) in the provision of approximately $20 million. The Group is continuing to engage with ASIC in relation to its remediation approach.

Banking and other Wealth customer remediation

As at 31 December 2020, the provision held by the Group in relation to Banking and other Wealth Management customer remediation programs was $174 million (30 June 2020: $227 million; 31 December 2019: $262 million). The provision for Banking remediation includes an estimate of customer refunds (including interest) relating to business and retail banking products (including bank guarantees, cash deposit accounts, merchants billing and certain other lending products), and the related program costs. The wealth remediation provision includes an estimate of customer refunds (including interest) relating to advice quality, transactions with deceased estates, the Consumer Credit Insurance products, certain superannuation and other products, and the related program costs.

Litigation, Investigations and reviews

The Group is party to a number of legal proceedings, and the subject of various investigations and reviews. Provisions have been raised where indicated in accordance with the principles outlined in the accounting policy section of this note.

Litigation

The main litigated claims against the Group as at 31 December 2020 are summarised below.

Shareholder class actions

In October 2017 and June 2018 two separate shareholder class action proceedings were filed against CBA in the Federal Court of Australia, alleging breaches of CBA's continuous disclosure obligations and misleading and deceptive conduct in relation to the subject matter of the civil penalty proceedings brought against CBA by the Australian Transaction Reports and Analysis Centre (AUSTRAC). The AUSTRAC proceedings concerned contraventions of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth).

The resolution of the AUSTRAC civil penalty proceedings was approved by the Federal Court on 20 June 2018 with CBA paying a penalty of $700 million and legal costs.

It is alleged in the class actions that CBA shareholders who acquired an interest in CBA shares between 16 June 2014 and 3 August 2017 suffered losses as a result of the alleged conduct. The two class actions are being case managed together, with a single harmonised statement of claim. CBA denies the allegations made against it, and it is currently not possible to determine the ultimate impact of these claims, if any, on the Group. The Group has provided for legal costs expected to be incurred in the defence of the claims.

Superannuation class actions

The Group is also defending four class action claims in relation to superannuation products.

On 9 October 2018, a class action was filed against Colonial First State Investments Limited (CFSIL) and CBA in the Federal Court of Australia. The claim initially related to investment in cash and deposit options (which are cash and deposit products provided by CBA) in the Colonial First State First Choice Superannuation Trust (FirstChoice Fund) and Commonwealth Essential Super (CES). A second further amended statement of claim and amended application was filed on 2 June 2020, joining Avanteos Investments Limited (AIL) as a party in respect of claims regarding the FirstWrap Pooled Cash Account and expanding the existing claims made against CFSIL and CBA. The main claims are that members invested in these cash and deposit options received lower interest rates than they could have received had CFSIL/AIL offered similar products made available in the market by another bank with comparable risk and that CFSIL/AIL retained the margin that arises through the internal transfer pricing process in respect of deposits made with CBA, for their own benefit. It is claimed CFSIL/AIL breached their duties as a trustee of the funds, CFSIL breached its duties as a Responsible Entity of the underlying managed

Notes to the Financial Statements (continued)

7.2 Customer Remediation, Litigation, Investigations and reviews, other matters (continued)

investment schemes and that CBA was involved in CFSIL/AIL's breaches. CBA, CFSIL and AIL deny the allegations and are defending the proceedings. The matter was not resolved at the mediation on 3 September 2020.

On 18 October 2019, a second class action was commenced against CFSIL in the Federal Court of Australia. The claim relates to certain fees charged to members of the FirstChoice Fund. It is alleged that CFSIL breached its duties as trustee and acted unconscionably because it failed, between 2013 and 2019, to take steps to avoid the payment of grandfathered commissions to financial advisers, which would have resulted in a reduction of the fees paid by members in respect of whom those commissions were paid. CFSIL denies the allegations and is defending the proceedings. The Court has ordered the parties to participate in a mediation by 31 May 2021.

On 24 October 2019, a third class action was filed against CFSIL and a former executive director of CFSIL in the Federal Court of Australia, relating to alleged contraventions of statutory obligations under superannuation law and trustee breaches in the period 2013 to 2017. The class action relates to the transfer of certain default balances held by members of FirstChoice Employer Super to a MySuper product. The key allegation is that members should have been transferred to a MySuper product earlier than they were, and that the alleged failure to effect the transfer as soon as reasonably practicable caused affected members to pay higher fees and receive lower investment returns during the period of delay. CFSIL and its former director deny the allegations and are defending the proceedings. The Court has ordered the parties to participate in a mediation which will take place on 21 April 2021.

On 22 January 2020, a fourth class action was filed against CFSIL and The Colonial Mutual Life Assurance Society Limited (CMLA) in the Federal Court of Australia. The class action alleges that CFSIL did not act in the best interests of members and breached its trustee duties when taking out group insurance policies obtained from CMLA. The key allegation is that CFSIL entered into and maintained insurance policies with CMLA on terms that were less favourable to members than would have reasonably been available in the market. It is alleged that CMLA was knowingly involved in CFSIL's contraventions as trustee and profited from those contraventions. CFSIL and CMLA deny the allegations and are defending the proceedings.

It is currently not possible to determine the ultimate impact of these claims on the Group. The Group has provided for the legal costs expected to be incurred in the defence of the claims.

Advice Class Actions

On 21 August 2020, a class action was filed in the Federal Court of Australia against Commonwealth Financial Planning Limited (CFP), Financial Wisdom Limited (FWL) and CMLA. The claim relates to certain CommInsure (CMLA) life insurance policies recommended by financial advisers appointed by CFP and FWL during the period 21 August 2014 to 21 August 2020. The key allegations include that CFP and FWL or their financial advisers breached their fiduciary duties to their clients, breached their duty to act in the best interest of their clients, and had prioritised their own interests (and the interests of CFP, FWL and CMLA) over the interest of their clients, in recommending certain CommInsure life insurance policies in preference to substantially equivalent or better policies available at lower premiums from third party insurers. It is also alleged that CMLA is liable to account for excess premiums because it knew the material facts giving rise to the breaches of fiduciary duty. CFP, FWL and CMLA intend to defend the proceedings.

On 3 September 2020, CBA was notified of a class action commenced against Count Financial Limited (Count) in the Federal Court of Australia on 24 August 2020. The proceeding relates to commissions paid to Count and its authorised representative financial advisers in respect of financial products (including insurance) and certain obligations of its financial advisers to provide ongoing advice in the period from 21 August 2014 to 21 August 2020. The claim also includes allegations (related to the receipt of commissions) that Count engaged in misleading or deceptive conduct under the Australian Consumer Law, and that Count and its authorised representatives breached fiduciary duties owed to the applicant and group members. The claim seeks compensation and damages from Count, including any profits resulting from the contraventions.

Count was a wholly owned subsidiary of CBA until 1 October 2019, when it was acquired by CountPlus Limited. CBA has assumed the conduct of the defence in this matter on Count's behalf. Count intends to defend the proceedings.

It is currently not possible to determine the ultimate impact of these claims on the Group. The Group has provided for legal costs expected to be incurred in the defence of these claims.

US BBSW class action

In 2016, a class action was commenced in the United States District Court in New York against CBA, other banks and two brokers, claiming a conspiracy among competitors to manipulate the BBSW benchmark for mutual gain. The claims include allegations that United States racketeering and antitrust legislation have been contravened. In November 2018, the Court dismissed the claims against CBA and the other foreign defendants, but in April 2019, an amended complaint was filed that included new allegations and added a new named plaintiff. The defendants applied to the Court to dismiss the amended complaint. In February 2020, the judge determined that the new named plaintiff's claims could proceed against CBA and nine other banks. CBA denies the allegations and is defending the proceedings. The breadth of the class (if any) that may be allowed to claim against CBA will not be determined until August 2021 at the earliest. The proceedings are currently in the class certification discovery phase, where the parties are taking discovery on issues related to whether the matter should proceed as a class action.

It is currently not possible to determine the ultimate impact of this claim on the Group. The Group has provided for legal costs expected to be incurred in the defence of this claim.

Consumer credit insurance class action

On 10 June 2020, a class action was commenced against CBA and CMLA in the Federal Court of Australia. The claim relates to consumer credit insurance for credit cards and personal loans that was sold between 1 January 2010 and 7 March 2018. The class action alleges that CBA and CMLA engaged in unconscionable and misleading or deceptive conduct, failed to

Notes to the Financial Statements (continued)

7.2 Customer Remediation, Litigation, Investigations and reviews, other matters (continued)

act in the best interests of customers and provided them with inappropriate advice. In particular, it is alleged that some customers were excluded from claiming certain benefits under the policies and the insurance was therefore unsuitable or of no value. Allegations are also made in relation to the manner in which the insurance was sold. CBA and CMLA deny the allegations and are defending the proceedings.

It is currently not possible to determine the ultimate impact of this claim, if any, on the Group. The Group has provided for legal costs expected to be incurred in the defence of this claim.

ASIC regulatory enforcement proceedings

CFSIL My Super (29WA)

On 17 March 2020, ASIC commenced civil penalty proceedings against CFSIL in the Federal Court of Australia for alleged breaches of the *Australian Securities and Investments Commission Act 2001* (Cth) (ASIC Act) and *Corporations Act 2001* (Cth) (Corporations Act) arising from communications with members of the FirstChoice Fund. In 2012, the Australian government passed legislation requiring trustees, such as CFSIL, to allocate member contributions to a default MySuper superannuation product in certain circumstances including where a written investment direction had not been provided by the member. ASIC alleges, amongst other things, that CFSIL communicated with members both in template letters and on telephone calls, in a misleading or deceptive manner regarding the provision of investment directions to stay with CFSIL's FirstChoice Fund rather than transitioning to CFSIL's MySuper product.

CFSIL filed its response to the claim on 17 July 2020. ASIC filed an amended statement of claim which, amongst other things, includes additional telephone calls which it alleges are misleading or deceptive. A defence to the amended statement of claim was filed on 11 December 2020.

It is currently not possible to determine the ultimate impact of this claim on the Group. The Group has provided for legal costs expected to be incurred in the defence of this claim.

Commonwealth Essential Super

On 22 June 2020, ASIC commenced civil penalty proceedings against CFSIL and CBA in the Federal Court of Australia for alleged contraventions of the conflicted remuneration provisions in the Corporations Act relating to the arrangements between CFSIL and CBA for the distribution of CES. CES is a MySuper product issued by CFSIL.

CBA filed its defence to the proceedings on 24 August 2020 and CFSIL filed its defence on 25 August 2020. CBA and CFSIL deny the allegations and are defending the proceedings.

It is currently not possible to determine the ultimate impact of this claim, if any, on the Group. The Group has provided for legal costs expected to be incurred in the defence of this claim.

CBA business overdraft proceedings

On 1 December 2020, ASIC commenced civil penalty proceedings in the Federal Court of Australia against CBA, alleging contraventions of the Corporations Act and ASIC Act in relation to overcharging of interest on certain business overdraft accounts. ASIC is seeking penalties in respect of conduct which occurred during the period 1 December 2014 to 31 March 2018.

The overcharging affected 2,269 customers. The affected customers have been sent refunds and CBA's remediation program has concluded.

CBA does not intend to defend the proceedings. It is currently not possible to determine the ultimate impact of the claim.

Ongoing regulatory investigations and reviews

The Group undertakes ongoing compliance activities, including breach reporting, reviews of products, advice, conduct and services provided to customers, as well as interest, fees and premiums charged. Some of these activities have resulted in remediation programs and where required the Group consults with the relevant regulator on the proposed remediation action.

Provisions have been recognised by the Group where the criteria outlined in the accounting policy section of this note are satisfied. Contingent liabilities exist with respect to these matters where it is not possible to determine the extent of any obligation to remediate or the potential liability cannot be reliably estimated.

There are also a number of ongoing matters where regulators are investigating whether CBA or a Group entity has breached legal or regulatory obligations. Where a breach has occurred, regulators are likely to impose, or apply to a Court for, fines and/or other sanctions. These matters include investigations by APRA and ASIC of issues which were referred to them by the Financial Services Royal Commission, as well as a number of other matters notified to, or identified by, regulators.

In addition to possible regulatory action, there may also be financial exposure to claims by customers, third parties and shareholders and this could include further class actions, customer remediation or claims for compensation. The outcomes and total costs associated with such regulatory investigations and possible claims remain uncertain.

Fair Work Ombudsman (FWO) investigation

The FWO's investigation in relation to CBA's self-disclosure of discrepancies in employee arrangements and entitlements is ongoing, and CBA continues to engage with FWO and respond to its requests for information. It is currently not possible to determine the ultimate impact of this investigation on the Group.

CBA is continuing with its broad review of employee entitlements and is remediating impacted current and former employees as the review progresses. We continue to update both the FWO and the Finance Sector Union. The Group holds a provision for remediation and program costs related to this matter.

Notes to the Financial Statements (continued)

7.2 Customer Remediation, Litigation, Investigations and reviews, other matters (continued)

Other regulatory matters

The following matters were significant regulatory investigations and reviews, which have been completed, but have resulted in ongoing action required by the Group.

Enforceable undertaking to ASIC (foreign exchange)

In December 2016, CBA provided an enforceable undertaking (EU) to ASIC arising from an investigation into wholesale spot foreign exchange (FX) trading between 2008 and 2013. The EU included the engagement of an independent expert, to review and assess the changes we have made to our trading operating model in recent years, including in training, procedures and oversight.

It also included a voluntary contribution of $2.5 million to support the further development of financial literacy education relating to changes to delivery of care in the aged care sector.

CBA provided details of the implementation of its Final FX EU Program to ASIC in March 2019. The independent expert conducted an assessment of CBA's implementation and submitted its final expert report on 31 May 2019. The report highlighted certain terms of the consolidated Final FX EU Program, which were yet to be implemented, certain matters that could not be assessed and some other areas for improvement. ASIC accepted a variation to the EU on 16 October 2020 and CBA is implementing the terms of the varied EU.

Prudential inquiry into CBA and enforceable undertaking to APRA

On 28 August 2017, APRA announced it would establish an independent prudential inquiry (the Inquiry) into the Group focusing on the governance, culture and accountability frameworks and practices within the Group. The final report of the Inquiry was released on 1 May 2018 (the Final Report). The Final Report made a number of findings regarding the complex interplay of organisational and cultural factors within the Group and the need for enhanced management of non-financial risks. In response to the Final Report, the Group acknowledged that it would implement all of the recommendations and agreed to adjust its minimum operational risk capital requirements by an additional $1 billion (an impact to risk weighted assets of $12.5 billion) until such time as the recommendations are implemented to APRA's satisfaction.

CBA has entered into an EU under which CBA's remedial action (Remedial Action Plan) in response to the Final Report would be agreed and monitored regularly by APRA. The Remedial Action Plan provides a detailed program of change outlining how CBA will improve the way it runs its business, manages risk, and works with regulators. The Remedial Action Plan also provides a comprehensive assurance framework, with Promontory Australasia (Sydney) Pty Ltd (Promontory) having been appointed as the independent reviewer, and which is required to report to APRA on the Group's progress against committed milestones every 3 months.

Promontory is continuing to provide APRA with quarterly progress reports, and CBA is committed to report publicly on its progress against the Remedial Action Plan twice a year. Ten Promontory reports have been released by CBA. Promontory has noted that the Remedial Action Plan program of work remains on track and CBA's commitment to implementing the Inquiry's recommendations continued to be strong with all 177 milestones on schedule to be delivered by the applicable due dates.

In November 2020 APRA completed a validation review of the Group's progress and found that it had made significant progress in implementing the Remedial Action Plan. The Group acknowledged the outcome of APRA's review and its decision that it would reduce the minimum operational risk capital requirements from an additional $1 billion to an additional $500 million.

The Group has provided for costs associated with the implementation of the Remedial Action Plan.

Financial crime compliance

As noted above, in 2018 the Group resolved the AUSTRAC proceedings relating to contraventions of anti-money laundering/counter-terrorism financing (AML/CTF) laws.

Recognising the crucial role that the Group plays in fighting financial crime, it continues to invest significantly in its financial crime capabilities, including in its AML/CTF Compliance team and through the Program of Action with coverage across all aspects of financial crime (including anti-money laundering/counter-terrorism financing, sanctions and anti-bribery and corruption) and all business units. The Group has provided for costs related to the Program of Action.

The Group provides updates to AUSTRAC and the Group's other regulators on the Program of Action implemented by the Group.

However, there is no assurance that AUSTRAC or the Group's other regulators will agree that the Group's Program of Action will be adequate or that the Program of Action will effectively enhance the Group's financial crime compliance programs across its business units and the jurisdictions in which it operates. Although the Group is not currently aware of any other enforcement action by other domestic or foreign regulators in respect of its AML/CTF compliance, the Group regularly engages with such regulators (including in respect of compliance matters) and there can be no assurance that the Group will not be subject to such enforcement actions in the future.

Notes to the Financial Statements (continued)

7.2 Customer Remediation, Litigation, Investigations and reviews, other matters (continued)

Enforceable undertaking to ASIC (BBSW)

On 21 June 2018, the Federal Court approved an agreement between CBA and ASIC to resolve proceedings concerning alleged market manipulation and unconscionable conduct in respect of the bank bill market. CBA paid a civil penalty of $5 million and a community benefit payment of $15 million to Financial Literacy Australia. It also agreed to pay ASIC's costs of the investigation and legal costs. The Group provided for these costs in an earlier period.

As part of the settlement CBA also entered into an EU with ASIC under which CBA undertook to engage an independent expert to assess changes it has made (and will make) to its policies, procedures, controls systems, training, guidance and framework for the monitoring and supervision of employees and trading in Prime Bank Bills and CBA's BBSW-referenced product businesses. On 5 October 2018, CBA appointed EY as the independent expert. CBA provided its BBSW Program of remediation work to ASIC and EY on 21 December 2018. EY reviewed the BBSW Program and provided certain recommendations in its report dated 23 April 2019. CBA considered those recommendations with ASIC and EY and delivered its Final BBSW Program to ASIC and EY on 23 July 2019.

CBA has developed an enhanced control framework which, if it is satisfactory to ASIC, will be incorporated as part of the Final BBSW program. Once CBA and ASIC have agreed the terms of the Final BBSW Program, CBA will implement the program in accordance with the terms of the enforceable undertaking. The Group has provided for costs associated with implementation of the BBSW Program.

Enforceable undertaking to the Office of Australian Information Commissioner (OAIC)

In June 2019, the Australian Information Commissioner (Commissioner) accepted an EU offered by CBA, which requires further enhancements to the management and retention of customer personal information within CBA and certain subsidiaries.

The EU follows CBA's work to address two incidents: one relating to the disposal by a third party of magnetic data tapes containing historical customer statements and the other relating to potential unauthorised internal user access to certain systems and applications containing customer personal information. CBA reported the incidents to the Commissioner in 2016 and 2018 respectively and has since been working to address these incidents. CBA found no evidence that its customers' personal information was compromised by the incident reported in 2016, and has found no evidence to date that there have been any instances of unauthorised access by CBA employees or third parties as a result of the incident reported in 2018 and has now closed all of its internal investigations.

The Group has provided for certain costs associated with implementation and compliance with the EU provided to the Commissioner.

Other matters

Exposures to divested businesses

The Group has potential exposures to divested businesses, including through the provision of services, warranties and indemnities. These exposures may have an adverse impact on the Group's financial performance and position. The Group has recognised provisions where payments in relation to the exposures are probable and reliably measurable.

Accounting Policy

Provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated. Where the effect of the time value of money is material, the amount of the provision is measured as the present value of expenditures required to settle the obligation, based on a market observable rate.

Where a provision is not recognised, a contingent liability may exist. A contingent liability is a possible obligation whose existence will be confirmed only by one or more uncertain future events, or a present obligation where an outflow of economic resources is not probable or the obligation cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet, but are disclosed unless an outflow of economic resources is remote.

7.3 Discontinued Operations and Businesses Held for Sale

The Group continues to deliver on its strategic priority to create simpler, better foundations through divestments of wealth management and other non-core businesses. A summary of divestments completed during the half years ended 31 December 2020, 30 June 2020 and 31 December 2019, as well as ongoing divestments is provided below.

Completed transactions

Colonial First State Global Asset Management

On 31 October 2018, the Group announced the sale of Colonial First State Global Asset Management (CFSGAM) to Mitsubishi UFJ Trust and Banking Corporation (MUTB). The sale of CFSGAM completed on 2 August 2019, resulting in a total post-tax gain of $1,617 million (net of transaction and separation costs). This includes a $1,688 million post-tax gain net of transaction and separation costs recognised during the half year ended 31 December 2019, and $71 million post-tax transaction and separation costs recognised during the year ended 30 June 2019.

Count Financial

On 13 June 2019, the Group announced the sale of its 100% interest in Count Financial Limited (Count Financial) to CountPlus Limited (CountPlus) for $2.5 million. The sale completed on 1 October 2019, resulting in a post-tax gain of $19 million (net of transaction and separation costs). This includes a post-tax gain of $52 million (net of transaction and separation costs) recognised during the half year ended 31 December 2019, post-tax impairment losses of $26 million and post-tax transaction and separation costs of $7 million recognised during the half year ended 30 June 2019. Upon completion, the Group provided an indemnity to CountPlus capped at $200 million, which was increased to $300 million on 29 July 2020. Refer to Note 7.1 of the 2020 Annual Report for further information. As Count Financial did not constitute a major line of the Group's business, it was not classified as a discontinued operation.

PT Commonwealth Life

On 23 October 2018, the Group announced the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL), to FWD Group (FWD). The sale of PTCL completed on 4 June 2020, resulting in a total post-tax gain of $109 million (net of transaction costs). As part of the sale, CBA's Indonesian banking subsidiary, PT Bank Commonwealth (PTBC), has entered into a 15 year life insurance distribution partnership with FWD.

Aligned advice

On 7 August 2019 CBA confirmed it would commence the assisted closure of Financial Wisdom Limited (Financial Wisdom) and allow Commonwealth Financial Planning Limited-Pathways (CFP-Pathways) advisers to transition to a self-licensing arrangement or move to another licensee. The Group ceased providing licensee services through CFP-Pathways in March 2020 and through Financial Wisdom in June 2020. As Financial Wisdom and CFP-Pathways did not constitute a major line of the Group's business, they were not classified as discontinued operations.

BoCommLife

On 23 May 2018, the Group announced the sale of its 37.5% equity interest in BoCommLife Insurance Company Limited (BoCommLife) to MS&AD Insurance Group Holdings (MS&AD), the ultimate parent company of Mitsui Sumitomo Insurance Co., subject to Chinese regulatory approvals.

The sale of BoCommLife completed on 10 December 2020, resulting in a post-tax gain of $369 million (net of transaction costs) recognised during the half year ended 31 December 2020.

Ongoing transactions

Life insurance businesses in Australia

On 21 September 2017, the Group entered into an agreement to sell 100% of its life insurance businesses in Australia (CommInsure Life) to AIA Group Limited (AIA).

On 1 November 2019, the Group announced the implementation of a joint cooperation agreement (JCA) which resulted in the full economic interests associated with CommInsure Life being transferred to AIA and AIA obtaining direct management and control of the business (excluding in relation to the Group's 37.5% equity interest in BoCommLife). As a result, CommInsure Life (excluding BoCommLife) was deconsolidated and derecognised on 1 November 2019.

The aggregate proceeds, which are receivable in instalments under the JCA, are $2,375 million (before completion account adjustments), and includes four partnership milestone payments of $50 million each. The Group recognised a total post-tax loss of $316 million on the deconsolidation of CommInsure Life. This includes a $116 million post-tax loss on deconsolidation, net of transaction and separation costs recognised during the half year ended 31 December 2019. Post-tax transaction and separation costs of $82 million and $118 million were recognised during the years ended 30 June 2019 and 30 June 2018, respectively.

Ultimate completion of the divestment of CommInsure Life is expected to occur via a statutory asset transfer in the first half of the calendar year 2021, at which time the remaining proceeds of approximately $100 million are expected to be received.

Australian Investment Exchange

On 28 April 2020, the Group announced the sale of its subsidiary, Australian Investment Exchange Limited (AUSIEX), to Nomura Research Institute (NRI). AUSIEX trades under the brand name CommSec Advisor Services. On completion, the Group is expected to receive proceeds of approximately $85 million, subject to completion adjustments.

The sale is subject to Australian regulatory approvals and other conditions, and is expected to complete in the first half of calendar year 2021. As AUSIEX did not constitute a major line of the Group's business, it was not classified as a discontinued operation.

Colonial First State

On 13 May 2020, the Group entered into an agreement to sell a 55% interest in Colonial First State (CFS) to KKR. On completion, the Group is expected to receive proceeds of approximately $1.7 billion, subject to completion adjustments. The sale is subject to Australian regulatory approvals, and is expected to complete in the first half of calendar year 2021.

Aussie Home Loans

On 16 December 2020, the Group entered into an agreement to merge Aussie Home Loans with Lendi, an online home loan platform. Upon completion, the Group will retain a 45% shareholding in the combined business, with existing Lendi shareholders holding the remaining 55% shareholding. The Group will also receive deferred consideration and a pre-completion dividend of $105 million in aggregate (subject to adjustments).

The sale is subject to Australian regulatory approvals, and is expected to complete by mid calendar year 2021. As Aussie Home Loans did not constitute a major line of the Group's business, it was not classified as a discontinued operation.

Notes to the Financial Statements (continued)

7.3 Discontinued Operations and Businesses Held for Sale (continued)

Income Statement

Financial Impact of Discontinued Operations on the Group

The performance and net cash flows of the Group's interests in CFS and BoCommLife are set out in the tables below. Comparative periods also include the performance and net cash flows of CommInsure Life, CFSGAM and PTCL.

	Half Year Ended [1]		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Net interest income	–	3	3
Other banking income	**34**	39	2
Net banking operating income	**34**	42	5
Funds management income	**352**	410	589
Investment revenue/(expense)	**–**	(1)	142
Claims, policyholder liability and commission expense	**(10)**	(51)	(214)
Net funds management operating income	**342**	358	517
Premiums from insurance contracts	**–**	68	391
Investment revenue	**–**	(56)	137
Claims, policyholder liability and commission expense from insurance contracts	**–**	18	(469)
Net insurance operating income	**–**	30	59
Total net operating income before operating expenses	**376**	430	581
Operating expenses	**(248)**	(403)	(371)
Net profit before tax	**128**	27	210
Income tax expense	**(39)**	(12)	(55)
Policyholder tax	**–**	–	(14)
Net profit after tax and before transaction and separation costs	**89**	15	141
Gains on disposals of businesses net of transaction and separation costs [2]	**1,011**	451	1,571
Non-controlling interests	**–**	–	(3)
Net profit after income tax from discontinued operations attributable to Equity holders of the Bank	**1,100**	466	1,709

1 The half year ended 30 June 2020 includes the performance of PTCL until 4 June 2020. The half year ended 31 December 2019 includes the performance of CFSGAM until 2 August 2019 and the performance of CommInsure Life until 1 November 2019.

2 Includes post-completion adjustments (such as purchase price adjustments, and finalisation of accounting adjustments for goodwill and foreign currency translation reserve recycling), and transaction and separation costs associated with previously announced divestments.

Earnings per share for profit from discontinued operations attributable to equity holders of the Bank:

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	Cents per Share		
Earnings per share from discontinued operations:			
Basic	**62. 1**	26. 3	96. 7
Diluted	**57. 0**	24. 4	90. 6

Notes to the Financial Statements (continued)

7.3 Discontinued Operations and Businesses Held for Sale (continued)

Cash Flow Statement

	Half Year Ended [1, 2]		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Net cash provided by/(used in) operating activities	**135**	(174)	(379)
Net cash from investing activities	**8**	104	838
Net cash provided by/(used in) financing activities	**5**	(9)	(227)
Net cash inflows/(outflows) from discontinued operations	**148**	(79)	232

1 Represents cash flows from the underlying businesses classified as discontinued operations and excludes proceeds from disposal.
2 The half year ended 30 June 2020 includes the cash flows of PTCL until 4 June 2020. The half year ended 31 December 2019 includes the cash flows of CFSGAM until 2 August 2019 and the cash flows of CommInsure Life until 1 November 2019.

Balance Sheet

The Balance Sheet of CFS, Aussie Home Loans and AUSIEX are set out in the table below. Balances as at 30 June 2020 include the assets and liabilities of CFS, AUSIEX, and the Group's interest in BoCommLife. Balances as at 31 December 2019 include the assets and liabilities of PTCL and the Group's interest in BoCommLife.

	As at		
	31 Dec 20	30 Jun 20	31 Dec 19
Assets held for sale	**$M**	$M	$M
Cash and liquid assets	**41**	44	42
Assets at fair value through Income Statement	**253**	260	424
Investment securities at fair value through other comprehensive income	**–**	–	268
Intangible assets	**761**	705	10
Property, plant and equipment	**27**	1	1
Investment in associates and joint ventures	**–**	403	400
Deferred tax assets	**22**	41	4
Other assets	**511**	313	52
Total assets	**1,615**	1,767	1,201
Liabilities held for sale			
Insurance policy liabilities	**–**	–	491
Other liabilities	**655**	594	71
Total liabilities	**655**	594	562

Foreign currency translation reserve related to discontinued operations was a gain of $2 million and $3 million as at 30 June 2020 and 31 December 2019, respectively. Investment securities revaluation reserve related to discontinued operations was a loss of $35 million and $19 million as at 30 June 2020 and 31 December 2019, respectively.

Accounting Policy

Non-current assets (including disposal groups) are classified as held for sale if they will be recovered primarily through sale rather than through continuing use. Non-current assets which are to be abandoned, or businesses which are to be closed, are not classified as held for sale, since the carrying amount will be recovered principally through continuing use. A discontinued operation is a component of an entity that has been sold, or classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Notes to the Financial Statements (continued)

7.4 Subsequent Events

The Directors have determined a fully franked interim dividend of 150 cents per share amounting to $2,661 million.

The Bank expects the DRP for the interim dividend for the half year ended 31 December 2020 will be satisfied in full by an on-market purchase of shares of approximately $399 million.

Directors' Declaration

The Directors of the Commonwealth Bank of Australia declare that:

In the opinion of the Directors, the consolidated financial statements and notes for the half year ended on 31 December 2020, as set out on pages 74 to 125, are in accordance with the *Corporations Act 2001 (Cth)*, including:

i. complying with the Australian Accounting Standards and any further requirements in the *Corporations Regulations 2001*; and

ii. giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the six months ended 31 December 2020;

In the opinion of the Directors, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

C.B. Livingstone

Catherine Livingstone AO

Chairman

10 February 2021

Matt Comyn

Managing Director and Chief Executive Officer

10 February 2021

Independent auditor's review report to the members of Commonwealth Bank of Australia

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Commonwealth Bank of Australia (the Bank) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2020, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of the directors for the half-year financial report

The directors of the Bank are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Matters relating to the electronic presentation of the reviewed half-year financial report

This review report relates to the half-year financial report of the Bank for the half-year ended 31 December 2020 included on Commonwealth Bank of Australia's web site. The Bank's directors are responsible for the integrity of the Commonwealth Bank of Australia web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide a conclusion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

M Lunn

Matthew Lunn
Partner

Sydney
10 February 2021

Appendices

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Contents

7. Appendices

Appendices

1. Our Performance

Overview

The Group earns its returns from providing a broad range of banking and wealth management products and services to retail and wholesale customers in Australia, New Zealand and other jurisdictions.

Lending and deposit taking are the Group's primary business activities with net interest income being the main contributor to the Group's results. Net interest income is derived from the difference between interest earned on lending and investment assets and interest incurred on customer deposits and wholesale debt raised to fund these assets.

The Group further generates income from lending fees and commissions, general insurance products and trading activities. It also incurs costs associated with running the business such as staff, occupancy and technology related expenses.

The Performance section provides details of the main contributors to the Group's returns and analysis of its financial performance by business segments and geographical regions.

1.1 Net Interest Margin (continuing operations basis)

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
	%	%	%
Australia			
Interest spread [1,2]	**1. 97**	1. 96	1. 98
Benefit of interest-free liabilities, provisions and equity [3]	**0. 12**	0. 17	0. 22
Net interest margin [2,4]	**2. 09**	2. 13	2. 20
New Zealand			
Interest spread [1,2]	**1. 62**	1. 60	1. 60
Benefit of interest-free liabilities, provisions and equity [3]	**0. 24**	0. 26	0. 29
Net interest margin [2,4]	**1. 86**	1. 86	1. 89
Other Overseas			
Interest spread [1,2]	**0. 40**	0. 37	0. 40
Benefit of interest-free liabilities, provisions and equity [3]	**0. 03**	0. 07	0. 12
Net interest margin [2,4]	**0. 43**	0. 44	0. 52
Total Group			
Interest spread [1]	**1. 88**	1. 85	1. 88
Benefit of interest-free liabilities, provisions and equity [3]	**0. 13**	0. 19	0. 23
Net interest margin [4]	**2. 01**	2. 04	2. 11

1 Difference between the average interest rate earned and the average interest rate paid on funds.

2 Interest spread and margin calculations have been adjusted to include intragroup borrowings to more appropriately reflect the overseas cost of funds.

3 A portion of the Group's interest earning assets is funded by net interest-free liabilities and shareholders' equity. The benefit to the Group of these interest-free funds is the amount it would cost to replace them at the average cost of funds.

4 Net interest income divided by average interest earning assets for the half year annualised.

Appendices (continued)

1.2 Average Balances and Related Interest (continuing operations basis)

The following tables list the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rate for each of the half years ended 31 December 2020, 30 June 2020 and 31 December 2019. Averages used were predominantly daily averages. Interest is accounted for based on product yield.

Where assets or liabilities are hedged, the interest amounts are shown net of the hedge, however individual items not separately hedged may be affected by movements in exchange rates.

The New Zealand and Other Overseas components comprise overseas branches of the Group and overseas domiciled controlled entities.

Non-accrual loans are included in interest earning assets under loans, bills discounted and other receivables.

During the half year ended 31 December 2020 the official cash rate in Australia decreased 15 basis points on a spot basis, while in New Zealand the official cash rate remained flat on a spot basis.

	Half Year Ended 31 Dec 20			Half Year Ended 30 Jun 20			Half Year Ended 31 Dec 19		
	Avg Bal	**Interest**	**Yield**	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
Interest Earning Assets	**$M**	**$M**	**%**	$M	$M	%	$M	$M	%
Home loans [1]	**494,736**	**8,119**	**3. 26**	489,014	8,680	3. 57	480,140	9,390	3. 89
Consumer finance [2]	**17,257**	**916**	**10. 53**	19,735	1,111	11. 32	21,250	1,231	11. 52
Business and corporate loans	**216,472**	**3,306**	**3. 03**	220,060	3,585	3. 28	215,886	4,147	3. 82
Loans, bills discounted and other receivables	**728,465**	**12,341**	**3. 36**	728,809	13,376	3. 69	717,276	14,768	4. 10
Cash and other liquid assets	**57,396**	**47**	**0. 16**	63,177	179	0. 57	46,690	287	1. 22
Assets at fair value through Income Statement (excluding life insurance)	**45,806**	**144**	**0. 62**	37,905	209	1. 11	34,727	227	1. 30
Investment Securities:									
At fair value through other comprehensive Income	**86,579**	**228**	**0. 52**	77,521	408	1. 06	76,335	594	1. 55
At amortised cost	**4,678**	**26**	**1. 10**	5,727	44	1. 55	6,822	70	2. 04
Non-lending interest earning assets	**194,459**	**445**	**0. 45**	184,330	840	0. 92	164,574	1,178	1. 42
Total interest earning assets [3]	**922,924**	**12,786**	**2. 75**	913,139	14,216	3. 13	881,850	15,946	3. 60
Non-interest earning assets [1]	**107,650**			102,033			91,293		
Assets held for sale	**534**			1,172			10,246		
Total average assets	**1,031,108**			1,016,344			983,389		

1 Home loans are reported net of average mortgage offset balances (half year ended 31 December 2020: $55,040 million; half year ended 30 June 2020: $50,118 million; half year ended 31 December 2019: $47,510 million), which are included in non-interest earning assets. Gross average home loans balance in the half year ended 31 December 2020, excluding mortgage offset accounts was $549,776 million (half year ended 30 June 2020: $539,132 million; half year ended 31 December 2019: $527,650 million). While these balances are required to be grossed up under accounting standards, they are netted down for the calculation of customer interest payments and the calculation of the Group's net interest margin.

2 Consumer finance includes personal loans, credit cards and margin loans.

3 Used for calculating net interest margin.

Appendices (continued)

1.2 Average Balances and Related Interest (continuing operations basis) (continued)

	Half Year Ended 31 Dec 20			Half Year Ended 30 Jun 20			Half Year Ended 31 Dec 19		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
Interest Bearing Liabilities	$M	$M	%	$M	$M	%	$M	$M	%
Transaction deposits [1]	**114,411**	**96**	**0. 17**	96,542	128	0. 27	87,462	205	0. 47
Savings deposits [1]	**240,449**	**406**	**0. 33**	211,325	509	0. 48	189,991	659	0. 69
Investment deposits	**174,514**	**1,377**	**1. 57**	195,242	1,865	1. 92	206,933	2,414	2. 32
Certificates of deposit and other	**61,708**	**399**	**1. 28**	68,703	638	1. 87	66,359	886	2. 66
Total interest bearing deposits	**591,082**	**2,278**	**0. 76**	571,812	3,140	1. 10	550,745	4,164	1. 50
Payables due to other financial institutions	**26,136**	**38**	**0. 29**	24,427	153	1. 26	25,402	238	1. 86
Liabilities at fair value through Income Statement	**4,815**	**11**	**0. 45**	4,951	26	1. 06	6,619	48	1. 44
Debt issues	**124,898**	**522**	**0. 83**	151,611	1,031	1. 37	154,297	1,498	1. 93
Loan capital	**26,310**	**343**	**2. 59**	25,708	398	3. 11	23,314	427	3. 64
Lease liabilities	**3,146**	**42**	**2. 65**	2,528	34	2. 70	2,648	37	2. 78
Bank levy	**–**	**181**	**–**	–	174	–	–	184	–
Total interest bearing liabilities	**776,387**	**3,415**	**0. 87**	781,037	4,956	1. 28	763,025	6,596	1. 72
Non-interest bearing liabilities [1]	**180,938**			163,093			140,807		
Liabilities held for sale	**275**			758			9,229		
Total average liabilities	**957,600**			944,888			913,061		

1 Transaction and savings deposits exclude average mortgage offset balances (half year ended 31 December 2020: $55,040 million; half year ended 30 June 2020: $50,118 million; half year ended 31 December 2019: $47,510 million), which are included in Non-interest bearing liabilities.

	Half Year Ended 31 Dec 20			Half Year Ended 30 Jun 20			Half Year Ended 31 Dec 19		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
Net Interest Margin	$M	$M	%	$M	$M	%	$M	$M	%
Total interest earning assets	**922,924**	**12,786**	**2. 75**	913,139	14,216	3. 13	881,850	15,946	3. 60
Total interest bearing liabilities	**776,387**	**3,415**	**0. 87**	781,037	4,956	1. 28	763,025	6,596	1. 72
Net interest income and interest spread		**9,371**	**1. 88**		9,260	1. 85		9,350	1. 88
Benefit of free funds			**0. 13**			0. 19			0. 23
Net interest margin			**2. 01**			2. 04			2. 11

Appendices (continued)

1.2 Average Balances and Related Interest (continuing operations basis) (continued)

Geographical Analysis of Key Categories [1]	Half Year Ended 31 Dec 20 Avg Bal $M	Half Year Ended 31 Dec 20 Interest $M	Half Year Ended 31 Dec 20 Yield %	Half Year Ended 30 Jun 20 Avg Bal $M	Half Year Ended 30 Jun 20 Interest $M	Half Year Ended 30 Jun 20 Yield %	Half Year Ended 31 Dec 19 Avg Bal $M	Half Year Ended 31 Dec 19 Interest $M	Half Year Ended 31 Dec 19 Yield %
Loans, bills discounted and other receivables									
Australia	**622,295**	**10,410**	**3. 32**	619,613	11,176	3. 63	610,398	12,387	4. 04
New Zealand	**89,527**	**1,692**	**3. 75**	89,087	1,846	4. 17	86,732	1,967	4. 51
Other Overseas	**16,643**	**239**	**2. 85**	20,109	354	3. 54	20,146	414	4. 09
Total	**728,465**	**12,341**	**3. 36**	728,809	13,376	3. 69	717,276	14,768	4. 10
Non-lending interest earning assets									
Australia	**139,823**	**364**	**0. 52**	127,040	643	1. 02	119,735	891	1. 48
New Zealand	**13,435**	**32**	**0. 47**	13,676	60	0. 88	11,493	85	1. 47
Other Overseas	**41,201**	**49**	**0. 24**	43,614	137	0. 63	33,346	202	1. 20
Total	**194,459**	**445**	**0. 45**	184,330	840	0. 92	164,574	1,178	1. 42
Total interest bearing deposits									
Australia	**509,698**	**1,629**	**0. 63**	487,177	2,292	0. 95	471,024	3,155	1. 33
New Zealand	**62,228**	**526**	**1. 68**	61,645	624	2. 04	58,561	723	2. 46
Other Overseas	**19,156**	**123**	**1. 27**	22,990	224	1. 96	21,160	286	2. 69
Total	**591,082**	**2,278**	**0. 76**	571,812	3,140	1. 10	550,745	4,164	1. 50
Other interest bearing liabilities									
Australia	**151,870**	**920**	**1. 20**	163,653	1,445	1. 78	167,343	1,917	2. 28
New Zealand	**24,632**	**205**	**1. 65**	27,471	304	2. 23	27,535	367	2. 65
Other Overseas	**8,803**	**12**	**0. 27**	18,101	67	0. 74	17,402	148	1. 69
Total	**185,305**	**1,137**	**1. 22**	209,225	1,816	1. 75	212,280	2,432	2. 28

1 The New Zealand and Other Overseas components comprise overseas branches of the Group and overseas domiciled controlled entities.

Appendices (continued)

1.3 Interest Rate and Volume Analysis (continuing operations basis)

The following tables show the movement in interest income and expense due to changes in volume and interest rates. Volume variances reflect the change in interest from the prior comparative period due to movements in the average balance. Rate variances reflect the change in interest from the prior comparative period due to changes in interest rates.

	Half Year Ended Dec 20 vs Jun 20			Half Year Ended Dec 20 vs Dec 19		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earning Assets [1]	$M	$M	$M	$M	$M	$M
Home loans	213	(774)	(561)	265	(1,536)	(1,271)
Consumer finance	(116)	(79)	(195)	(209)	(106)	(315)
Business and corporate loans	(5)	(274)	(279)	20	(861)	(841)
Loans, bills discounted and other receivables	178	(1,213)	(1,035)	230	(2,657)	(2,427)
Cash and other liquid assets	(2)	(130)	(132)	10	(250)	(240)
Assets at fair value through Income Statement (excluding life insurance)	28	(93)	(65)	35	(118)	(83)
Investment securities:						
At fair value through other comprehensive Income	29	(209)	(180)	29	(395)	(366)
At amortised cost	(5)	(13)	(18)	(12)	(32)	(44)
Non-lending interest earning assets	35	(430)	(395)	72	(805)	(733)
Total interest earning assets	331	(1,761)	(1,430)	613	(3,773)	(3,160)

	Half Year Ended Dec 20 vs Jun 20			Half Year Ended Dec 20 vs Dec 19		
	Volume	Rate	Total	Volume	Rate	Total
Interest Bearing Liabilities [1]	$M	$M	$M	$M	$M	$M
Transaction deposits	17	(49)	(32)	23	(132)	(109)
Savings deposits	56	(159)	(103)	87	(340)	(253)
Investment deposits	(138)	(350)	(488)	(249)	(788)	(1,037)
Certificates of deposit and other	(36)	(203)	(239)	(28)	(459)	(487)
Total interest bearing deposits	117	(979)	(862)	167	(2,053)	(1,886)
Payables due to other financial institutions	5	(120)	(115)	2	(202)	(200)
Liabilities at fair value through Income Statement	–	(15)	(15)	(4)	(33)	(37)
Debt issues	(97)	(412)	(509)	(119)	(857)	(976)
Loan capital	13	(68)	(55)	40	(124)	(84)
Lease liabilities	9	(1)	8	7	(2)	5
Bank levy	–	7	7	–	(3)	(3)
Total interest bearing liabilities	48	(1,589)	(1,541)	77	(3,258)	(3,181)

	Half Year Ended	
	Dec 20 vs Jun 20	Dec 20 vs Dec 19
	Increase/(Decrease)	Increase/(Decrease)
Change in Net Interest Income	$M	$M
Due to changes in average volume of interest earning assets	125	443
Due to changes in interest margin	(116)	(422)
Due to variation in time period	102	–
Change in net interest income	111	21

1 "Rate" reflects the change due to movements in yield assuming average volume is consistent across the two periods. "Volume" reflects the change due to balance growth assuming the average rate is consistent across the two periods and the impact of variation in calendar days. The volume and rate variances for total interest earning assets and total interest bearing liabilities have been calculated separately (rather than being the sum of the individual categories).

Appendices (continued)

1.3 Interest Rate and Volume Analysis (continuing operations basis) (continued)

Geographical Analysis of Key Categories [1]	Half Year Ended Dec 20 vs Jun 20			Half Year Ended Dec 20 vs Dec 19		
	Volume $M	Rate $M	Total $M	Volume $M	Rate $M	Total $M
Loans, bills discounted and other receivables						
Australia	**199**	**(965)**	**(766)**	233	(2,210)	(1,977)
New Zealand	**34**	**(188)**	**(154)**	58	(333)	(275)
Other Overseas	**(45)**	**(70)**	**(115)**	(49)	(126)	(175)
Total	**178**	**(1,213)**	**(1,035)**	230	(2,657)	(2,427)
Non-lending interest earning assets						
Australia	**42**	**(321)**	**(279)**	55	(582)	(527)
New Zealand	**–**	**(28)**	**(28)**	5	(58)	(53)
Other Overseas	**(1)**	**(87)**	**(88)**	10	(163)	(153)
Total	**35**	**(430)**	**(395)**	72	(805)	(733)
Total interest bearing deposits						
Australia	**104**	**(767)**	**(663)**	132	(1,658)	(1,526)
New Zealand	**14**	**(112)**	**(98)**	33	(230)	(197)
Other Overseas	**(22)**	**(79)**	**(101)**	(12)	(151)	(163)
Total	**117**	**(979)**	**(862)**	167	(2,053)	(1,886)
Other interest bearing liabilities						
Australia	**(51)**	**(474)**	**(525)**	(88)	(909)	(997)
New Zealand	**(19)**	**(80)**	**(99)**	(23)	(139)	(162)
Other Overseas	**(12)**	**(43)**	**(55)**	(11)	(125)	(136)
Total	**(122)**	**(557)**	**(679)**	(159)	(1,136)	(1,295)

1 "Rate" reflects the change due to movements in yield assuming average volume is consistent across the two periods. "Volume" reflects the change due to balance growth assuming the average rate is consistent across the two periods and the impact of variation in calendar days. The volume and rate variances for total interest earning assets and total interest bearing liabilities have been calculated separately (rather than being the sum of the individual categories).

Appendices (continued)

1.4 Other Banking Income (continuing operations basis)

	Half Year Ended				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
	$M	$M	$M	Jun 20 %	Dec 19 %
Commissions	**1,299**	1,236	1,321	5	(2)
Lending fees	**525**	503	483	4	9
Trading income	**535**	432	508	24	5
Net gain/(loss) on non-trading financial instruments [1]	**(84)**	94	45	large	large
Net gain/(loss) on sale of property, plant and equipment	**–**	14	18	large	large
Net gain/(loss) from hedging ineffectiveness	**17**	(32)	18	large	(6)
Dividends	**1**	1	2	–	(50)
Share of profit of associates and joint ventures net of impairment	**131**	74	96	77	36
Other [2,3]	**(70)**	86	103	large	large
Total other banking income - "statutory basis"	**2,354**	2,408	2,594	(2)	(9)

1 Includes gains/(losses) on non-trading derivatives that are held for risk management purposes.
2 The half year ended 31 December 2020 includes depreciation of $40 million in relation to assets held for lease by the Group (30 June 2020: $43 million; 31 December 2019: $40 million).
3 The half year ended 31 December 2020 includes a further $124 million impairment loss recognised by the Group in relation to certain aircraft owned by the Group and leased to various airlines (30 June 2020: $92 million). The impairment loss was driven by the impact of COVID-19 on the aviation sector.

Other Banking Income – Reconciliation of Cash and Statutory Basis

The table below sets out various accounting impacts arising from the application of AASB 139 *Financial Instruments: Recognition and Measurement* to the Group's derivative hedging activities and other non-cash items.

	Half Year Ended				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
	$M	$M	$M	Jun 20 %	Dec 19 %
Other banking income - "cash basis"	**2,419**	2,294	2,543	5	(5)
Revenue hedge of New Zealand operations - unrealised	**(1)**	105	19	large	large
Hedging and IFRS volatility	**(5)**	(23)	35	(78)	large
(Loss)/gain on disposal and acquisition of entities net of transaction costs	**(59)**	32	(3)	large	large
Other banking income - "statutory basis"	**2,354**	2,408	2,594	(2)	(9)

Appendices (continued)

2. Risk Management

Overview

The Group is exposed to financial risks, non-financial risks and strategic risks arising from its operations. The Group manages these risks through its Risk Management Framework (the Framework), which evolves to accommodate changes in the business operating environment, better practice approaches, and regulatory and community expectations. The Group's key risk types are credit, market, liquidity, operational, insurance, strategic and compliance. The framework is discussed in Note 9.1 in the 2020 Annual Report.

2.1 Integrated Risk Management

The Group's approach to risk management is described within Note 9 of the Financial Statements in the 2020 Annual Report. Further disclosures in respect of capital adequacy and risk are provided in the Group's annual Pillar 3 document.

Credit Risk

The Group uses a portfolio approach for the management of its credit risk, of which a key element is a well-diversified portfolio. The Group uses various portfolio management tools to assist in diversifying the credit portfolio.

Below is a breakdown of the Group's committed exposures across industry sector, region and commercial credit quality.

	As at [1, 2]		
	31 Dec 20	30 Jun 20	31 Dec 19
By Sector	**%**	%	%
Consumer	**58. 7**	58. 8	60. 0
Government, Admin. & Defence	**12. 8**	11. 8	10. 0
Finance & Insurance	**6. 8**	7. 6	7. 9
Commercial Property	**6. 6**	6. 6	6. 5
Transport & Storage	**2. 3**	2. 5	2. 5
Agriculture & Forestry	**2. 1**	2. 1	2. 1
Manufacturing	**1. 4**	1. 4	1. 5
Entertainment, Leisure & Tourism	**1. 1**	1. 2	1. 1
Electricity, Water & Gas	**1. 1**	1. 1	1. 1
Retail Trade	**1. 0**	1. 0	1. 0
Business Services	**1. 0**	1. 0	0. 3
Health & Community Services	**0. 9**	0. 8	1. 0
Wholesale Trade	**0. 9**	0. 8	0. 9
Mining, Oil & Gas	**0. 8**	1. 0	0. 8
Construction	**0. 8**	0. 9	0. 9
Media & Communications	**0. 5**	0. 5	0. 4
Personal & Other Services	**0. 3**	0. 3	0. 3
Education	**0. 3**	0. 2	0. 2
Other	**0. 6**	0. 4	1. 5
Total	**100. 0**	100. 0	100. 0

1 Comparative information has been restated to conform to presentation in the current period.
2 Committed exposures by industry sector, region and commercial credit quality are disclosed on a gross basis (calculated before collateralisation).

Appendices (continued)

2.1 Integrated Risk Management (continued)

By Region [1]	As at 31 Dec 20 %	30 Jun 20 %	31 Dec 19 %
Australia	**80. 3**	79. 8	79. 5
New Zealand	**10. 3**	10. 6	10. 8
Americas	**3. 6**	4. 4	4. 4
Europe	**2. 9**	3. 0	2. 8
Asia	**2. 8**	2. 0	2. 3
Other	**0. 1**	0. 2	0. 2
	100. 0	100. 0	100. 0

Commercial Portfolio Quality [1]	As at [2] 31 Dec 20 %	30 Jun 20 %	31 Dec 19 %
AAA/AA	**35. 2**	35. 5	32. 8
A	**15. 4**	14. 7	15. 9
BBB	**15. 3**	16. 1	16. 6
Other	**34. 1**	33. 7	34. 7
	100. 0	100. 0	100. 0

1 Committed exposures by region and commercial credit quality are disclosed on a gross basis (calculated before collateralisation).
2 Comparative information has been restated to conform to presentation in the current period.

As a measure of individually risk-rated commercial portfolio exposure (including finance and insurance), the Group has 65.9% (June 2020: 66.3%; December 2019: 65.3%) of commercial exposures at investment grade quality.

Appendices (continued)

2.1 Integrated Risk Management (continued)

Market Risk

Market risk in the Balance Sheet is discussed within Note 9.3 of the 2020 Annual Report.

Value at Risk (VaR)

The Group uses Value at Risk (VaR) as one of the measures of Traded and Non-Traded market risk. VaR measures potential loss using historically observed market movements and correlation between different markets.

VaR is modelled at a 99.0% confidence level. This means that there is a 99.0% probability that the loss will not exceed the VaR estimate on any given day.

A 10-day holding period is used for trading book positions. A 20-day holding period is used for interest rate risk in the banking book.

Where VaR is deemed not to be an appropriate method of risk measurement other risk measures have been used, as specified by the heading or accompanying footnotes of the tables provided.

	Average VaR [1]		
	31 Dec 20	30 Jun 20	31 Dec 19
Traded Market Risk	**$M**	$M	$M
Risk Type			
Interest rate risk	**29. 1**	26. 5	21. 2
Foreign exchange risk	**7. 6**	33. 2	9. 4
Equities risk	**0. 4**	0. 3	0. 4
Commodities risk	**14. 4**	7. 9	9. 2
Credit spread risk	**27. 5**	31. 5	7. 6
Other market risk [2]	**20. 5**	52. 0	30. 2
Diversification benefit	**(35. 7)**	(89. 9)	(50. 4)
Total general market risk	**63. 8**	61. 5	27. 6
Undiversified risk	**14. 7**	8. 6	5. 7
ASB & PTBC Banks	**3. 6**	0. 5	0. 8
Total	**82. 1**	70. 6	34. 1

1 Average VaR is at 10 day 99% confidence and is calculated for each 6 month period.
2 Includes volatility risk and basis risk.

Appendices (continued)

2.1 Integrated Risk Management (continued)

Interest rate risk in the banking book

Interest rate risk in the banking book is discussed within Note 9.3 of the 2020 Annual Report.

(a) Next 12 Months' Earnings

The figures in the following table represent the potential unfavourable change to the Group's net interest earnings during the year based on a 100 basis point parallel rate shock. As the official cash rate in both Australia and New Zealand was below 1.00% as at 31 December 2020, a downward rate shock of 100 basis points implies a negative interest rate of 0.90% and 0.75% for Australia and New Zealand, respectively. The analysis does not take into account management actions that may be taken to mitigate the unfavourable impact of falling interest rates.

Net Interest Earnings at Risk [1]		**31 Dec 20 $M**	30 Jun 20 [2] $M	31 Dec 19 [2] $M
Average monthly exposure	AUD	**1,833. 6**	1,230. 2	787. 2
	NZD	**253. 2**	140. 3	72. 4
High month exposure	AUD	**2,084. 4**	1,682. 0	1,038. 0
	NZD	**313. 5**	215. 9	104. 0
Low month exposure	AUD	**1,627. 0**	812. 0	506. 7
	NZD	**212. 4**	88. 4	47. 3

1 Exposures over a 6 month period. NZD exposures are presented in NZD.
2 Comparative information for NZD has been restated to conform to presentation in the current period. This includes a change in modelling to account for the impact of interest rate floors on deposits.

Net interest earnings at risk increased during the period due to decreases in the official cash rate combined with deposit growth, which resulted in additional deposit balances becoming subject to interest rate floors.

(b) Economic Value

A 20-day 99.0% VaR measure is used to capture the economic impact of adverse changes in interest rates on all banking book assets and liabilities.

Non-Traded Interest Rate Risk VaR [1] (20-day 99.0% confidence)	**31 Dec 20 $M**	30 Jun 20 $M	31 Dec 19 $M
Average daily exposure	**686. 1**	493. 3	242. 4
High daily exposure	**743. 0**	804. 2	271. 0
Low daily exposure	**638. 5**	258. 7	224. 1

1 Exposures over a 6 month period.

Appendices (continued)

2.1 Integrated Risk Management (continued)

Funding Sources

The following table provides the funding sources for the Group including customer deposits, and short-term and long-term wholesale funding. Shareholders' equity is excluded from this view of funding sources.

	As at [1]				
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Transaction deposits [2]	**168,145**	145,316	128,294	16	31
Savings deposits	**249,670**	236,339	201,930	6	24
Investment deposits	**167,916**	181,483	204,875	(7)	(18)
Other customer deposits [2,3]	**94,603**	77,831	65,357	22	45
Total customer deposits	**680,334**	640,969	600,456	6	13
Wholesale funding					
Short-term					
Certificates of deposit [4]	**39,166**	42,456	41,330	(8)	(5)
Euro commercial paper programme	**–**	63	402	large	large
US commercial paper programme	**15,418**	12,914	16,179	19	(5)
Euro medium-term note programme	**3,010**	5,442	4,450	(45)	(32)
Central Bank deposits	**5,633**	8,437	14,127	(33)	(60)
Other [5]	**7,315**	1,879	5,030	large	45
Total short-term wholesale funding	**70,542**	71,191	81,518	(1)	(13)
Net collateral received	**(2,128)**	(1,795)	153	19	large
Internal RMBS sold under agreement to repurchase with RBA	**5,416**	5,413	5,370	–	1
Total short-term collateral deposits	**3,288**	3,618	5,523	(9)	(40)
Total long-term funding - less than or equal to one year residual maturity [6]	**30,326**	22,147	26,032	37	16
Long-term - greater than one year residual maturity					
Domestic debt program	**11,718**	16,118	18,616	(27)	(37)
Euro medium-term note programme	**17,604**	21,543	22,663	(18)	(22)
US medium-term note programme [7]	**14,023**	19,686	20,712	(29)	(32)
Covered bond programme	**24,981**	31,430	31,660	(21)	(21)
Securitisation	**7,989**	8,790	10,063	(9)	(21)
Loan capital	**22,485**	24,823	24,770	(9)	(9)
RBA Term Funding Facility (TFF) [8]	**19,163**	1,500	–	large	n/a
Other	**1,776**	1,673	2,780	6	(36)
Total long-term funding - greater than one year residual maturity	**119,739**	125,563	131,264	(5)	(9)
IFRS MTM and derivative FX revaluations	**5,270**	7,241	3,012	(27)	75
Total funding	**909,499**	870,729	847,805	4	7
Reported as					
Deposits and other public borrowings	**746,466**	701,999	662,824	6	13
Payables due to other financial institutions	**31,010**	16,429	23,822	89	30
Liabilities at fair value through Income Statement	**7,255**	4,397	4,752	65	53
Debt issues	**122,548**	142,503	153,327	(14)	(20)
Loan capital	**27,608**	27,357	25,425	1	9
Loans and other receivables - collateral posted	**(1,848)**	(1,155)	(975)	60	90
Receivables due from other financial institutions - collateral posted	**(4,800)**	(6,057)	(4,218)	(21)	14
Securities purchased under agreements to resell	**(18,740)**	(14,744)	(17,152)	27	9
Total funding	**909,499**	870,729	847,805	4	7

1 Comparative information has been restated to conform to presentation in the current period.
2 Transaction deposits exclude non-interest bearing deposits (included in other customer deposits).
3 Other customer deposits primarily consist of non-interest bearing transaction deposits and deposits held at fair value through the Income Statement.
4 Includes Bank acceptances.
5 Includes net securities sold under agreement to repurchase and purchased under agreement to resell and interbank borrowings.
6 Residual maturity of long-term wholesale funding (included in Debt issues and Loan capital) is the earlier of the next call date or final maturity.
7 Includes notes issued under the Bank's 3(a)(2) program.
8 Includes accrued interest payable at maturity.

Appendices (continued)

2.1 Integrated Risk Management (continued)

Overview

The Group's liquidity and funding policies are designed to ensure it will meet its obligations as and when they fall due by ensuring it is able to issue debt on an unsecured or secured basis, has sufficient liquid assets to borrow against under repurchase agreements or sell to raise immediate funds without adversely affecting the Group's net asset value.

The Group's liquidity policies are designed to ensure it maintains sufficient cash balances and liquid asset holdings to meet its obligations to customers, in both ordinary market conditions and during periods of extreme stress. These policies are intended to protect the value of the Group's operations during periods of unfavourable market conditions.

The Group's funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type and location, currency and concentration, on a cost effective basis. This objective applies to the Group's wholesale and retail funding activities.

Liquidity and Risk Management Framework

The CBA Board is ultimately responsible for the sound and prudent management of liquidity risk across the Group. The Group's liquidity and funding policies, structured under a formal Group Liquidity and Funding Risk Management Framework, are approved by the Board and agreed with APRA. The Group Asset and Liability Committee (ALCO) charter includes reviewing the management of assets and liabilities, reviewing liquidity and funding policies and strategies, and regularly monitoring compliance with those policies across the Group. Group Treasury manages the Group's liquidity and funding positions in accordance with the Group's Liquidity Policy and supporting standards, and has ultimate authority to execute liquidity and funding decisions should the Group Contingency Funding Plan be activated. Risk Management provides oversight of the Group's liquidity and funding risks, compliance with Group policies and manages the Group's relationship with prudential regulators.

Subsidiaries within the Group apply their own liquidity and funding strategies to address their specific needs. The Group's New Zealand banking subsidiary, ASB, manages its own domestic liquidity and funding needs in accordance with its own liquidity policy and the policies of the Group. ASB's liquidity policy is also overseen by the RBNZ.

Liquidity and Funding Policies and Management

The Group's liquidity and funding policies provide that:

- An excess of liquid assets over the minimum prescribed under APRA's Liquidity Coverage Ratio (LCR) requirement is maintained. Australian Authorised Deposit-taking Institutions (ADIs) are required to meet a 100% LCR, calculated as the ratio of high quality liquid assets to 30 day net cash outflows projected under a prescribed stress scenario;
- A surplus of stable funding from various sources, as measured by APRA's Net Stable Funding Ratio (NSFR), is maintained. The NSFR is calculated by applying factors prescribed by APRA to assets and liabilities to determine a ratio of available stable funding to required stable funding which must be greater than 100%;
- Additional internal funding and liquidity metrics are calculated and stress tests in addition to the LCR are run;
- Short and long-term wholesale funding limits are established, monitored and reviewed regularly;
- The Group's wholesale funding market capacity is regularly assessed and used as a factor in funding strategies;
- Balance Sheet assets that cannot be liquidated quickly are funded with stable deposits or term borrowings that meet minimum maturity requirements with appropriate liquidity buffers;
- Liquid assets are held in Australian dollar and foreign currency denominated securities in accordance with expected requirements;
- The Group has three categories of liquid assets within its domestic liquid assets portfolio. The first includes cash, and Government and Australian semi-government securities. The second includes Negotiable Certificates of Deposit, bank term securities, supranational bonds, Australian Residential Mortgage Backed Securities (RMBS) and other securities that meet the RBA criteria for purchases under repurchase agreements. The final category is internal RMBS, being mortgages that have been securitised but retained by the Bank, that are repo-eligible with the RBA using the Committed Liquidity Facility (CLF) and the Term Funding Facility (TFF); and
- Offshore branches and subsidiaries adhere to liquidity policies and hold appropriate foreign currency liquid assets to meet required regulations.

The Group's key funding tools include:

- Consumer retail funding base, which includes a wide range of retail transaction accounts, savings accounts and term deposits for individual consumers;
- Small business customer and institutional deposit base;
- Wholesale domestic and international funding programmes, which include Australian dollar Negotiable Certificates of Deposit, US and Euro Commercial Paper programmes, Australian dollar Domestic Debt Programme, US Extendible Notes programmes, US Medium-Term Note programmes, Euro Medium-Term Note Programme, multi jurisdiction Covered Bond Programme and Medallion securitisation programmes; and
- Access to the RBA Term Funding Facility (TFF).

The Group's key liquidity tools include:

- A regulatory liquidity management reporting system delivering granular customer and product type information to inform business decision making and product development, resulting in a greater awareness of the liquidity risk-adjusted value of banking products;
- A liquidity management model that allows forecasting of liquidity needs on a daily basis;
- An additional liquidity management model that implements the established prudential liquidity requirements. This model is calibrated with a series of 'stress' liquidity crisis scenarios, incorporating both systemic and idiosyncratic crisis assumptions, such that the Group will have sufficient liquid assets available to ensure it meets all of its obligations as and when they fall due;
- Central bank repurchase agreement facilities including the RBA's CLF that provide the Group with the ability to borrow funds on a secured basis, even when normal funding markets are unavailable; and
- A robust Contingency Funding Plan that is regularly tested so that it can be quickly activated when required.

Appendices (continued)

2.2 Counterparty and Other Credit Risk Exposures

Special Purpose Vehicles (SPV)

The Group invests in or establishes SPVs in the ordinary course of business, primarily to provide funding and financial services for its customers. These SPVs are consolidated in the Financial Statements whenever they meet the criteria of control as outlined in Note 4.4 to the Financial Statements of the 2020 Annual Report. The primary use of SPVs is in relation to securitisation where the primary source of repayment of the debt instruments is the underlying assets and investors have no recourse to the general assets of the sponsor (Covered Bonds have dual recourse to the issuer and the SPV).

The Group may manage these vehicles, hold minor amounts of capital, provide financing or transact derivatives with these entities.

Securitisation and Covered Bond Vehicles

The Group utilises SPVs for the purposes of issuing residential mortgage backed securities and also as part of its covered bond program. The Group securitises modest amounts of residential home loans to issue residential mortgage-backed securities. The Group also issues covered bonds to diversify the Group's wholesale funding.

The Group manages these SPVs, services assets in the SPVs, provides interest rate and foreign currency risk hedging, or provides other facilities such as liquidity facilities. The Group retains the risks associated with the provision of these services. The Group is also entitled to any residual income from the SPVs after all payments due to investors and costs of the program have been met, where the Group is the income unitholder.

	Covered Bonds		Securitisation	
	31 Dec 20	30 Jun 20	**31 Dec 20**	30 Jun 20
	$M	$M	**$M**	$M
Carrying amount of transferred assets	**39,158**	43,190	**11,625**	12,791
Carrying amount of associated liabilities	**34,712**	37,456	**10,619**	11,677
Net position	**4,446**	5,734	**1,006**	1,114

Asset-backed Securities

Asset-backed securities are debt securities where the cash flow is dependent on the performance of the assets assigned to SPVs, which may consist of residential mortgages, commercial mortgages or other types of receivables. The Group has acquired asset-backed securities primarily as part of its trading activities (classified as Trading assets), liquidity management (classified as Amortised Cost investments), and balance sheet holdings (classified as Fair Value Through Other Comprehensive Income investments).

The majority of the Group's asset-backed securities portfolio consists of notes externally rated AAA.

An analysis of the exposure to non-Group originated asset-backed securities and warehousing facilities is outlined in the tables below.

	Trading Portfolio		Investment securities at FVOCI [1]		Other [2]		Total	
	31 Dec 20	30 Jun 20	**31 Dec 20**	30 Jun 20	**31 Dec 20**	30 Jun 20	**31 Dec 20**	30 Jun 20
	$M	$M	**$M**	$M	**$M**	$M	**$M**	$M
Residential Mortgage Backed securities	**35**	–	**842**	755	**4,281**	4,996	**5,158**	5,751
Non-conforming	**–**	–	**781**	683	**–**	–	**781**	683
Prime mortgages	**35**	–	**61**	72	**4,281**	4,996	**4,377**	5,068
Commercial Mortgage Backed Securities	**–**	–	**57**	64	**–**	–	**57**	64
Other assets	**–**	–	**–**	59	**112**	163	**112**	222
Total [3]	**35**	–	**899**	878	**4,393**	5,159	**5,327**	6,037

1 Fair value through other comprehensive income.
2 Includes investment securities at amortised cost.
3 All assets are denominated in Australia and are rated in the AAA & AA bands, with the exception of $3 million Prime Residential Mortgages rated BBB (30 June 2020: $3 million).

	Funded Commitments		Unfunded Commitments		Total	
	31 Dec 20	30 Jun 20	**31 Dec 20**	30 Jun 20	**31 Dec 20**	30 Jun 20
Warehousing Financing Facilities	**$M**	$M	**$M**	$M	**$M**	$M
Australia	**4,179**	6,388	**4,631**	2,705	**8,810**	9,093
New Zealand	**830**	452	**182**	141	**1,012**	593
UK	**–**	–	**–**	–	**–**	-
Total	**5,009**	6,840	**4,813**	2,846	**9,822**	9,686

Appendices (continued)

2.2 Counterparty and Other Credit Risk Exposures (continued)

Other Exposures

Leveraged Finance

The Group provides leveraged finance to companies. This can include companies acquired or owned by private equity sponsors which are highly leveraged, primarily domiciled in Australia and New Zealand and exhibit stable and established earnings providing the ability to reduce borrowing levels.

The Group's exposure to firms owned by private equity sponsors is well diversified across industries and private equity sponsors. Highly leveraged debt facilities provided to private equity sponsors are typically senior with first ranking security over the cash flows and assets of the businesses.

Hedge Funds

There were no material movements in exposures to hedge funds during the current half and these exposures are not considered to be material.

Collateralised Debt Obligations (CDOs) and Credit Linked Notes

The Group has no material direct or indirect exposure to CDOs or credit linked notes.

Appendices (continued)

3. Our Capital, Equity and Reserves

Overview

The Group maintains a strong capital position in order to satisfy regulatory capital requirements, provide financial security to its depositors and creditors and adequate return to its shareholders. The Group's shareholders' equity includes issued ordinary shares, retained earnings and reserves.

This section provides analysis of the Group's shareholders' equity including changes during the period.

3.1 Capital

The tables below show the APRA Basel III capital adequacy calculation at 31 December 2020 together with prior period comparatives.

	As at		
	31 Dec 20	30 Jun 20	31 Dec 19
Risk Weighted Capital Ratios	**%**	%	%
Common Equity Tier 1	**12. 6**	11. 6	11. 7
Tier 1	**15. 0**	13. 9	14. 1
Tier 2	**3. 9**	3. 6	3. 3
Total Capital	**18. 9**	17. 5	17. 4

	As at		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Ordinary share capital and treasury shares			
Ordinary share capital	**38,417**	38,131	38,126
Treasury shares	**15**	51	54
Ordinary share capital and treasury shares	**38,432**	38,182	38,180
Reserves			
Reserves	**2,287**	2,666	1,910
Reserves related to non-consolidated subsidiaries [1]	**–**	2	(7)
Total Reserves	**2,287**	2,668	1,903
Retained earnings and current period profits			
Retained earnings and current period profits	**34,294**	31,211	31,066
Retained earnings adjustment from non-consolidated subsidiaries [2]	**(379)**	(325)	(258)
Net retained earnings	**33,915**	30,886	30,808
Non-controlling interests			
Non-controlling interests [3]	**5**	5	51
Less other non-controlling interests not eligible for inclusion in regulatory capital	**(5)**	(5)	(51)
Non-controlling interests	**–**	–	–
Common Equity Tier 1 Capital before regulatory adjustments	**74,634**	71,736	70,891

1 Represents equity reserve balances associated with the insurance and funds management entities, and those entities through which securitisation of the Group's assets are conducted. These entities are classified as non-consolidated subsidiaries by APRA and are excluded from the Level 2 Regulatory Consolidated Banking Group.

2 Cumulative current period profit and retained earnings adjustments for subsidiaries not consolidated for regulatory purposes.

3 Non-controlling interests predominantly comprise of external equity interests of subsidiaries.

Appendices (continued)

3.1 Capital (continued)

	As at		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Common Equity Tier 1 regulatory adjustments			
Goodwill [1]	**(5,997)**	(5,988)	(6,007)
Other intangibles (including software) [2]	**(1,642)**	(1,594)	(1,665)
Capitalised costs and deferred fees	**(833)**	(765)	(768)
Defined benefit superannuation plan surplus [3]	**(180)**	(476)	(244)
Deferred tax asset	**(3,041)**	(3,176)	(2,463)
Cash flow hedge reserve	**(994)**	(1,513)	(548)
Employee compensation reserve	**(64)**	(138)	(96)
Equity investments [4]	**(3,924)**	(3,648)	(3,579)
Equity investments in non-consolidated subsidiaries [5]	**(670)**	(1,429)	(2,685)
Unrealised fair value adjustments [6]	**(9)**	(16)	(34)
Other	**(185)**	(420)	(422)
Common Equity Tier 1 regulatory adjustments	**(17,539)**	(19,163)	(18,511)
Common Equity Tier 1 Capital	**57,095**	52,573	52,380
Additional Tier 1 Capital			
Basel III complying instruments [7]	**10,695**	10,695	10,695
Basel III non-complying instruments net of transitional amortisation [8]	**130**	146	143
Total Additional Tier 1 Capital	**10,825**	10,841	10,838
Total Tier 1 Capital	**67,920**	63,414	63,218
Tier 2 Capital			
Basel III complying instruments [9]	**15,533**	14,552	13,986
Basel III non-complying instruments net of transitional amortisation [10]	**277**	296	288
Holding of Tier 2 Capital	**(49)**	(16)	(21)
Prudential general reserve for credit losses [11]	**2,061**	1,597	482
Total Tier 2 Capital	**17,822**	16,429	14,735
Total Capital	**85,742**	79,843	77,953

1 Includes goodwill from discontinued operations.
2 Other intangibles (including capitalised software costs), net of any associated deferred tax liability.
3 Represents the surplus in the Group's defined benefit superannuation fund, net of any deferred tax liability.
4 Represents the Group's non-controlling interest in other entities.
5 Non-consolidated subsidiaries primarily represent the insurance and funds management companies operating in the Colonial Group.
6 Includes gains due to changes in our credit risk on fair valued liabilities and other prudential valuation adjustment.
7 As at 31 December 2020, comprises PERLS XII $1,650 million (November 2019), PERLS XI $1,590 million (December 2018), PERLS X $1,365 million (April 2018), PERLS IX $1,640 million (March 2017), PERLS VIII $1,450 million (March 2016), and PERLS VII $3,000 million (October 2014).
8 Represents APRA Basel III non-compliant Additional Tier 1 Capital Instruments that are eligible for Basel III transitional relief.
9 In the half year ended 31 December 2020, the Group issued a AUD200 million, a AUD205 million, a AUD1,400 million and a AUD270 million subordinated note, that were Basel III compliant. In the half year ended 30 June 2020, the Group issued a AUD280 million and a AUD210 million subordinated note, that were Basel III compliant.
10 Includes both perpetual and term instruments subordinated to depositors and general creditors, having an original maturity of at least five years. APRA require these to be included as if they were unhedged. Term instruments are amortised by 20% of the original amount during each of the last five years to maturity. These instruments are eligible for Basel III transitional relief.
11 Represents the collective provision and general reserve for credit losses for exposures in the Group which are measured for capital purposes under the Standardised approach to credit risk.

Appendices (continued)

3.1 Capital (continued)

Risk Weighted Assets (RWA)	As at 31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M
Credit Risk			
Subject to AIRB approach [1]			
Corporate	**69,157**	69,577	67,236
SME Corporate	**30,662**	30,890	31,560
SME retail	**6,583**	6,665	5,976
SME retail secured by residential mortgage	**3,087**	3,360	3,314
Sovereign	**2,668**	1,838	1,682
Bank	**6,424**	6,667	7,964
Residential mortgage	**151,950**	148,294	147,865
Qualifying revolving retail	**5,816**	6,697	7,802
Other retail	**11,511**	12,126	13,490
Total RWA subject to AIRB approach	**287,858**	286,114	286,889
Specialised lending exposures subject to slotting criteria	**60,136**	58,611	56,024
Subject to Standardised approach			
Corporate	**1,194**	957	1,309
SME corporate	**752**	742	756
SME retail	**2,660**	2,929	4,586
Sovereign	**286**	267	218
Bank	**150**	68	66
Residential mortgage	**6,466**	6,635	6,478
Other retail	**1,017**	1,132	1,225
Other assets	**8,504**	10,281	9,752
Total RWA subject to Standardised approach	**21,029**	23,011	24,390
Securitisation	**2,981**	3,015	3,191
Credit valuation adjustment	**4,446**	3,057	4,358
Central counterparties	**450**	386	365
Total RWA for Credit Risk Exposures	**376,900**	374,194	375,217
Traded market risk	**11,161**	12,457	5,428
Interest rate risk in the banking book	**15,561**	11,085	8,998
Operational risk	**49,994**	57,212	59,511
Total risk weighted assets	**453,616**	454,948	449,154

1 Pursuant to APRA requirements, RWA amounts derived from AIRB risk weight functions have been multiplied by a scaling factor of 1.06.

Appendices (continued)

3.2 Share Capital

	Half Year Ended		
	31 Dec 20	30 Jun 20	31 Dec 19
Shares on Issue	**Number**	Number	Number
Opening balance (excluding Treasury Shares deduction)	**1,770,239,507**	1,770,239,507	1,770,239,507
Dividend reinvestment plan issues:			
2018/2019 Final dividend fully paid ordinary shares $78.61 [1]	**–**	–	–
2019/2020 Interim dividend fully paid ordinary shares $73.37 [1]	**–**	–	–
2019/2020 Final dividend fully paid ordinary shares $68.53	**3,856,903**	–	–
Closing balance (excluding Treasury Shares deduction)	**1,774,096,410**	1,770,239,507	1,770,239,507
Less: Treasury Shares [2]	**(1,751,078)**	(2,095,440)	(2,140,454)
Closing balance	**1,772,345,332**	1,768,144,067	1,768,099,053

1 The DRP in respect of the interim 2019/2020, and final 2018/2019 dividends were satisfied in full through the on-market purchase and transfer of 7,080,363 shares at $73.37 and 7,810,285 shares at $78.61, respectively, to participating shareholders.

2 Relates to treasury shares held within the employee share plans and life insurance statutory funds (prior to deconsolidation of CommInsure Life on 1 November 2019).

Dividend Franking Account

After fully franking the interim dividend to be paid for the half year, the amount of credits available at the 30% tax rate as at 31 December 2020 to frank dividends for subsequent financial years is $2,307 million (June 2020: $2,007 million; December 2019: $1,255 million). This figure is based on the franking accounts of the Bank at 31 December 2020, adjusted for franking credits that will arise from the payment of income tax payable on profits for the half year and prior years, franking debits that will arise from the payment of dividends proposed, and franking credits that may not be available to be distributed in subsequent financial periods.

The Bank expects that future tax payments will generate sufficient franking credits for the Bank to be able to continue to fully frank future dividend payments. These calculations have been based on the taxation law as at 31 December 2020.

Dividends

The Directors have determined a fully franked interim dividend of 150 cents per share amounting to $2,661 million. There is no foreign conduit income attributed to the interim dividend. The dividend will be payable on 30 March 2021 to shareholders on the register at 5:00pm AEST on 17 February 2021.

The Board determines the dividend per share based on net profit after tax (“cash basis”) per share, having regard to a range of factors including:

- Current and expected rates of business growth and the mix of business;
- Capital needs to support economic, regulatory and credit ratings requirements;
- Investments and/or divestments to support business development;
- Competitors comparison and market expectations; and
- Earnings per share growth.

Dividend Reinvestment Plan

The Group has a Dividend Reinvestment Plan (DRP) that is available to shareholders in Australia and certain other jurisdictions. Shareholders can elect to participate to acquire fully paid ordinary shares instead of receiving a cash dividend payment. Shares issued under DRP rank equally with ordinary shares on issue. The DRP for the 2020 final dividend was satisfied by the issuance of shares and had a participation rate of 15.2%. The DRP for the 2020 interim dividend and 2019 final dividend were satisfied in full by the on-market purchase and transfer of shares, and had participation rates of 14.7% and 15.0%, respectively.

Record Date

The register closes for determination of dividend entitlement at 5:00pm AEST on 17 February 2021. The deadline for notifying a change to participation in the DRP is 5:00pm AEST on 18 February 2021.

Ex-Dividend Date

The ex-dividend date is 16 February 2021.

Appendices (continued)

4. Other Information

4.1 General Insurance Sources of Profit

	Half Year Ended				
	31 Dec 20	30 Jun 20	31 Dec 19	Dec 20 vs	Dec 20 vs
Source of Profit from General Insurance	**$M**	$M	$M	Jun 20 %	Dec 19 %
General insurance operating margins	**22**	35	(18)	(37)	large
Investment experience after tax	**1**	2	2	(50)	(50)
Cash net profit after tax	**23**	37	(16)	(38)	large

Appendices (continued)

4.2 Intangible Assets (continuing operations basis)

	As at		
	31 Dec 20	30 Jun 20	31 Dec 19
	$M	$M	$M
Goodwill			
Purchased goodwill at cost	**5,269**	5,284	5,997
Closing balance	**5,269**	5,284	5,997
Computer Software Costs			
Cost	**4,166**	4,438	4,898
Accumulated amortisation	**(2,769)**	(3,089)	(3,480)
Closing balance	**1,397**	1,349	1,418
Brand Names [1]			
Cost	**186**	201	201
Closing balance	**186**	201	201
Other intangibles [2]			
Cost	**239**	267	319
Accumulated amortisation	**(148)**	(157)	(206)
Closing balance	**91**	110	113
Total intangible assets	**6,943**	6,944	7,729

1 Brand names predominantly represent the value of royalty costs foregone by the Group through acquiring the Bankwest brand name. The royalty costs that would have been incurred by an entity using the Bankwest brand name are based on an annual percentage of income generated by Bankwest. The Bankwest brand name has an indefinite useful life, as there is no foreseeable limit to the period over which the brand name is expected to generate cash flows. This is not subject to amortisation, but requires annual impairment testing. No impairment was recognised during the year.

2 Other intangibles include the value of customer and credit card relationships acquired from Bankwest. This value represents future net income generated from the relationship that existed at Balance Sheet date. The assets have a useful life of between 6 and 10 years based on the attrition rates of customers. Other intangibles also include prepaid software licenses with a net book value of $90 million (30 June 2020: $99 million; 31 December 2019: $92 million).

Appendices (continued)

4.3 ASX Appendix 4D

Details of entities over which control was gained and lost during the period (Rule 4.2A.3 Item No.4)

On 21 December 2020, the Group gained control over Doshii Connect Pty Ltd.

Details of Associates and Joint Ventures (Rule 4.2A.3 Item No. 7)

As at 31 December 2020	Ownership Interest Held (%)
Aegis Correctional Partnership Pty Limited	50%
Aegis Correctional Partnership Trust	50%
Aegis Securitisation Nominees Pty Limited	50%
Aegis Securitisation Trust	50%
First State Cinda Fund Management Co., Ltd.	46%
Countplus Limited	36%
BPAY Group Holding Pty Ltd	25%
Trade Window Limited	22%
Vietnam International Commercial Joint Stock Bank	20%
Australian Business Growth Fund Pty Limited	19%
Payments NZ Limited	19%
Silicon Quantum Computing Pty Ltd	19%
Qilu Bank Co., Ltd.	18%
Torrens Group Holdings Pty Ltd	16%
Bank of Hangzhou Co., Ltd.	16%

Foreign Entities (Rule 4.2A.3 Item No.8)

Not applicable.

Independent auditor’s review report subject to a modified opinion, emphasis of matter or other matter (Rule 4.2A.3 Item No.9)

Not applicable.

Appendices (continued)

4.4 Profit Reconciliation

Non-cash items are excluded from net profit after tax ("cash basis"), which is management's preferred measure of the Group's financial performance, as they tend to be non-recurring in nature or are not considered representative of the Group's ongoing financial performance. The impact of these items on the Group's net profit after tax ("statutory basis") is outlined below and treated consistently with the prior financial year. A description of these items is provided below.

	Half Year Ended 31 December 2020			
Profit Reconciliation	**Net profit after tax "cash basis" $M**	Gain/(loss) on disposal and acquisition of controlled entities [1] $M	Hedging and IFRS volatility $M	**Net profit after tax "statutory basis" $M**
Group				
Interest income [2]	**12,786**	-	-	**12,786**
Interest expense	**(3,415)**	-	-	**(3,415)**
Net interest income	**9,371**	-	-	**9,371**
Other banking income	**2,419**	(59)	(6)	**2,354**
Total banking income	**11,790**	(59)	(6)	**11,725**
Funds management income	**80**	-	-	**80**
Insurance income	**91**	-	-	**91**
Total operating income	**11,961**	(59)	(6)	**11,896**
Operating expenses	**(5,566)**	(61)	-	**(5,627)**
Loan impairment expense	**(882)**	-	-	**(882)**
Net profit before tax	**5,513**	(120)	(6)	**5,387**
Corporate tax (expense)/benefit	**(1,627)**	19	(2)	**(1,610)**
Non-controlling interests	**-**	-	-	**-**
Net profit after income tax from continuing operations	**3,886**	(101)	(8)	**3,777**
Net profit after income tax from discontinued operations [3]	**89**	1,011	-	**1,100**
Net profit after income tax	**3,975**	910	(8)	**4,877**

1 These amounts include post-completion adjustments (such as purchase price adjustments, and finalisation of accounting adjustments for goodwill and foreign currency reserve recycling), and transaction and separation costs associated with the previously announced divestments.
2 Interest income includes total effective interest income and other interest income.
3 Statutory net profit after income tax from discontinued operations is presented net of non-controlling interests.

Gain/(loss) on disposal and acquisition of controlled entities

Gains and losses on these transactions are inclusive of foreign exchange impacts, impairments, restructuring, separation and transactions costs and cover both controlled businesses and associates.

Hedging and IFRS volatility

Hedging and IFRS volatility represents timing differences between fair value movements on qualifying economic hedges and the underlying exposure. They do not affect the Group's performance over the life of the hedge relationship, and are recognised over the life of the hedged transaction. To qualify as an economic hedge the terms and/or risk profile must match or be substantially the same as the underlying exposure.

Appendices (continued)

4.4 Profit Reconciliation (continued)

	Half Year Ended 30 June 2020 [1]			
Profit Reconciliation	**Net profit after tax "cash basis" $M**	Gain/(loss) on disposal and acquisition of controlled entities [2] $M	Hedging and IFRS volatility $M	**Net profit after tax "statutory basis" $M**
Group				
Interest income [3]	**14,216**	-	-	**14,216**
Interest expense	**(4,956)**	-	-	**(4,956)**
Net interest income	**9,260**	-	-	**9,260**
Other banking income	**2,294**	32	82	**2,408**
Total banking income	**11,554**	32	82	**11,668**
Funds management income	**75**	-	-	**75**
Insurance income	**109**	-	-	**109**
Total operating income	**11,738**	32	82	**11,852**
Operating expenses	**(5,689)**	(29)	-	**(5,718)**
Loan impairment expense	**(1,869)**	-	-	**(1,869)**
Net profit before tax	**4,180**	3	82	**4,265**
Corporate tax (expense)/benefit	**(1,240)**	7	(25)	**(1,258)**
Non-controlling interests	**-**	-	-	**-**
Net profit after income tax from continuing operations	**2,940**	10	57	**3,007**
Net profit after income tax from discontinued operations [4]	**15**	451	-	**466**
Net profit after income tax	**2,955**	461	57	**3,473**

1 Comparative information has been restated to conform to presentation in the current period.
2 These amounts include post-completion adjustments (such as purchase price adjustments, and finalisation of accounting adjustments for goodwill and foreign currency reserve recycling), and transaction and separation costs associated with the previously announced divestments.
3 Interest income includes total effective interest income and other interest income.
4 Statutory net profit after income tax from discontinued operations is presented net of non-controlling interests.

Appendices (continued)

4.4 Profit Reconciliation (continued)

	Half Year Ended 31 December 2019 [1]			
Profit Reconciliation	**Net profit after tax "cash basis" $M**	Gain/(loss) on disposal and acquisition of controlled entities [2] $M	Hedging and IFRS volatility $M	**Net profit after tax "statutory basis" $M**
Group				
Interest income [3]	**15,946**	-	-	**15,946**
Interest expense	**(6,596)**	-	-	**(6,596)**
Net interest income	**9,350**	-	-	**9,350**
Other banking income	**2,543**	(3)	54	**2,594**
Total banking income	**11,893**	(3)	54	**11,944**
Funds management income	**98**	-	-	**98**
Insurance income	**32**	-	-	**32**
Total operating income	**12,023**	(3)	54	**12,074**
Operating expenses	**(5,206)**	(5)	-	**(5,211)**
Loan impairment expense	**(649)**	-	-	**(649)**
Net profit before tax	**6,168**	(8)	54	**6,214**
Corporate tax (expense)/benefit	**(1,812)**	68	(18)	**(1,762)**
Non-controlling interests	**-**	-	-	**-**
Net profit after income tax from continuing operations	**4,356**	60	36	**4,452**
Net profit after income tax from discontinued operations [4]	**138**	1,571	-	**1,709**
Net profit after income tax	**4,494**	1,631	36	**6,161**

1 Comparative information has been restated to conform to presentation in the current period.
2 These amounts include post-completion adjustments (such as purchase price adjustments, and finalisation of accounting adjustments for goodwill and foreign currency reserve recycling), and transaction and separation costs associated with the previously announced divestments.
3 Interest income includes total effective interest income and other interest income.
4 Statutory net profit after income tax from discontinued operations is presented net of non-controlling interests.

Appendices (continued)

4.5 Analysis Template

Ratios - Output Summary (continuing operations basis)	Half Year Ended [1] 31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M
Earnings Per Share (EPS)			
Net profit after tax - "cash basis"	**3,886**	2,940	4,356
Average number of shares (M) - "cash basis"	**1,770**	1,769	1,769
Earnings Per Share basic - "cash basis" (cents)	**219. 5**	166. 2	246. 2
Net profit after tax - "statutory basis"	**3,777**	3,007	4,452
Average number of shares (M) - "statutory basis"	**1,770**	1,769	1,769
Earnings Per Share basic - "statutory basis" (cents)	**213. 4**	170. 0	251. 7
Interest expense (after tax) - PERLS VII	**23**	28	31
Interest expense (after tax) - PERLS VIII	**21**	22	25
Interest expense (after tax) - PERLS IX	**25**	29	31
Interest expense (after tax) - PERLS X	**18**	20	23
Interest expense (after tax) - PERLS XI	**22**	25	28
Interest expense (after tax) - PERLS XII	**19**	22	6
Profit impact of assumed conversions (after tax)	**128**	146	144
Weighted average number of shares - PERLS VII (M)	**44**	38	38
Weighted average number of shares - PERLS VIII (M)	**22**	18	18
Weighted average number of shares - PERLS IX (M)	**24**	21	20
Weighted average number of shares - PERLS X (M)	**20**	17	17
Weighted average number of shares - PERLS XI (M)	**24**	20	20
Weighted average number of shares - PERLS XII (M)	**24**	21	5
Weighted average number of shares - Employee share plans (M)	**2**	2	1
Weighted average number of shares - dilutive securities (M)	**160**	137	119
Net profit after tax - "cash basis"	**3,886**	2,940	4,356
Add back profit impact of assumed conversions (after tax)	**128**	146	144
Adjusted diluted profit for EPS calculation	**4,014**	3,086	4,500
Average number of shares (M) - "cash basis"	**1,770**	1,769	1,769
Add back weighted average number of shares (M)	**160**	137	119
Diluted average number of shares (M)	**1,930**	1,906	1,888
Earnings Per Share diluted - "cash basis" (cents)	**208. 0**	161. 9	238. 3
Net profit after tax - "statutory basis"	**3,777**	3,007	4,452
Add back profit impact of assumed conversions (after tax)	**128**	146	144
Adjusted diluted profit for EPS calculation	**3,905**	3,153	4,596
Average number of shares (M) - "statutory basis"	**1,770**	1,769	1,769
Add back weighted average number of shares (M)	**160**	137	119
Diluted average number of shares (M)	**1,930**	1,906	1,888
Earnings Per Share diluted - "statutory basis" (cents)	**202. 4**	165. 5	243. 4

1 Calculations are based on actual numbers prior to rounding to the nearest million.

Appendices (continued)

4.5 Analysis Template (continued)

	Half Year Ended [1]		
	31 Dec 20	30 Jun 20	31 Dec 19
Ratios - Output Summary (including discontinued operations)	**$M**	$M	$M
Earnings Per Share (EPS)			
Net profit after tax - "cash basis"	**3,975**	2,955	4,494
Average number of shares (M) - "cash basis"	**1,770**	1,769	1,769
Earnings Per Share basic - "cash basis" (cents)	**224. 5**	167. 1	254. 0
Net profit after tax - "statutory basis"	**4,877**	3,473	6,161
Average number of shares (M) - "statutory basis"	**1,770**	1,769	1,769
Earnings Per Share basic - "statutory basis" (cents)	**275. 5**	196. 3	348. 4
Interest expense (after tax) - PERLS VII	**23**	28	31
Interest expense (after tax) - PERLS VIII	**21**	22	25
Interest expense (after tax) - PERLS IX	**25**	29	31
Interest expense (after tax) - PERLS X	**18**	20	23
Interest expense (after tax) - PERLS XI	**22**	25	28
Interest expense (after tax) - PERLS XII	**19**	22	6
Profit impact of assumed conversions (after tax)	**128**	146	144
Weighted average number of shares - PERLS VII (M)	**44**	38	38
Weighted average number of shares - PERLS VIII (M)	**22**	18	18
Weighted average number of shares - PERLS IX (M)	**24**	21	20
Weighted average number of shares - PERLS X (M)	**20**	17	17
Weighted average number of shares - PERLS XI (M)	**24**	20	20
Weighted average number of shares - PERLS XII (M)	**24**	21	5
Weighted average number of shares - Employee share plans (M)	**2**	2	1
Weighted average number of shares - dilutive securities (M)	**160**	137	119
Net profit after tax - "cash basis"	**3,975**	2,955	4,494
Add back profit impact of assumed conversions (after tax)	**128**	146	144
Adjusted diluted profit for EPS calculation	**4,103**	3,101	4,638
Average number of shares (M) - "cash basis"	**1,770**	1,769	1,769
Add back weighted average number of shares (M)	**160**	137	119
Diluted average number of shares (M)	**1,930**	1,906	1,888
Earnings Per Share diluted - "cash basis" (cents)	**212. 6**	162. 7	245. 6
Net profit after tax - "statutory basis"	**4,877**	3,473	6,161
Add back profit impact of assumed conversions (after tax)	**128**	146	144
Adjusted diluted profit for EPS calculation	**5,005**	3,619	6,305
Average number of shares (M) - "statutory basis"	**1,770**	1,769	1,769
Add back weighted average number of shares (M)	**160**	137	119
Diluted average number of shares (M)	**1,930**	1,906	1,888
Earnings Per Share diluted - "statutory basis" (cents)	**259. 4**	189. 9	334. 0

1 Calculations are based on actual numbers prior to rounding to the nearest million.

Appendices (continued)

4.5 Analysis Template (continued)

Dividends Per Share (DPS)	Half Year Ended [1]		
Dividends (including discontinued operations)	**31 Dec 20**	30 Jun 20	31 Dec 19
Dividends per share (cents) - fully franked	**150**	98	200
No. of shares at end of period excluding Treasury shares deduction (M)	**1,774**	1,770	1,770
Total dividends ($M)	**2,661**	1,735	3,540
Dividend payout ratio - "cash basis"			
Net profit after tax - attributable to ordinary shareholders	**3,975**	2,955	4,494
Total dividends ($M)	**2,661**	1,735	3,540
Payout ratio - "cash basis" (%)	**66.95**	58.71	78.78
Dividend cover			
Net profit after tax - attributable to ordinary shareholders	**3,975**	2,955	4,494
Total dividends ($M)	**2,661**	1,735	3,540
Dividend cover - "cash basis" (times)	**1. 5**	1. 7	1. 3

1 Calculations are based on actual numbers prior to rounding to the nearest million.

	Half Year Ended [1]		
	31 Dec 20	30 Jun 20	31 Dec 19
Ratios - Output Summary (continuing operations basis)	**$M**	$M	$M
Return on Equity (ROE)			
Return on Equity - "cash basis"			
Average net assets	**73,508**	71,583	70,328
Less:			
Average non-controlling interests	**(5)**	(28)	(53)
Average equity	**73,503**	71,555	70,275
Add average treasury shares	**-**	-	43
Net average equity	**73,503**	71,555	70,318
Net profit after tax - "cash basis"	**3,886**	2,940	4,356
ROE - "cash basis" (%)	**10. 5**	8. 3	12. 3
Return on Equity - "statutory basis"			
Average net assets	**73,508**	71,583	70,328
Average non-controlling interests	**(5)**	(28)	(53)
Average equity	**73,503**	71,555	70,275
Net profit after tax - "statutory basis"	**3,777**	3,007	4,452
ROE - "statutory basis" (%)	**10. 2**	8. 5	12. 6

1 Calculations are based on actual numbers prior to rounding to the nearest million.

Appendices (continued)

4.5 Analysis Template (continued)

	Half Year Ended [1]		
	31 Dec 20	30 Jun 20	31 Dec 19
Ratios - Output Summary (including discontinued operations)	**$M**	$M	$M
Return on Equity (ROE)			
Return on Equity - "cash basis"			
Average net assets	**73,508**	71,583	70,328
Less:			
Average non-controlling interests	**(5)**	(28)	(53)
Average equity	**73,503**	71,555	70,275
Add average treasury shares	**-**	-	43
Net average equity	**73,503**	71,555	70,318
Net profit after tax - "cash basis"	**3,975**	2,955	4,494
ROE - "cash basis" (%)	**10. 7**	8. 3	12. 7
Return on Equity - "statutory basis"			
Average net assets	**73,508**	71,583	70,328
Average non-controlling interests	**(5)**	(28)	(53)
Average equity	**73,503**	71,555	70,275
Net profit after tax - "statutory basis"	**4,877**	3,473	6,161
ROE - "statutory basis" (%)	**13. 2**	9. 8	17. 4
Net Tangible Assets per share			
Net assets	**75,003**	72,013	71,153
Less:			
Intangible assets	**(7,704)**	(7,649)	(7,739)
Non-controlling interests	**(5)**	(5)	(51)
Total net tangible assets	**67,294**	64,359	63,363
No. of shares at end of period excluding Treasury shares deduction (M)	**1,774**	1,770	1,770
Net Tangible Assets per share ($)	**37. 93**	36. 36	35. 79

1 Calculations are based on actual numbers prior to rounding to the nearest million.

Appendices (continued)

4.6 Group Performance Summary

Group Performance Summary	Summary from continuing operations					Summary including discontinued operations				
	Half Year Ended [1] ("cash basis")					Half Year Ended [1] ("cash basis")				
	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %	31 Dec 20 $M	30 Jun 20 $M	31 Dec 19 $M	Dec 20 vs Jun 20 %	Dec 20 vs Dec 19 %
Net interest income	**9,371**	9,260	9,350	1	-	**9,373**	9,269	9,376	1	-
Other banking income	**2,419**	2,294	2,543	5	(5)	**2,452**	2,333	2,542	5	(4)
Total banking income	**11,790**	11,554	11,893	2	(1)	**11,825**	11,602	11,918	2	(1)
Funds management income	**80**	75	98	7	(18)	**421**	445	601	(5)	(30)
Insurance income	**91**	109	32	(17)	large	**91**	123	68	(26)	34
Total operating income	**11,961**	11,738	12,023	2	(1)	**12,337**	12,170	12,587	1	(2)
Operating expenses	**(5,566)**	(5,689)	(5,206)	(2)	7	**(5,814)**	(6,092)	(5,577)	(5)	4
Loan impairment expense	**(882)**	(1,869)	(649)	(53)	36	**(882)**	(1,869)	(649)	(53)	36
Net profit before tax	**5,513**	4,180	6,168	32	(11)	**5,641**	4,209	6,361	34	(11)
Corporate tax expense	**(1,627)**	(1,240)	(1,812)	31	(10)	**(1,666)**	(1,254)	(1,864)	33	(11)
Non-controlling interests	**-**	-	-	-	-	**-**	-	(3)	-	large
Net profit after tax	**3,886**	2,940	4,356	32	(11)	**3,975**	2,955	4,494	35	(12)
Net profit after tax from discontinued operations	**89**	15	138	large	(36)	**-**	-	-	-	-
Net profit after tax including discontinued operations	**3,975**	2,955	4,494	35	(12)	**3,975**	2,955	4,494	35	(12)

1 Comparative information has been restated to conform to presentation in the current period.

Appendices (continued)

4.7 Foreign Exchange Rates

Exchange Rates Utilised [1]	Currency	As at 31 Dec 20	30 Jun 20	31 Dec 19
AUD 1.00 =	USD	**0. 7705**	0. 6854	0. 7004
	EUR	**0. 6270**	0. 6114	0. 6253
	GBP	**0. 5657**	0. 5584	0. 5341
	NZD	**1. 0667**	1. 0705	1. 0409
	JPY	**79. 4750**	73. 8002	76. 1235

1 End of day, Sydney time.

Average Exchange Rates Utilised	Currency	Half Year Ended 31 Dec 20	30 Jun 20	31 Dec 19
AUD 1.00 =	USD	**0. 7228**	0. 6585	0. 6846
	EUR	**0. 6123**	0. 5972	0. 6170
	GBP	**0. 5536**	0. 5218	0. 5440
	NZD	**1. 0727**	1. 0497	1. 0589
	JPY	**76. 0995**	71. 2627	73. 9688

Appendices (continued)

4.8 Definitions

Glossary of Terms

Term	Description
Assets under management	Assets under management (AUM) represents the market value of assets for which the Group acts as appointed manager. Growth and volatility in this balance is a key performance indicator for the Wealth Management and New Zealand businesses.
Bankwest	Bankwest is active in all domestic market segments, with lending diversified between the business, rural, housing and personal markets, including a full range of deposit products. The retail banking activities conducted under the Bankwest brand are consolidated into Retail Banking Services, and the business banking activities conducted under the Bankwest brand are consolidated into Business Banking.
Business Banking	Business Banking (formerly Business and Private Banking) serves the banking needs of business, corporate and agribusiness customers across the full range of financial services solutions, as well as equities trading and margin lending services through the CommSec business. Business Banking also includes the financial results of business banking activities conducted under the Bankwest brand. From July 2020, Commonwealth Private has been consolidated into the Retail Banking Services.
Corporate Centre (including eliminations)	Corporate Centre includes the results of unallocated Group support functions such as Treasury, Investor Relations, Group Strategy, Legal and Corporate Affairs. It also includes Group-wide elimination entries arising on consolidation, centrally raised provisions and other unallocated revenue and expenses.
Corporations Act 2001	*Corporations Act 2001* (Cth).
Dividend payout ratio ("cash basis")	Dividends paid on ordinary shares divided by net profit after tax ("cash basis").
Dividend payout ratio ("statutory basis")	Dividends paid on ordinary shares divided by net profit after tax ("statutory basis").
DRP	Dividend reinvestment plan.
DRP participation	The percentage of total issued capital participating in the dividend reinvestment plan.
Earnings per share (basic)	Basic earnings per share is the net profit attributable to ordinary equity holders of the Bank, divided by the weighted average number of ordinary shares on issue during the period, per the requirements of relevant accounting standards.
Earnings per share (diluted)	Diluted earnings per share adjusts the net profit attributable to ordinary equity holders of the Bank and the weighted average number of ordinary shares on issue used in the calculation of basic earnings per share, for the effects of dilutive potential ordinary shares, per the requirements of relevant accounting standards.
Full-time equivalent staff	Includes all permanent full-time staff, part-time staff equivalents and external contractors employed through third-party agencies.
Funds under administration	Funds under administration (FUA) represents the market value of funds administered by the Group and excludes AUM. Growth and volatility in this balance is a key performance indicator for the Wealth Management and New Zealand businesses.
International Financial Services	International Financial Services (IFS) incorporates the Indonesian retail and business banking operations, and associate investments in China (Bank of Hangzhou and Qilu Bank) and Vietnam (Vietnam International Bank). It does not include the Business Banking and Institutional Banking and Markets businesses in Asia.
Institutional Banking and Markets	Institutional Banking and Markets serves the commercial and wholesale banking needs of large corporate, institutional and government clients across a full range of financial services solutions including access to debt capital markets, transaction banking, working capital and risk management through dedicated product and industry specialists.
Interest rate risk in the banking book (IRRBB)	Interest rate risk in the banking book (IRRBB) is the risk that the Bank's profit derived from Net interest income (interest earned less interest paid), in current and future periods, is adversely impacted by changes in interest rates. This is measured from two perspectives: quantifying the change in the net present value of the Balance Sheet's future earnings potential, and the anticipated change to the Net interest income earned over 12 months. This calculation is driven by APRA regulations with further detail outlined in the Bank's Basel III Pillar 3 report.

Appendices (continued)

Term	Description
Net profit after tax ("cash basis")	Represents net profit after tax and non-controlling interests before non-cash items including, hedging and IFRS volatility, and losses or gains on acquisition, disposal, closure and demerger of businesses. This is management's preferred measure of the Group's financial performance.
Net profit after tax ("statutory basis")	Represents net profit after tax and non-controlling interests, calculated in accordance with Australian Accounting Standards. This is equivalent to the statutory item "Net profit attributable to Equity holders of the Bank".
Net Stable Funding Ratio (NSFR)	The NSFR more closely aligns the behaviour term of assets and liabilities. It is the ratio of the amount of available stable funding (ASF) to the amount of required stable funding (RSF). ASF is the portion of an Authorised Deposit-taking Institution's (ADI) capital and liabilities expected to be a reliable source of funds over a one year time horizon. RSF is a function of the liquidity characteristics and residual maturities of an ADI's assets and off Balance Sheet activities.
Net tangible assets per share	Net assets excluding intangible assets, non-controlling interests, and other equity instruments divided by ordinary shares on issue at the end of the period (excluding Treasury Shares deduction). Right of use assets are included in net tangible assets per share.
New Zealand	New Zealand includes the banking and funds management businesses operating in New Zealand under the ASB brand. ASB provides a range of banking, wealth and insurance products and services to its personal, business, rural and corporate customers in New Zealand.
Profit after capital charge (PACC)	The Group uses PACC, a risk-adjusted measure, as a key measure of financial performance. It takes into account the profit achieved, the risk to capital that was taken to achieve it, and other adjustments.
Operating expenses to total operating income	Represents operating expenses as a percentage of total operating income. The ratio is a key efficiency measure.
Other Overseas	Represents amounts booked in branches and controlled entities outside Australia and New Zealand.
Retail Banking Services	Retail Banking Services provides banking and general insurance products and services to personal and private bank customers. Retail Banking Services also includes the financial results of retail banking activities conducted under the Bankwest brand.
Return on equity ("cash basis")	Based on net profit after tax ("cash basis") and non-controlling interests less other equity instruments' distributions applied to average shareholders' equity, excluding non-controlling interests, other equity instruments and the treasury shares deduction relating to life insurance statutory funds.
Return on equity ("statutory basis")	Based on net profit after tax ("statutory basis") less other equity instruments' distributions applied to average shareholders' equity, excluding non-controlling interests and other equity instruments.
Total Committed Exposure (TCE)	Total Committed Exposure is defined as the balance outstanding and undrawn components of committed facility limits. It is calculated before collateralisation and excludes settlement exposures on derivatives.
Wealth Management	Wealth Management provides superannuation, investment and retirement products which help to improve the financial wellbeing of our customers.
Weighted average number of shares ("cash basis")	The calculation incorporates the bonus element of any rights issue, discount element of any DRP and excludes "Treasury Shares" related to investment in the Bank's shares held by the employee share scheme trust.
Weighted average number of shares ("statutory basis")	The calculation incorporates the bonus element of any rights issue, discount element of any DRP and excludes "Treasury Shares" related to investments in the Bank's shares held by the employee share scheme trust.

Appendices (continued)

Market Share Definitions

Retail Banking Services	
Home loans (APRA)	CBA Loans to individuals that are Securitised Owner Occupied and Investment Home Loans as per APRA monthly ADI Statistics, **divided by** APRA Monthly ADI Statistics back series.
Home Loans (RBA)	CBA Loans to individuals that are Securitised Owner Occupied and Investment Home Loans as per APRA monthly ADI Statistics + separately reported subsidiaries: Wallaby Trust, Residential Mortgage Group P/L, **divided by** RBA Financial Aggregates Owner Occupied and Investor Home Lending (includes ADIs and RFCs).
Credit cards (APRA)	CBA Personal Credit Card Lending (APRA), **divided by** Loans to Households: Credit Cards (APRA Monthly ADI Statistics back series).
Consumer finance (other household lending)	CBA Lending to Individuals which includes: Personal Loans, Margin Lending, Personal Leasing, Revolving Credit, Overdrafts, and Home Loans for personal purposes, **divided by** Loans to Households: Other (APRA Monthly ADI Statistics back series).
Household deposits	Total CBA transaction and non-transaction account deposit balances from residents as reported under APRA definitions for Households (individuals) excluding Self-Managed Super Funds (as per deposit balances submitted to APRA in ARF720.2A Deposits), **divided by** Deposits from Households (APRA Monthly ADI Statistics back series).
Business Banking	
Business lending (APRA)	CBA Total Loans to residents as reported under APRA definitions for the Non-Financial Corporations sector (as per lending balances submitted to APRA in ARF720.1A ABS/RBA Loans and Finance Leases) (this includes some Housing Loans to businesses), **divided by** Loans to Non-Financial Businesses (APRA Monthly ADI Statistics back series).
Business lending (RBA)	CBA Business Lending and Credit: specific "business lending" categories in lodged APRA returns – ARF720.1A ABS/RBA Loans and Finance Leases, ARF720.7 ABS/RBA Bill Acceptances and Endorsements, excluding sub-categories of RBA, ADIs, RFCs and central borrowing authorities, **divided by** RBA Total Business Lending (adjusted for series breaks).
Business deposits (APRA)	Total CBA transaction and non-transaction account deposit balances from residents as reported under APRA definitions for the non-financial corporations sector (as per deposit balances submitted to APRA in ARF720.2A Deposits), **divided by** Deposits from Non-Financial Businesses (from APRA Monthly ADI Statistics back series).
Equities trading	Twelve months rolling average of Australian equities traded value (CommSec excluding AUSIEX), **divided by** Twelve months rolling average of total Australian equities market traded value.

Appendices (continued)

Market Share Definitions

Wealth Management	
Australian Retail	Total funds in CBA Wealth Management retail investment products (including WM products badged by other parties), **divided by** Total funds in retail investment products market (from Strategic Insight).
FirstChoice Platform	Total funds in FirstChoice platform, **divided by** Total funds in platform/masterfund market (from Strategic Insight).
New Zealand	
Home loans	All ASB residential mortgages for owner occupier and residential investor property use, **divided by** Total New Zealand residential mortgages for owner occupier and residential investor property use of all New Zealand registered banks (from RBNZ).
Customer deposits	All resident and non-resident deposits on ASB Balance Sheet, **divided by** Total resident and non-resident deposits of all New Zealand registered banks (from RBNZ).
Business lending	All New Zealand Dollar loans for business use on ASB Balance Sheet excluding agriculture loans, **divided by** Total New Zealand Dollar loans for business use of all New Zealand registered banks excluding agriculture loans (from RBNZ).
Retail AUM	Total ASB AUM, **divided by** Total Market net Retail AUM (from Fund Source Research Limited).

TAB 17: Exhibit CBA-1

New Payments Platform

NPP QR Code Standard

Final

Version 1.0

30 May 2019

NPP Australia Limited
ACN 601 428 737

Documents Referenced

Document number	Short name	Long name	Version location
1	EMV QRCPS	EMVCo QR Code Specification for Payment Systems (EMV QRCPS) Merchant Presented Mode	https://www.emvco.com/terms-of-use/?u=/wp-content/uploads/documents/EMVCo-Merchant-Presented-QR-Specification-v1-1.pdf

Table of Figures

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CONTENTS

1 Introduction

A standardised QR Code specification for NPP payments is provided to help promote NPP payments for different use cases and to provide a consistent user experience for merchants and consumers. It will also enable interoperability in the payments industry.

The QR Code standard provides a single common QR Code that can encompass QR Code payment solutions from multiple payment service operators. It facilitates payments among different payment schemes, e-wallets and banks and encourages merchants to adopt QR Code as a payment method.

NPPA has developed a common QR Code specification for NPP payments using the EMV® Merchant-Presented QR Code Specification for Payment Systems (EMV QRCPS) published by EMVCo as a basis, as it offers an effective solution to ensure interoperability. The notational conventions used in this specification are the same as those used in EMV QRCPS.

NPPA does not mandate support of this QR Code specification for NPP Payments by participating financial institutions or third parties. Parties including NPP Participants may observe and use these Guidelines as they see fit, subject to any conditions set out in this document or in the EMV QRCPS.

2 Overview of EMV® QR Code Specification for Payment Systems

According to the design of the EMV® QRCPS, the data within a QR Code are organized in a tree-like structure of data objects. A data object may be a primitive data object or a template. A template may include other primitive data objects and templates. Each data object is made up of three individual fields. The first field is an identifier (ID) by which the data object can be referenced. The second field is a length field that explicitly indicates the number of characters included in the third field, i.e. the value field. A data object therefore comprises the following:

- ID field, which is coded as a two-digit numeric value, with a value ranging from "00" to "99";
- Length field, which is coded as a two-digit numeric value, with a value ranging from "01" to "99"; and
- Value field, which has a minimum length of one character and maximum length of 99 characters.

A common QR Code may support multiple payment operators, where individual payment operators may define their own structures of merchant account information and make use of the common data fields, such as transaction currency and amount, contained in the common QR Code.

Specifically, the EMV Merchant-Presented QR Code supports EMVCo and non-EMVCo payment operators using IDs “02” to “25” for the EMVCo payment operators and IDs “26” to “51” for any other payment operators. For the purposes of EMV QRCPS, NPP will use ID from 26 as a template, with overlay services identified within the template.

2.1 Assumptions and general principles

The following assumptions and general principles have been considered in developing the NPP QR Codes specification in this document:

- QR Codes used across the NPP platform will be merchant presented QR Codes.
- Merchants may create the QR Code for use on the NPP platform.
- NPP Participants may provide QR Code generation for merchants.
- Third-party providers may provide QR Code generation for merchants.
- The QR Code may be consumed by an NPP Participant on behalf of customer (payer) and mapped into a payment initiation or clearing message. Note the acceptance of the payment initiation will be subject each individual financial institution supporting the acceptance of this message.
- Use of an “End To End ID” will be mandatory in the QR Code-to-pacs.008 message flow. This will be managed by a mandatory Data Object in the QR Code specification being mapped to the End to End ID element in relevant NPP pain and pacs messages.

2.2 Common business case

A Merchant-presented QR Code enables a merchant (payee) to present encoded payment details to a customer (payer), who can then verify the decoded payment details and make the payment if the satisfied that the payment information is correct.

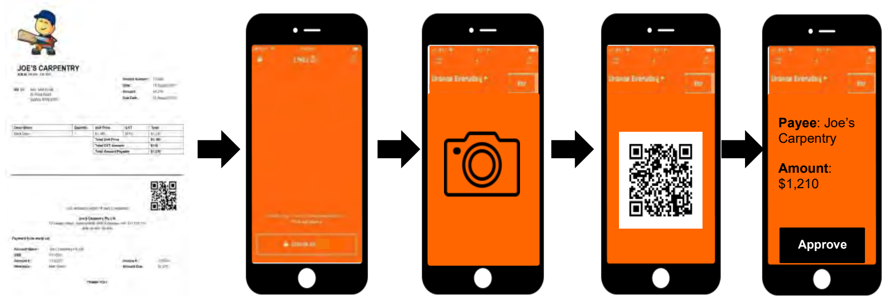
QR Codes can support various payment types, including bill payments, online payments and point-of-sale payments and are classified as static or dynamic QR Codes depending on the use case. The information encoded in static QR Codes is fixed and used for multiple transactions, while a dynamic QR Code contains additional transaction details and is used for specific transactions.

The following outlines a typical QR Code sequence:

1. Merchant displays QR Code with merchant/transaction details.
2. Customer scans QR Code using a mobile application/banking channel and inputs the amount to initiate the transaction, if required (see Transaction Value Rules on page 11).
3. Mobile application/banking channel resolves PayID (if applicable).
4. Customer is asked to verify the payment details.
5. Mobile application/channel sends a payment to the merchant's Financial Institution or payment initiation to the customer's Financial Institution.
6. The receiving Financial Institution processes the payment or payment initiation according to NPP rules.[1]
7. Mobile application/channel provides notification of the transaction details to the customer.
8. Merchant receives notification of successful transaction from their Financial Institution.

Figure 1 QR Code Invoice

1. Invoice includes a unique QR code
2. Customer scans the QR Code using their banking app - payment details are filled in automatically
3. Customer approves the payment and invoice gets paid



2.3 QR Code Payload Data Objects

The NPP QR specification follows the EMV QRCPS, organising the content of the QR Code into the following 5 groups of data objects:

- QR Code Conventions (*Table 1*)
- Merchant Account Information (*Table 2*)
- Additional Merchant Information (*Table 5*)
- Transaction Value (*Table 6*)
- Additional Data Template (*Table 7*)

The Globally Unique Identifier data object is further described in 2.4.2 below and the Merchant Account Information template to be used for NPP Payments is described in 2.4.3 below.

2.4 QR Code Conventions

The QR Code Conventions (*Table 1*) specify conventions used for the QR Code content, such as Payload Format Indicator, which defines the version of the QR Code template and hence the conventions on the identifiers, lengths and values.

ID	Name	Length	Presence for NPP	Remarks
"00"	Payload Format Indicator	02	M	A fixed value of "01"

[1] Please note third parties are required to confirm with their financial institution on the ability to support payment initiation messages.

ID	Name	Length	Presence for NPP	Remarks
"01"	Point of initiation Method	02	O	"11" for static QR Codes: "12" for dynamic QR Codes
"63"	Cyclic Redundancy Check (CRC)	04	M	Checksum calculated over all the data objects included in the QR Code.

Table 1 QR Code Conventions

General Rules

- The Payload Format Indicator (ID "00") shall contain a value of "01"
- The Point of Initiation Method (ID "01") shall contain a value of "11" or "12".
- The CRC (ID "63") shall be calculated according to [ISO/IEC 13239] using the polynomial '1021' (hex) and initial value 'FFFF' (hex). The data over which the checksum is calculated shall cover all data objects, including their ID, Length and Value, to be included in the QR Code, in their respective order, as well as the ID and Length of the CRC itself (but excluding its Value). Following the calculation of the checksum, the resulting 2-byte hexadecimal value shall be encoded as a 4-character Alphanumeric Special value by converting each nibble to an Alphanumeric Special character. For example, a CRC with a two-byte hexadecimal value of '007B' is included in the QR Code as "6304007B".[2]

2.4.1 Merchant Account Information

The Merchant Account Information specifies the identity of a merchant. Each payment operator may define its own format of the Merchant Account Information IDs. *Table **2*** shows the allocation of Merchant Account Information IDs among various payment operators.

ID	Name	Length	Presence for NPP	Comments
"02"- "03"	Reserved for Visa	Variable up to 99	M	
"04"- "05"	Reserved for Mastercard			
"06"- "08"	Reserved for EMVCo			
"09" – "10"	Reserved for Discover			
"11" – "12"	Reserved for Amex			
"13"- "14"	Reserved for JCB			
"15" – "16"	Reserved for UnionPay			
"17" – "25"	Reserved for EMVCo			
One of "26" to "51"	26 designate for NPP			ID 26 has been nominated for NPP.

[2]EMVCo QR Code Specification for Payment Systems (EMV QRCPS) Merchant Presented Mode
Viewed 30 April 2019: https://www.emvco.com/terms-of-use/?u=/wp-content/uploads/documents/EMVCo-Merchant-Presented-QR-Specification-v1-1.pdf

ID	Name	Length	Presence for NPP	Comments
“26”to “51”	Reserved for additional payment operators			

Table 2 Merchant Account Information

<u>Merchant Account Information Rules</u>

The ID “26” is designated for NPP for use in Australia. Merchants creating NPP QR Codes will complete the Merchant Account Information template for the root ID 26.

2.4.2 Globally Unique Identifier

A Merchant Account Information template shall contain a primitive Globally Unique Identifier data object, with a data object ID "00", identifying NPP as the payment operator. The identifier will be au.com.nppa and the template will contain corresponding merchant account information (*Table **3*** below).

ID	Sub-ID	Name	Format	Length	Presence for NPP	Remarks
26	“00”	Globally Unique Identifier	Ans	Var. up to “32”	M	Identifies the payment operator who uses an ID or template to define Merchant Account information. The value for NPP is the reverse domain name au.com.nppa.
	“01” – “99”	Payment network specific	S		M	Additional components required by the payment operator to define the merchant. This is purely related to the merchant (see *Table **4*** below).

Table 3 Globally Unique Identifier

<u>Globally Unique Identifier Rules</u>

The value of the Globally Unique Identifier field shall contain one of the following:

- An Application Identifier (AID) consisting of a RID registered with ISO and, optionally, a PIX, as defined by [ISO 7816-4]. For example, "D840000000".
- A [UUID] without the hyphen (-) separators. For example, “581b314e257f41bfbbdc6384daa31d16”.
- A reverse domain name. For example, “com.merchant.name”.

2.4.3 Merchant Account Information template for NPP

The Merchant Account Information template for NPP is described in *Table **4*** below. This is a user defined template defined for NPP use.

ID	Sub ID	Name	Format	Length	Presence for NPP	Comments
26	“00”	Globally Unique Identifier	Ans	11	M	For NPP this is au.com.nppa. (See *Table **3***)

ID	Sub ID	Name	Format	Length	Presence for NPP	Comments
	"01"	Creditor account name	ANS	Var up to 25	M	Name of the account where the merchant generating the QR Code wants funds to be deposited.
	"02"	BBAN		Var up to 25	M	BBAN for the account where the merchant generating the QR Code wants funds to be deposited.
	"03"	PayID	Ans	Var up to 33	M	This is the PayID of the Merchant sending the QR Code. A merchant may need to create a new PayID due to the 33-character limit for this Data Object.
	"04"	PayID Type	N	1	M	Where the value represents the PayID type used: 1 - Phone Number 2 - Email 3 - ABN 4 - Organisation Identifier
	"05"	Overlay Service identifier	N	Var up to 2	O	The Overlay Service identifier will be numeric made up of two numbers and will be published by NPPA as an Appendix to this specification.

Table 4 Merchant Account Information template for NPP

2.4.4 Additional Merchant Information

The Additional Merchant Information (*Table **5***) specifies the information about a merchant such as merchant name and business location. IDs 52, 58 and 59 are mandatory (M) in the EMV Co standard and have been provided with default values in the NPP implementation of the QR Code Standard.

ID	Name	Format	Length	Presence	Remarks
"52"	Merchant Category Code	N	04	M	As defined in ISO 18245 and assigned by the Acquirer. May be displayed to the customer. Where not available populate with "0000".
"58"	Country Code	Ans	02	M	Country of the merchant acceptance device as defined by ISO 3166-1

ID	Name	Format	Length	Presence	Remarks
					Default to AU.
“59”	Merchant Name	Ans	Var up to 25	M	The name that the Merchant is known by. May be displayed to the customer.
“60”	Merchant City	Ans	Var up to 15	M	City of operation of the merchant. May be displayed to the customer.
“61”	Postal Code	Ans	Var up to 10	O	Post code. May be displayed to the customer.
“64”	Merchant information – Language Template	S	Var up to 99	O	A template with other language. This is not currently used for NPP.

Table 5 Additional Merchant Information

Rules for Additional Merchant Information

- The Merchant Category Code (MCC) (ID “52”) shall contain an MCC as defined by ISO 18245. The MCC should indicate the Merchant Category Code of the merchant. Where this is not available to the merchant, a default code of “0000” in the MCC field may be used.
- The Country Code (ID “58”) shall contain a value as defined by ISO 3166-1 alpha 2. The Country Code should indicate the country in which the merchant transacts. For NPP this will always be “AU”.
- The Merchant Name (ID “59”) shall be present. The Merchant Name should indicate the “trading” name for the merchant.
- The Merchant City shall be present (ID “60”). The Merchant City should indicate the city of the merchant's physical location.
- The Merchant Information – Language Template (ID “64”) is a template, which contains other data fields, which may be used by a mobile application to present the merchant information in an alternate language.

2.4.5 Transaction Value

The Transaction Value data objects (*Table* ***6***) specify the currency and amount of a transaction. They also include a tip, which allows merchants or customers to specify the tip in fixed value or percentage.

ID	Name	Format	Length	Presence for NPP	Comments
“53”	Transaction Currency	N	03	M	Defined by ISO 4217: AUD = 036
“54”	Transaction Amount	Ans	Var. up to 13	O	May be included by the merchant or mobile app may prompt the customer to input the amount to be paid.

ID	Name	Format	Length	Presence for NPP	Comments
"55"	Tip	N	02	O	Currently not included for NPP
"56"	Value of Tip Fixed	Ans	Var. up to 13	C	Conditional on 55. Currently not included for NPP
"57"	Value of Tip Percentage	Ans	Var. up to 5	C	Conditional on 55. Currently not included for NPP

Table 6 Transaction Value

Transaction Value Rules

- The Transaction Currency (ID "53") shall conform to ISO 4217 and shall contain the 3-digit numeric representation of the currency. For NPP, AUD is represented by the value "036".
- The value should indicate the transaction currency in which the merchant transacts. The Transaction Amount (ID "54"), if present, shall be different from zero, shall only include (numeric) digits "0" to "9" and may contain a single "." character as the decimal mark. When the amount includes decimals, the "." character shall be used to separate the decimals from the integer value and the "." character may be present even if there are no decimals. The Transaction Amount shall not be included if the mobile application prompts the consumer to enter the amount to be paid to the Merchant or is presented to the consumer.

2.4.6 Additional Data Template

ID "62" is a template which includes common additional data objects such as invoice number and reference information. Values for these Data Objects can be provided by the merchant or the mobile app may prompt the customer for these values. It is also where specific information is defined for NPP transactions.

The Data Objects in the template at ID 62 are optional (O) in the EMV Co QR Code. However, 62-05, 62-06 and 62-08 are Mandatory (M) for NPP implementation.

ID	Sub- ID	Name	Format	Length	Presence for NPP	Comments
62	01	Invoice Number	Ans	Var. up to 25	O	Mapped to RmtInf/Strd/RfrdDocInf/Nb
	02	Mobile Number	Ans	Var. up to 25	O	Not used for NPP
	03	Store Label	Ans	Var. up to 25	O	Not used for NPP
	04	Loyalty Number	Ans	Var. up to 25	O	Not used for NPP
	05	Reference Label	Ans	Var. up to 10	M	Unique reference for the QR Code provided by the merchant to allow for point-to-point reconciliation between QR Code and pacs.008. Mapped to

ID	Sub- ID	Name	Form at	Length	Presence for NPP	Comments
						<PmtId>/<InstrId>
	06	Customer/Consumer Label	Ans	Var. up to 25	M	Mapped to End to End ID. Must be populated by the merchant with a reference number or "NOTPROVIDED". If a category purpose code is included at 08 it must be populated according to rules to be defined. Must be carried into the associated pain or pacs message and provided to end customer as per current core clearing and settlement rules. Mapped to <EndtoEndID>
	07	Terminal Label	Ans	Var. up to 25	O	Not used for NPP
	08	Purpose of Transaction	Ans	Var. up to 5	M	Category Purpose Code. Mapped to CdtTrfTxInf/PmtTpInf/CtgyPurp
	09	Additional Consumer Data Request	Ans	Var. up to 25	O	Not used for NPP
	10-49	Reserved for EMVCo	S		O	Not used for NPP
	50-99	Payment system specific	S	1	O	Not used for NPP

Table 7 Additional Data Template

<u>Additional Data Template Rules</u>

- As the maximum data size of this Additional Data Field Template (ID "62") is 99 characters, merchants may specify up to 29 characters of information in optional Data Objects.

3 Mapping to NPP Payment Initiation and Clearing Messages

The following table outlines the key information to be mapped to the NPP pain.001 and pacs.008 messages from the payload of the QR Code.

EMVCo ID	**EMVCo Template/ Sub-ID**	**Data Object name**	**Pacs.008 element**	**pain.001 element**	**Comments**
00	N/A	Payload Format Indicator	N/A	N/A	Not used by NPP
01	N/A	Point of Initiation Method	N/A	N/A	Optional and not used by NPP
02-25	N/A	N/	N/A	N/A	N/A
26	00 Merchant Account Information	Globally Unique Identifier	N/A	N/A	Not used by NPP
26	01	Creditor account name	<CdtrAcct>	<CdtrAcct>	
26	02	BBAN	<CdtrAcct>/<Id>	<CdtrAcct>/<Id>	
26	03	PayID	<EmailAdr>	<EmailAdr>	This is the Merchant's PayID
26	04	PayID type	N/A	N/A	Type of PayID provided for Alias Resolution
26	05	Overly Service identifier	N/A	N/A	This element is not mapped but is used to determine the Service code in the payment message.
27-51	N/A	N/A	N/A	N/A	N/A
52		Merchant Category	N/A	N/A	This element is not mapped but may be used by

EMVCo ID	**EMVCo Template/ Sub-ID**	**Data Object name**	**Pacs.008 element**	**pain.001 element**	**Comments**
		Code			Participants.
53		Transaction Currency	<Amt>/<InstdAmt>/<Ccy>	<Amt>/<InstdAmt>/<Ccy>	
54		Transaction amount	<Amt>/<InstdAmt>	<Amt>/<InstdAmt>	
55		Tip or Convenience Indicator	N/A	N/A	Optional in QR Code Not used by NPP
56		Value of Convenience Fee Fixed	N/A	N/A	Conditional on 55 Not used by NPP
57		Value of Convenience Fee Percentage	N/A	N/A	Conditional on 55 Not used by NPP
58		Country Code	N/A	N/A	Mandatory in the EMV spec but not used by NPP
59 M		Merchant Name	N/A	N/A	Mandatory in the EMV spec but not used by NPP
60 M		Merchant City	N/A	N/A	Mandatory in the EMV spec and not used by NPP
61 O		Postal Code	N/A	N/A	Optional and not used by NPP
62	Additional Data Field	01			
62	01	Invoice Number	RmtInf/Strd/RfrdDocInf/Nb	RmtInf/Strd/RfrdDocInf/Nb	
62	02	Mobile Number	N/A	N/A	Not used by NPP
62	03	Store Label	N/A	N/A	Not used by NPP

EMVCo ID	EMVCo Template/ Sub-ID	Data Object name	Pacs.008 element	pain.001 element	Comments
62	04	Loyalty Number	RmtInf/Strd/Invcee/Id/PrvtId/Othr	RmtInf/Strd/Invcee/Id/PrvtId/Othr	
62	05	Reference Label	<PmtId>/<InstrId>	<PmtId>/<InstrId>	Unique reference for the QR Code provided by the merchant to allow for point-to-point reconciliation between QR Code and pacs.008. Must be carried into the pacs.008 if provided in the QR Code by the Merchant.
62	06	Consumer Label	<EndtoEndID>	<EndtoEndID>	An end-to-end customer reference. Must be carried into the pacs.008 if provided in the QR Code by the Merchant.
62	07	Terminal Label	N/A	N/A	Not used by NPP
62	08	Purpose of Transaction	CdtTrfTxInf/PmtTpInf/CtgyPurp	CdtTrfTxInf/PmtTpInf/CtgyPurp	Optional Category Purpose
62	09	Additional Customer Data	N/A	N/A	Optional and not used by NPP
62	10-49	RFU EMVCo	N/A	N/A	Not used by NPP
62	50-99	Payment System specific templates	N/A	N/A	Not used by NPP

End of Document