

Research Update:

Commonwealth Bank of Australia & Subsidiaries Ratings Lowered On Bank Criteria Change

Primary Credit Analyst:

Nico De Lange, Sydney (61) 2-9255-9887;nico_delange@standardandpoors.com

Secondary Contact:

Gavin Gunning, Melbourne (61) 3-9631-2092;gavin_gunning@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Commonwealth Bank of Australia & Subsidiaries Ratings Lowered On Bank Criteria Change

Overview

- Following a review of Commonwealth Bank of Australia under Standard & Poor's revised bank criteria (published Nov. 9, 2011), we have lowered our long-term issuer credit rating on Commonwealth Bank of Australia Ltd. (CBA) to 'AA-' from 'AA'. Our 'A-1+' short-term rating on CBA is affirmed. The outlook is stable.
- Our ratings on subsidiaries of CBA have also been lowered following our review (see Ratings List).
- Our ratings on CBA reflect the anchor SACP for a bank operating mainly in Australia; plus the bank's strong business position; adequate capital and earnings, risk position, and liquidity; and average funding.
- The stable outlook reflects our expectations of Commonwealth Bank of Australia's continued satisfactory earnings, credit losses remaining well under control, adequate capitalization, well-managed funding and liquidity and conservative risk appetite.

Rating Action

As previously announced, on Dec. 1, 2011, Standard & Poor's Ratings Services lowered its long-term issuer credit rating on Commonwealth Bank of Australia (CBA) to 'AA-' from 'AA'. The 'A-1+' short-term rating is affirmed. Our long-term issuer credit rating on ASB Bank Ltd. (ASB), CBA's core New Zealand banking subsidiary, has also been lowered to 'AA-'. The ratings on CBA's insurance and wealth-management subsidiaries have also been lowered (see Ratings List). All outlooks are stable.

At the same time, we withdrew the bank fundamental strength rating on the bank.

Rationale

Our ratings on CBA reflect the anchor stand-alone credit profile (SACP) for a bank operating mainly in Australia; plus the bank's "strong" business position; "adequate" capital and earnings, risk position, and liquidity; "average" funding; and potential government support.

Our bank criteria use the BICRA economic risk and industry risk scores to determine a bank's anchor (SACP), the starting point in assigning an ICR. On a weighted basis, the countries in which CBA has exposures have an economic risk of '2' and an industry risk of '2', which corresponds to an anchor rating of

'a-' for CBA. Australia accounts for approximately 85% of CBA's exposures and largely drives the weighted scores. The BICRA score is informed, among other things, by our evaluation of economic risk, whereby we view Australia as a wealthy, open, and resilient economy. We consider that build-up of private sector credit and asset prices has eased in the recent years, and that moderate private sector debt is offset by conservative lending practices and a creditor-supportive legal framework. With regard to industry risk, our assessment of the Australian banking industry is underpinned by the country's conservative and comprehensive regulation and the banking sector's very low risk appetite, partly offset by limited funding support from customer deposits and a material dependence on net external borrowings.

The SACP for CBA is 'a'.

We assess CBA's business position as "strong". This opinion is based on CBA's dominant domestic retail market share, consistent and focused strategy, and competent management team. As the largest retail bank in Australia, with about A\$668 billion of assets at June 30, 2011, a key factor underpinning business stability is a dominant domestic market share of retail deposits (26.9%) and mortgage lending (25.7%). The group's strategy has been consistent over the past few years, and the focus has been on building Australia's finest financial services organization through strategic initiatives such as profitable growth, trust and team spirit, customer satisfaction, business banking, and technological and operational excellence. CBA's Asian expansion is expected to remain targeted on acquisitions and ventures on a relatively small scale. A stable and competent executive team had been in place over the past three years.

We assess CBA's capital and earnings as "adequate", reflecting our expectation that the bank's pre-diversification risk-adjusted capital (RAC) ratio will trend toward 8% over the next 12-18 months. This expectation factors in our view that CBA's internal capital generation would be affected by pressure on net interest margins, and subdued system growth. We expect CBA's ratio of core earnings as a percentage of adjusted assets to be maintained during the next three years. On a regulatory risk-weighted-asset basis, CBA's core ratio is higher than that of the other domestic big four banks and other international peers. Finally, while it is not included in the RAC ratio, we note that CBA's Perls III hybrid debt issue, which has a step-up feature, also contains equity features that, from a qualitative point of view, are factored into our overall assessment of CBA's capital and earnings position.

We assess CBA's risk position as "adequate", primarily reflecting our view that the low-risk characteristics of CBA's Australian residential mortgage portfolio are adequately captured by the RAC ratio. CBA has a formal risk-appetite statement that is conservative and embedded in the group and across all divisions. The group's underwriting standards are conservative, and reflected in the group's credit metrics. While CBA's GFC-related losses were lower compared with many highly-rated international banks, we note that the economic and commercial property downturns in Australia and New Zealand were less severe than that experienced in the U.S. and Europe.

We assess CBA's funding as "average" and liquidity as "adequate". While CBA and the other Australian major banks are considered by us to be materially reliant on wholesale funding--this being a fundamentally negative rating factor--we note that much of this risk has been taken into account by us in our recent revision of our BICRA assessment of Australia to group '2' from group '1'. We consider CBA's liquidity to be well managed. Compared to the other large Australian banks, CBA has the second largest proportion of customer funding (61% of total funding). Customer funding increased to A\$349 million from A\$324 million (with the group positioning itself in terms of the new Basel III liquidity requirements), and as a result, customer funding as a percentage of total funding increased to 61% from 58% for the financial year ended June 30, 2011, thereby improving the group's reliance on stable retail funding. Moreover, according to APRA data, CBA has the largest amount and highest proportion of household deposits compared to total deposits (42% at Oct. 31, 2011).

Our counterparty credit rating on CBA is two notches higher than the SACP, reflecting our view of a high likelihood of extraordinary government support in a crisis. This reflects our view of CBA's high systemic importance in Australia, and our assessment of the Australian government as highly supportive of institutions core to the national economy.

We have lowered the issue ratings on CBA's non-deferrable senior subordinated debt to 'A-' from 'AA-', which is one notch below CBA's SACP, because we believe that Australia's legal and regulatory framework could allow authorities to instigate restructuring of a failing bank to the detriment of non-deferrable subordinated debt. We have lowered the issue ratings on ASB's non-deferrable senior subordinated debt to 'A-' from 'AA-' which is one notch below CBA's SACP, reflecting our view that ASB is a core subsidiary of CBA. We have, likewise, lowered the issue ratings on CBA's hybrid capital instruments to 'BBB', which is three notches below the SACP on the bank. Under our criteria, the three-notch differential reflects the narrow-distributable-profits test that is applicable to hybrid-capital instruments issued by Australian banks.

Outlook

The stable outlook is based on Standard & Poor's view that CBA has: continued satisfactory earnings; adequate capitalization; a conservative risk appetite; credit losses well under control; and well-managed funding and liquidity.

We anticipate that CBA's funding and liquidity improvements over recent years--including positive deposit growth as a percentage of liabilities, a reduction in potentially sensitive short-term wholesale funding, and a progressive lengthening of its wholesale liability profile--will be permanent rather than transitory. In the unlikely event of a significant liquidity stress event, we expect that the bank will qualify for central bank and other government support mechanisms.

We consider that an upward revision of the bank's SACP is unlikely. We believe the bank's RAC ratio of 7.5% is likely to remain in the 7%-10% range over the medium-term, which we believe is consistent with our current view of CBA's capital as "adequate", and the SACP of 'a'. We do not envisage downward ratings momentum affecting the bank's SACP in the short-to-medium term, and believe that CBA can even sustain some tolerance of rigidity in non-performing asset levels at the current rating level.

Downward rating momentum could occur in the unlikely event that the bank experienced funding or liquidity stress, in particular if timely and sufficient government-support mechanisms did not manifest in the manner we would anticipate. Downward rating momentum could also be prompted by the emergence of risk outside tolerances within the current SACP, such a reduction in the RAC ratio to below 7%.

Ratings Score Snapshot

Issuer credit rating	AA-/Stable/A-1+
SACP	a
Anchor	a-
Business position	Strong (+1)
Capital and earnings	Adequate (0)
Risk position	Adequate (0)
Funding and liquidity	Average and adequate (0)
Support	+2
GRE support	0
Group support	0
Sovereign support	+2
Additional factors	0

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings List

Downgraded

	To	From
ASB Bank Ltd.		

Research Update: Commonwealth Bank of Australia & Subsidiaries Ratings Lowered On Bank Criteria Change

Certificate of deposit Foreign currency	AA-	AA
CBFC Ltd. Certificate of deposit Local currency	AA-	AA
Colonial Holding Co. Ltd. Issuer credit rating	A+/Stable/A-1	AA-/Stable/A-1+
The Colonial Mutual Life Assurance Society Ltd. Counterparty credit rating Local currency	AA-/Stable/--	AA/Stable/--
The Colonial Mutual Life Assurance Society Ltd. The Colonial Mutual Life Assurance Society Ltd. (NZ Branch) Financial strength rating Local currency	AA-/Stable/--	AA/Stable/--
Commonwealth Bank of Australia Senior unsecured (526 issues) Subordinated (20 issues) Subordinated (1 issue) Preferred stock (2 issues)	AA- A- BBB BBB	AA AA- AA- A+
ASB Bank Ltd. Senior unsecured (8 issues) Subordinated (2 issues)	AA- A-	AA AA-
ASB Capital Ltd. Subordinated (1 issue)	BBB	A+
ASB Capital No.2 Ltd. Subordinated (1 issue)	BBB	A+
ASB Finance Ltd. (London Branch) Senior unsecured (7 issues)	AA-	AA
Bank of Western Australia Ltd. Subordinated (1 issue)	BBB	AA-
CBA Capital Australia Ltd. Preference stock (1 issue)	A-	AA-
CBA Capital Trust Junior subordinated (1 issue)	BBB	A+
CBA Capital Trust II Junior subordinated (1 issue)	BBB	A+

Research Update: Commonwealth Bank of Australia & Subsidiaries Ratings Lowered On Bank Criteria Change

CBFC Ltd. Senior secured (1 issue)	AA-	AA
Colonial Finance Ltd. Senior unsecured (7 issues)	A+	AA-
Preferred Capital Ltd. Junior subordinated (1 issue)	BBB-	A+
Downgraded; Ratings Affirmed	To	From
Commonwealth Bank of Australia CommBank Europe Ltd. CBA Funding NZ Ltd. Bank of Western Australia Ltd. Issuer credit rating	AA-/Stable/A-1+	AA/Stable/A-1+
ASB Bank Ltd. CBFC Ltd. ASB Finance Ltd. Issuer credit rating	AA-/Stable/A-1+	AA/Stable/A-1+
ASB Bank Ltd. Certificate of deposit Local currency	AA-/A-1+	AA
Bank of Western Australia Ltd. Certificate of deposit	AA-/A-1+	AA
Not Rated Action	To	From
Commonwealth Bank of Australia Bank fundamental strength rating Local currency	NR	A
ASB Bank Ltd. Bank fundamental strength rating Local currency	NR	B+
Ratings Affirmed		
Commonwealth Bank of Australia Certificate of deposit Foreign currency	A-1+	
Commonwealth Bank of Australia Senior unsecured (2 issues)	axAAA	
Senior unsecured (54 issues)	cnAAA	
Certificate of deposit (1 issue)	A-1+	
Commercial paper (2 issues)	A-1+	

Research Update: Commonwealth Bank of Australia & Subsidiaries Ratings Lowered On Bank Criteria Change

ASB Bank Ltd.		
Certificate of deposit (1 issue)		A-1+
Commercial paper (2 issues)		A-1+
ASB Finance Ltd. (London Branch)		
Senior unsecured (1 issue)		cnAAA
Commercial paper (2 issues)		A-1+
Bank of Western Australia Ltd.		
Certificate of deposit (2 issues)		A-1+
Commercial paper (1 issue)		A-1+
CBA (Delaware) Finance Inc.		
Commercial paper (1 issue)		A-1+
CBA Funding NZ Ltd.		
Commercial paper (1 issue)		A-1+
CBFC Ltd.		
Senior secured (1 issue)		A-1+
Commercial paper (1 issue)		A-1+

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Standard & Poor's (Australia) Pty. Ltd. holds Australian financial services licence number 337565 under the Corporations Act 2001. Standard & Poor's credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.