S&P Global
Ratings

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Commonwealth Bank of Australia

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Commonwealth Bank of Australia

SACP	a-
Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

\+

Support	+3
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	+3

\+

Additional Factors	0

Issuer Credit Rating
AA-/Stable/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Strong business franchise in key retail market segments in Australia and New Zealand • Renewed focus on low-risk traditional Australian and New Zealand retail and commercial banking activities • Highly likely to receive timely financial support from the Australian government, if needed	• Material dependence on domestic and offshore wholesale borrowing • Risks from elevated house prices and private sector debt

Outlook: Stable

S&P Global Ratings' outlook on Commonwealth Bank of Australia (CBA) is stable, reflecting our expectation that the bank will maintain solid operating performance, low credit losses, and adequate capital levels in the next two years.

Despite an ongoing orderly unwinding of imbalances in the housing markets, we consider that CBA, along with the other Australian banks, remains exposed to risk emanating from a rapid growth in house prices and private sector debt for several years, in combination with Australia's external weaknesses--in particular its persistent current account deficits and high level of external debt. We consider that these imbalances expose the banks in Australia to a scenario of a sharp correction in property prices, and its severe consequences. Nevertheless, we consider that the probability of such a scenario remains relatively remote and loan losses in the next two years are likely to remain very low by historical and international standards. In our base case, we expect that an orderly correction in house prices will continue in some parts of the country in the next one year.

Downside scenario

We believe a low probability downside rating scenario in the next two years would emerge if, contrary to our expectations, there is a rapid fall in Australian house prices, in conjunction with a significant weakening in other important macroeconomic factors, including curtailed access to external funding. In such a scenario, we would expect to lower our ratings on a number of banks in the country, including CBA.

Upside scenario

We see a very limited upside to our issuer credit rating on CBA in the next two years. We see signs of easing economic imbalances in Australia due to the ongoing orderly correction in house prices following the rapid rise in house prices and private sector debt witnessed over a number of years. If this trend of orderly unwinding of imbalances were to continue and we formed a view that consumer and business sentiment (including in relation to house prices) is stabilizing, we expect CBA's RAC ratio to improve such that its SACP strengthens to 'a'. An improvement in CBA's SACP would translate into higher ratings on hybrid and subordinated debt instruments issued by the group, other things remaining equal. However, our issuer credit rating on CBA and our ratings on senior debt issued by CBA will remain unchanged even in that scenario.

Rationale

Our ratings on CBA reflect the bank's strong market position and business franchise in key retail market segments in Australia and New Zealand. CBA's adequate capitalization, strong key earnings and asset quality metrics relative to global peers, and adequately managed funding and liquidity risk also support its credit profile. The ratings on CBA also benefit from our expectation that the Australian government is highly likely to provide timely financial support to CBA, if needed. These strengths moderate the bank's material dependence on domestic and offshore wholesale funding and management's current focus on conduct and compliance issues that could weigh on business development.

We assess the unsupported group credit profile of the CBA group (and the SACP of the operating holding company Commonwealth Bank of Australia) as 'a-'.

Anchor: Wealthy, open, and resilient economy that has performed relatively well during and following negative cycles and external shocks

The starting point for our ratings on CBA--similar to all other banks operating predominantly in Australia--reflects our assessment of Australia's macro environment. This is because about 80% of CBA's credit exposure is in its Australian home market and 10% in New Zealand, with the balance primarily in the U.S. and U.K. We expect the geographic composition of its banking operations to remain largely unchanged in the next two years.

Australia benefits from being a wealthy, open, and resilient economy that has performed relatively well during and following negative cycles and external shocks, including the global recession in 2009. We forecast that solid economic growth will continue over the short to medium term. Despite ongoing orderly unwinding of imbalances in the housing markets, Australian banks remain exposed to risk emanating from a rapid growth in house prices and private sector debt for several years, in combination with Australia's external weaknesses--in particular its persistent current account deficits and high level of external debt. We consider that these imbalances expose the banks in Australia to a scenario of a sharp correction in property prices, and its severe consequences. Nevertheless, we consider that the probability of such a scenario remains relatively remote and that loan losses in the next two years are likely to remain very low by historical and international standards. In our base case, we expect that an orderly correction of house prices will continue in some parts of the country in the next one year.

We consider that prudential regulatory standards remain conservative. We expect that the implementation of recommendations by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) should boost the Australian financial sector's regulation and governance. We also believe that the structure of the banking industry is supportive of industry stability--with a small number of strong retail and commercial banks dominating the industry. These banks are able to price for risks affording them a buffer for unforeseen losses. We note that Australian banks have strengthened their funding and liquidity profile over recent years by increasing retail deposits, reducing dependence on short-term wholesale borrowing, lengthening average maturities, and increasing diversification. Nevertheless, we consider that the structural challenges with funding within the Australian banking system are likely to persist and the system remains exposed to the risk of a disruption in access to external borrowings--whether triggered by domestic or international stresses.

Table 1

Commonwealth Bank of Australia Key Figures

		--Year-ended June 30--			
(Mil. A$)	**2019***	**2018**	**2017**	**2016**	**2015**
Adjusted assets	970,564	964,398	952,681	909,147	849,388
Customer loans (gross)	758,191	747,349	714,718	675,014	622,095
Adjusted common equity	49,449	47,752	46,085	45,775	37,716
Operating revenues	11,914	24,343	25,635	24,599	23,676
Noninterest expenses	4,577	9,615	9,808	10,036	9,669
Core earnings	4,928	9,766	10,742	9,676	9,453

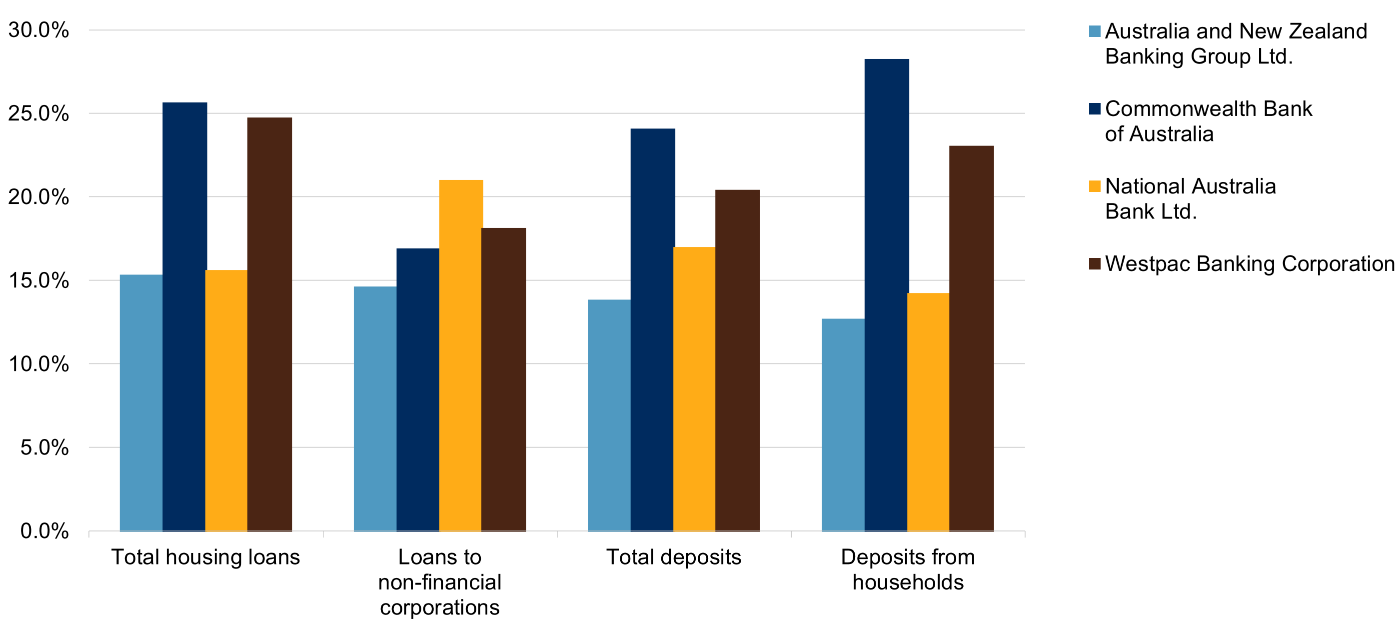
*Data as of Dec. 31.

Business position: Strong business franchise in key retail market segments in Australia and New Zealand and in low-risk traditional Australian and New Zealand retail and commercial banking activities

CBA is the largest retail bank in Australia and dominates in both residential home loans and retail deposits. In our view, the bank has a strong and stable business franchise in key retail market segments, relative to other domestic peers and other global banks, that underpins its revenue stability. CBA is one of the four major banking groups in Australia. The other three are Australia and New Zealand Banking Group Ltd. (AA-/Stable/A-1+), National Australia Bank Ltd. (AA-/Stable/A-1+), and Westpac Banking Corp. (AA-/Stable/A-1+).

Chart 1

CBA Leads Majors In Housing Loans And Deposits



Source: APRA MBS, as of March, 2019.

A key factor underpinning business stability and franchise strength is CBA's dominant domestic market share of 26% in residential mortgage lending and 28% in household deposits as of March 31, 2019. In our view, retail business lines contribute to the stability of the bank's revenues and business activities, as they are less volatile compared to wholesale banking activities and generate recurring net interest income and fee income. CBA conceded some market share in residential lending in fiscal 2018 as the bank pulled back on investor lending with growth in this segment less than 0.7x system. However, in the six months to Dec. 31, 2018, CBA's lending growth as a multiple of system growth was back up to 0.9x. At 6.5%, owner-occupied lending growth exceeded that of CBA's 4% overall home loan growth in the six months to Dec. 31, 2018, resulting in owner-occupied lending continuing to rise to 69% of its home loan lending, from 68% six months earlier. Further strengthening CBA's franchise is its main financial institution market share of 35.1% as of Dec. 31, 2018, up from 34.2% one year earlier, which is significantly higher than other Australian major banks.

In our view, the divestments of noncore banking activities (see below) will afford the group greater focus on its core banking activities in Australia and New Zealand, especially in light of pressures emerging from the external environment in recent years, including the Royal Commission. Even though the divestment of noncore banking activities will affect the diversification of the group's overall revenue, we do not believe it will negatively affect CBA's business franchise given the overall materiality of the divestments and the refocus in strategy on Australian and New Zealand banking activities.

Since August 2017, the group has made various announcements around the divestment and strategic review of its noncore activities. The process is currently underway with the following transactions now complete:

- New Zealand life insurance business (Sovereign) sold to AIA Group Ltd. (AIA; A/Stable/A-1) for A$1.275 billion on July 2, 2018;
- TymeDigital sold to minority shareholder African Rainbow Capital on Nov. 1, 2018.

The following transactions are pending:

- The sale of the group's 37.5% equity interest in BoComm Life Insurance Co. of China (BoComm Life) to Mitsui Sumitomo Insurance Co. Ltd. (A+/Stable/A-1) for A$668 million, which is subject to regulatory approvals with completion expected in the second half of calendar 2019;
- The sale of 100% of its life insurance business in Australia (CommInsure Life) to AIA for A$2.5 billion, including a 20-year partnership with AIA to provide life insurance products to customers in Australia and New Zealand. The completion of the sale remains conditional upon the transfer of the BoComm Life stake out of CommInsure Life, and is expected in the second half of calendar 2019;
- The divestment of Colonial First State Global Asset Management for A$4.13 billion to Mitsubishi UFJ Trust and Banking Corp. (A/Positive/A-1), which is subject to a number of regulatory approvals in various jurisdictions with completion expected in the middle of calendar 2019;
- The sale of its 80% interest in Indonesian life insurance business PTCL to FWD Group for A$426 million, including a 15-year distribution agreement with FWD. The sale is subject to regulatory approvals, with completion expected in the first half of calendar 2019.

CBA is also currently undertaking a strategic review of its general insurance business, CommInsure, and its shareholding in Vietnam International Bank (not rated).

In June 2018, CBA announced the demerger of the remainder of its broking and wealth management businesses, including Colonial First State, Count Financial, Financial Wisdom, and Aussie Home Loans businesses. However, in March 2019, the bank announced that it had suspended preparations for the demerger while it focuses on prioritizing the implementation of the recommendations from the Royal Commission and in June 2018 entered into an agreement to sell Count Financial to ASX-listed CountPlus Ltd. for A$2.5 million. Following completion of the sale of Count Financial the remainder of the broking businesses and wealth management will comprise Colonial First State, Financial Wisdom, Aussie Home Loans, and CBA's 16% stake in Mortgage Choice.

Given the resilience of the Australia and New Zealand economies to global headwinds over the past five years, CBA's geographic concentration had a positive impact on the bank's overall performance. Compared with industry peers, CBA is more concentrated in terms of geography, with 79% of its exposures originated in Australia and 10% in New Zealand (the remainder of its exposures are mainly to the U.S. and U.K.).

Table 2

Commonwealth Bank of Australia Business Position

		--Year-ended June 30--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	11,942.0	24,621.0	25,641.0	24,599.0	23,676.0
Retail banking/total revenues from business line	48.2	N/A	N/A	N/A	N/A
Commercial & retail banking/total revenues from business line	N/A	90.0	82.5	86.0	83.6
Trading and sales income/total revenues from business line	N/A	4.2	4.5	N/A	N/A
Asset management/total revenues from business line	3.7	4.6	8.0	8.4	8.5
Other revenues/total revenues from business line	9.4	0.3	1.7	1.5	3.6
Return on average common equity	13.6	14.3	16.1	16.5	18.2

*Data as of Dec. 31.
N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Capital and earnings: Good risk-adjusted capitalization supports the credit profile

CBA's common equity Tier 1 (CET1) ratio of 10.8% as of Dec. 31, 2018, is well above the Australian Prudential Regulation Authority's (APRA) minimum regulatory capital requirement of 8%, including the domestic systemically important bank (D-SIB) buffer of 1.0% and capital conservation buffer of 2.5%. This is also above the CET1 ratio of 10.5% that APRA foreshadowed as the expected regulatory capital levels by Jan. 1, 2020. As such, we expect that CBA will continue to maintain its CET1 ratio at about its current level, with a buffer of up to about 30 basis points (bps) above APRA's 10.5% expected regulatory capital level. However, we are of the view that CBA has significantly flexibility to strengthen its regulatory capital ratio further, if needed, through a combination of retaining capital following business sales currently underway, reduced dividend payout, increased dividend reinvestment, or new capital issues.

We expect that CBA's RAC ratio will remain sound at about 9.7% in the next 12-18 months, similar to its Dec. 31, 2018, level. We believe that on an ongoing basis CBA's capital is unlikely to remain at a level sustainably above 10%. We further believe that the bank will substantially return capital released from asset disposals to shareholders, as we view it as unlikely that the group will maintain material excess capital relative to its internal capital needs and prudential capital requirements (APRA's 10.5% expected regulatory capital level), consistent with the group's capital management philosophy. Furthermore, we do not view CBA's quality of capital as high given its substantial dividend payout ratio of between 70% and 80% and its reliance on hybrids for more than 15% of its total adjusted capital. Our forecasts take into account the following expectations (among others):

- Loan growth will stabilize between 4% and 6%, in line with the Australian banking system;
- Interest margins will fall slightly, reflecting continuing competitive pressures and higher funding costs, including potential total loss absorbing capacity requirements;
- The bank will maintain its dividend payout ratio at about 70%, consistent with its 70% to 80% stated payout ratio;

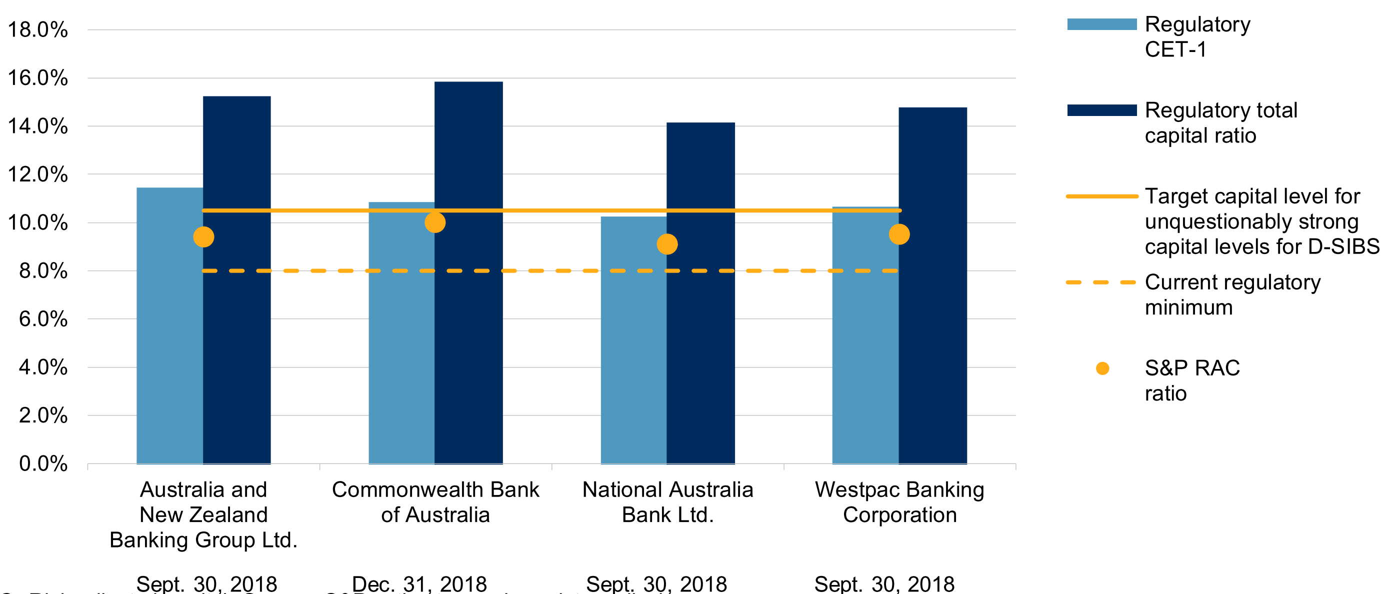
and

- Credit loss provisions will increase slightly over the forecast period, reflecting a turn in the credit cycle.

We currently see a one-in-three chance that in the next two years, economic imbalances in Australia will continue to wind down, such that we will lower our risk weights applicable to Australian corporate and household exposures in calculating our RAC ratio. We estimate that in such a scenario, CBA's RAC ratio is likely to improve to 11.0%-11.5%, which could be consistent with a stronger categorization of the bank's capital and earnings under S&P Global Ratings' framework as well as the bank's SACP (see chart 2).

Chart 2

Majors Are Adequately Capitalized



RAC--Risk adjusted capital. Source: S&P estimates and regulatory disclosures.

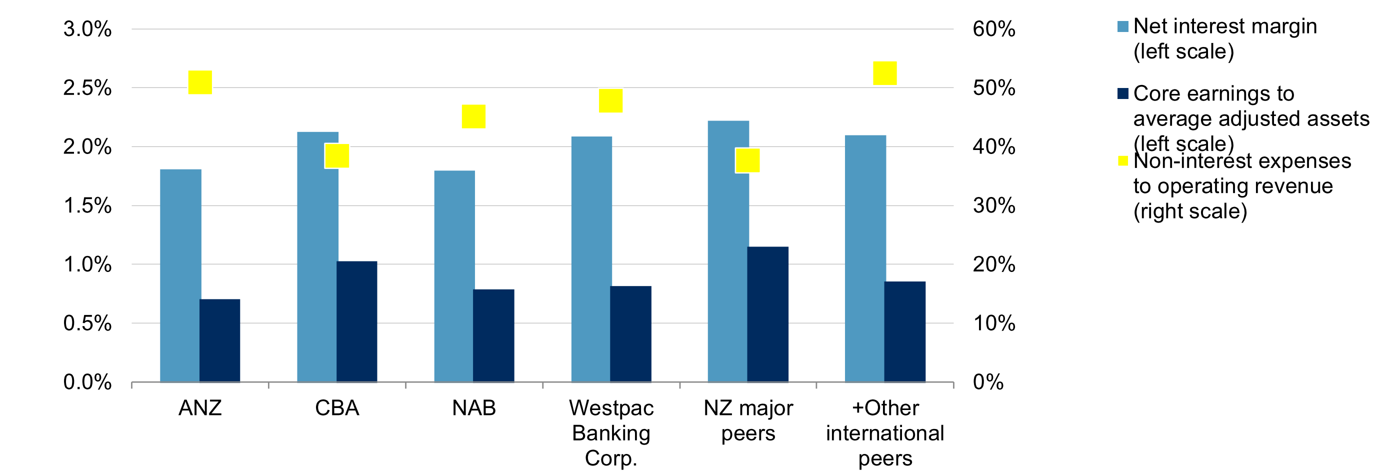
As part of the enforceable undertaking with APRA, the regulator required CBA to increase operational risk regulatory capital by A$1 billion (equal to risk weighted assets of A$12.5 billion) effective April 30, 2018. In our view, the impact of the capital impost will be temporary as CBA may apply for the removal when it can demonstrate compliance with the enforceable undertaking and commitments to the remedial plan. The pro forma impact on the CET1 ratio as of March 31, 2018, was a decrease of about 27 bps to 9.8%.

CBA adopted IFRS 9 international reporting standards on July 1, 2018, with minimal impact on its regulatory capital and RAC ratio. The additional provisions of A$1,058 million taken upon implementation reduced CBA's regulatory capital by 18 bps and its RAC ratio by a similar amount. Nevertheless, the bank's RAC ratio remains soundly in the range of our current assessment.

In our opinion, CBA's capital base is of adequate quality, with hybrid capital playing a supplementary role rather than a primary role in its capital strategy. We project CBA to maintain its ratio of adjusted common equity to total adjusted capital at just above 80%. The ratio is in a similar range to that of the other Australian major banks but slightly lower than that of Canadian and other international peers. Furthermore, we are of the view that following the planned divestments of its noncore banking assets, CBA will have few other assets that it is able and willing to sell.

Chart 3

Profitability Of Majors Is In Line With International Peers



+Other international peers include Toronto dominion Bank (AA-/Stable/A-1+), Bank of Montreal (A+/Stable/A-1), Bank of Nova Scotia (A+/Stable/A-1), DBS Bank (AA-/Stable/A-1+), Nordea Bank Abp (AA-/Stable/A-1+), Banco Bilbao Santander S.A. (A/Stable/A-1), and Banco Bilbao Vizcaya Arentaria S.A. (A-/Negative/A-2). Source: S&P estimates. Figures as of most recent reporting date.

We are of the view that the group's profitability track record (even during the global financial crisis and commensurate economic slowdown and commercial property downturn) has also been very good by international standards. This is reflected in the group's core earnings-to-adjusted assets ratio of 1.02% as of Dec. 31, 2018, which has been better than many of its Australian and international peers.

Table 3

Commonwealth Bank of Australia Capital And Earnings

		--Year-ended June 30--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	12.9	12.3	12.1	12.3	11.2
Adjusted common equity/total adjusted capital	83.8	82.7	84.3	86.8	87.4
Net interest income/operating revenues	76.7	75.3	68.7	68.8	66.7
Fee income/operating revenues	17.1	17.0	20.0	21.5	22.3
Market-sensitive income/operating revenues	3.4	4.5	6.4	4.0	4.9
Noninterest expenses/operating revenues	38.4	39.5	38.3	40.8	40.8

Table 3

Commonwealth Bank of Australia Capital And Earnings (cont.)

	--Year-ended June 30--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Preprovision operating income/average assets	1.5	1.5	1.6	1.6	1.7
Core earnings/average managed assets	1.0	1.0	1.1	1.1	1.1

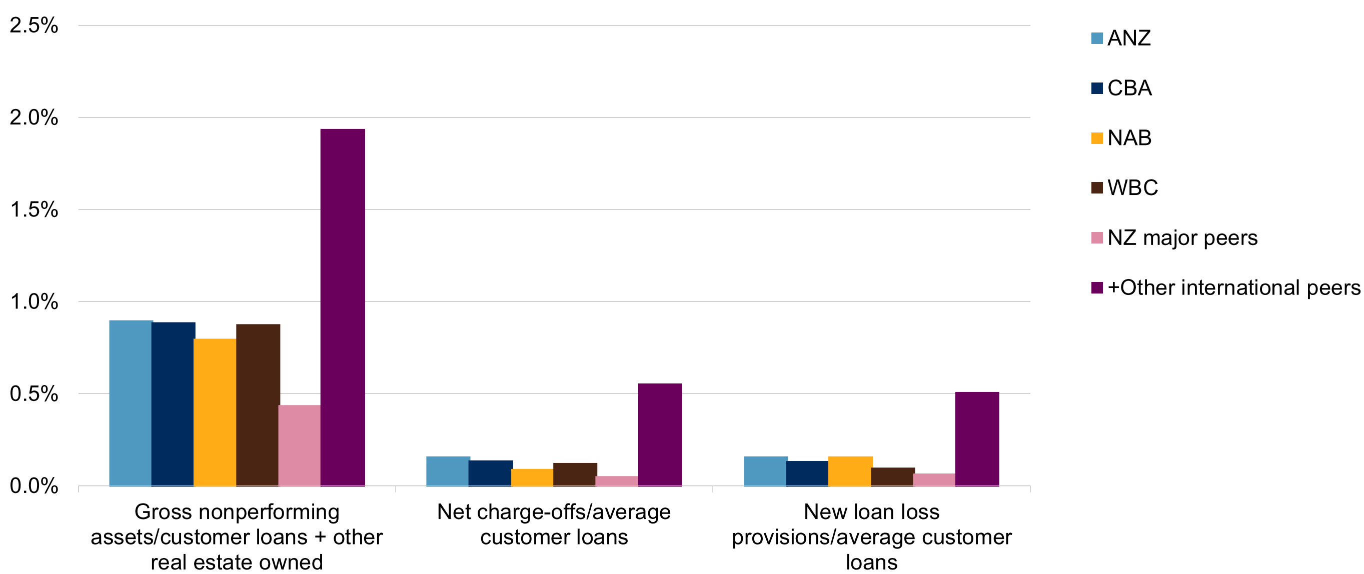
*Data as of Dec. 31.

Risk Position: Strong asset quality offset by misconduct issues that weigh on corporate governance

We believe that CBA's lending and underwriting standards are conservative, as evidenced by low loan-loss provisions and nonperforming assets, and at levels broadly comparable with its Australian major bank peers (see chart 4). Furthermore, credit losses remain significantly below our expected through the cycle loss levels and low relative to those of other international peers. However, we note that Australian banks have benefited from a long run of benign economic conditions, and that nonperforming loans and credit losses are at historic lows. We consider that CBA has dealt effectively with the elevated risk faced by the Australian banking systems due to a rapid rise in property prices in Sydney and Melbourne during the past several years. CBA has achieved this through the strengthening of its serviceability tests on underwriting residential mortgages and slower growth in residential mortgage lending for investment properties and interest-only loans, consistent with APRA's directions for all Australian banks. We expect the bank will continue to manage the ongoing risks in the Australian residential lending market as property prices in Sydney and Melbourne unwind in an orderly manner, consistent with our base case expectations.

Chart 4

Strong Asset Quality Relative To International Peers



+Other international peers include Toronto dominion Bank (AA-/Stable/A-1+), Bank of Montreal (A+/Stable/A-1), Bank of Nova Scotia (A+/Stable/A-1), DBS Bank (AA-/Stable/A-1+), Nordea Bank Abp (AA-/Stable/A-1+), Banco Bilbao Santander S.A. (A/Stable/A-1), and Banco Bilbao Vizcaya Arentaria S.A. (A-/Negative/A-2). Source: S&P estimates. Figures as of most recent reporting date.

We are of the view that through its APRA prudential inquiry remedial action plan (43 of 154 milestones submitted as of Dec. 31, 2018), as well as its implementation of the recommendations arising from the Royal Commission, CBA is addressing the governance, accountability, and culture shortcomings that have emerged within its businesses over the last several years. We expect the implementation of the recommendations of the Royal Commission to strengthen the risk culture of Australian financial institutions, including CBA. While stronger risk management should help offset any pressure on CBA's credit profile because of lower earnings due to more rigorous governance and regulation and subdued credit growth.

We also do not foresee that other risks to which the bank is exposed introduce a significant amount of additional risk that we do not already consider in the bank's capital and earnings assessment. As of Dec. 31, 2018, the bank's regulatory capital requirements for interest rate risk in the banking book represented about 3% of CBA's total risk-weighted assets, which is similar to Australian peer banks.

Over the medium term, we are of the view that the group is not targeting to move into new product, consumer, or market activities outside of its traditional areas of expertise. We believe the simplification of CBA's business portfolio with an increased focus on retail and commercial banking in Australia and New Zealand following the proposed divestments outlined above continues to reduce the complexity in CBA's business. Nevertheless, in our view, CBA's banking activities have always been relatively simple and exposures to higher-risk activities have been relatively low, especially when compared with international peers.

In our opinion, the group's annual report and Pillar 3 disclosures are transparent and allow good visibility into CBA's underlying risk exposures and earnings generation. In addition, retail products dominate CBA's balance sheet and the group does not have an excessive exposure to derivatives.

Table 4

Commonwealth Bank of Australia Risk Position

		--Year-ended June 30--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	2.9	4.6	5.9	8.5	5.3
Total managed assets/adjusted common equity (x)	20.0	20.4	21.3	20.4	23.2
New loan loss provisions/average customer loans	0.2	0.1	0.2	0.2	0.2
Net charge-offs/average customer loans	0.2	0.2	0.2	0.2	0.2
Gross nonperforming assets/customer loans + other real estate owned	0.9	0.9	0.8	0.8	0.8
Loan loss reserves/gross nonperforming assets	68.4	56.4	63.1	68.1	69.9

*Data as of Dec. 31.

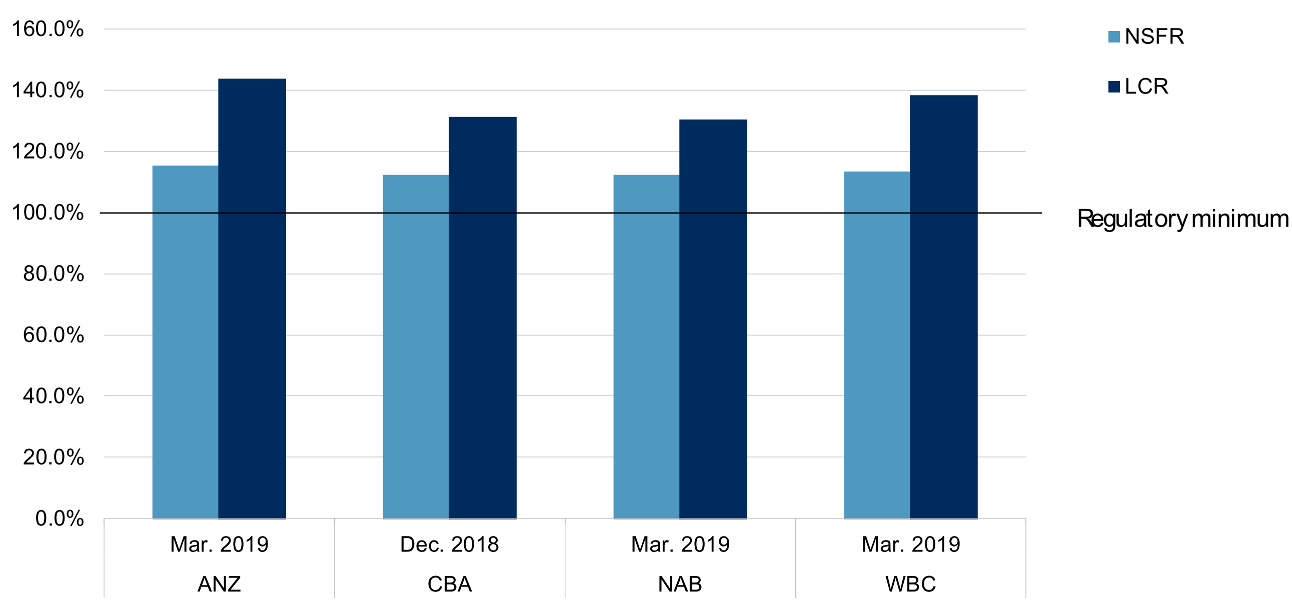
Funding and liquidity: Risks adequately managed notwithstanding structural funding weaknesses

In our view, CBA adequately manages it funding and liquidity risks, notwithstanding the structural funding weaknesses inherent to the Australian banking system. Along with other Australian major banks, CBA's tenor of its wholesale funding has lengthened over the past several years. CBA accesses capital markets through a wide variety of programs, including covered bonds as well as senior unsecured, short- and long-term programs.

About 68% of CBA's total funding relates to core deposits. Compared to the other large Australian banks, CBA has the highest proportion of total system household deposits, at about 28% as of March 31, 2019. Similar to the other Australian major banks, CBA's core deposits have been steadily increasing over the past five years in part due to the adoption of the Basel III liquidity ratio in Australia under which household and core deposits have a more favorable treatment. This has resulted in CBA's total loans to total deposits ratio falling to 129% in fiscal 2018 from 134% in fiscal 2014.

Chart 5

Majors Have Adequate Buffer In Regulatory Funding Metrics



NSFR--Net stable funding ratio. LCR--Liquidity coverage ratio. Source: Regulatory disclosures.

CBA's funding metrics are broadly in line with those of the other Australian major banks. We note that CBA's funding ratios are weaker than those of smaller Australian banks and a number of international peers with similar issuer credit ratings, reflecting systemwide structural weaknesses in Australia. Nevertheless, we believe that the Australian major banks' adequately manage their funding risks in the context of the nation's banking industry, and their funding ratios are broadly comparable with the banks in Sweden and Norway--countries with banking industry profiles similar to Australia. In our view, the Australian major banks' strong funding franchises domestically and internationally support their funding stability. Indeed, we expect that if the Australian banking sector experienced a systemic funding problem, a likely "flight to quality" to the Australian major banks would partly mitigate its impact on these banks. Our funding metrics include CBA's loan-to-deposit ratio (131%), stable funding ratio (92%), and short-term wholesale funding to total funding base (16%), all as of Dec. 31, 2018. As of Dec. 31, 2018, the group's net stable funding ratio was 112%, compared with a regulatory minimum of 100%. Our expectation is that the bank will continue to maintain a buffer of 10% above the regulatory minimum requirement.

CBA's liquidity is adequate in our opinion and we believe that the bank should be able to survive at least a six-month period of funding disruption. From a quantitative perspective, CBA and the other Australian major banks have weaker liquidity ratios relative to other international peers. This reflects in part the limited availability of government debt in Australia. As of Dec. 31, 2018, CBA's ratio of broad liquid assets to short-term wholesale funding was 0.74x, up from 0.68x one year earlier. Qualitatively, however, we factor into our assessment the liquidity available to these banks from the Reserve Bank of Australia's (RBA) committed liquidity facility (CLF), which is backed by eligible assets. Under a stressed scenario, we expect that the undrawn portion of the CLF would operate in the same way as any other high-quality liquid assets. As of Dec. 31, 2018, CBA's CLF was A$53.3 billion, however consistent with the RBA's annual review process, this was reduced to A$50.7 billion as of Jan. 1, 2019. Furthermore, its liquidity coverage ratio as of Dec. 31, 2018, was 131%, down slightly from 133% as of June 30, 2018, but well in excess of the regulatory minimum of 100%.

In our opinion, CBA manages its liquidity well by conducting specific stress tests on a routine basis. The tests look to identify the timeframe over which high-quality liquid assets could survive under various stress liability run-off scenarios.

Table 5

Commonwealth Bank of Australia Funding And Liquidity

		--Year-ended June 30--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	67.6	68.6	67.0	65.8	63.7
Customer loans (net)/customer deposits	131.0	129.2	125.8	128.2	128.9
Long-term funding ratio	84.8	85.3	83.3	82.2	80.4
Stable funding ratio	91.9	96.5	97.2	90.2	93.7
Short-term wholesale funding/funding base	16.4	15.9	17.9	19.1	20.8
Broad liquid assets/short-term wholesale funding (x)	0.7	1.0	1.0	0.6	0.8
Net broad liquid assets/short-term customer deposits	(6.6)	1.1	0.5	(12.3)	(7.0)
Short-term wholesale funding/total wholesale funding	49.0	48.6	52.7	54.4	56.3

*Data as of Dec. 31.

Support: Expected timely financial support from the Australian government enhances creditworthiness

Our issuer credit rating on CBA is three notches higher than the bank's SACP, reflecting our view that the bank is highly likely to receive timely financial support from the Australian government, if needed. This reflects our view that:

- CBA is of high systemic importance to the Australian economy and financial system because it is one of four pillar banking institutions in Australia that control more than three-quarters of the country's banking assets and customer deposits. CBA has a material 28% of household deposits and 26% of residential mortgages. In our view, the bank plays a material role in sourcing offshore funding that supports economic activity in the country, and it has a strong level of interconnectedness with the three other major banks in Australia.
- The Australian government remains highly supportive of the private sector banks in the country. We believe that government support is unlikely to diminish in the next two years following APRA's recent announcement that it is proceeding with its plan to strengthen Australian banks' loss absorbing capacity. Our view of the Australian

government's supportiveness factors in a well-developed institutional framework that should facilitate a timely and coordinated response as well as a track record of proactive and prompt support for the banking system through measures such as guarantees for funding during the global financial crisis. We believe that the government's existing legislation, policy, and relationships with supranational agencies do not hinder it from assisting the banking system.

Additional rating factors

We rate CBA's Commbank Europe (CBE) three notches above the Republic of Malta (A-/Positive/A-2). In our view, CBE's operations are integral to CBA group strategy. We believe that CBE should be able to service its creditors even if the sovereign is under distress because of its integration within the CBA group and the timely support that would flow to CBE from its parent.

The issue ratings on CBA's non-Basel III nondeferrable subordinated debt are 'BBB+', or one notch below CBA's SACP. The issue ratings on CBA's Basel III nondeferrable subordinated debt are 'BBB', or two notches below CBA's SACP. This is because we believe that Australia's legal and regulatory framework could allow authorities to instigate restructuring of a failing bank to the detriment of nondeferrable subordinated debt. For the Basel III instruments, we apply a one-notch additional deduction to reflect the contingency clause that requires the mandatory conversion into common equity on the activation of a nonviability trigger. We rate the issue ratings on New Zealand-based ASB Bank Ltd.'s (ASB) Basel III nondeferrable subordinated debt at the same level as CBA's Basel III nondeferrable subordinated debt reflecting our view that ASB is a core subsidiary of CBA.

The issue ratings on CBA's non-Basel III hybrid capital instruments are three notches below the SACP. The issue ratings on CBA's Basel III complaint hybrid capital instruments (PERLS VII, PERLS VIII, PERLS IX, PERLS X, and PERLS XI) are four notches below the SACP. We apply a one-notch additional deduction to reflect the contingency clause that requires the mandatory conversion into common equity on the activation of a nonviability trigger.

Table 1

Commonwealth Bank of Australia Risk-Adjusted Capital Framework Data

(Mil. A$)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	93,949	2,551	3	3,248	3
Of which regional governments and local authorities	32,275	791	2	1,162	4
Institutions and CCPs	46,436	10,785	23	9,524	21
Corporate	240,738	154,928	64	225,456	94
Retail	647,870	190,495	29	269,631	42
Of which mortgage	581,875	149,649	26	221,917	38
Securitization§	15,904	3,049	19	3,682	23
Other assets†	8,484	4,817	57	17,215	203
Total credit risk	1,053,381	366,627	35	528,756	50
Credit valuation adjustment					
Total credit valuation adjustment	--	2,729	--	0	--
Market Risk					
Equity in the banking book	391	0	0	3,763	962

Table 1

Commonwealth Bank of Australia Risk-Adjusted Capital Framework Data (cont.)					
Trading book market risk	--	5,253	--	7,695	--
Total market risk	--	5,253	--	11,457	--
Operational risk					
Total operational risk	--	56,654	--	50,088	--
(Mil. A$)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	445,137	--	590,302	100
Total Diversification/ Concentration Adjustments	--	--	--	(37,257)	(6)
RWA after diversification	--	445,137	--	553,045	94
(Mil. A$)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		57,518	12.9	58,999	10.0
Capital ratio after adjustments‡		57,518	12.9	58,999	10.7

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'Dec. 31 2018', S&P Global Ratings.

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions,

Nov. 9, 2011

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - General: Update: Intermediate Equity Content For Certain Mandatory Convertible Preferred Stock Hybrids, Nov. 26, 2008
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Major Australian Bank Outlooks Revised To Stable, Macquarie Bank To Positive, After Policy Clarity On Government Support, July 9, 2019

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	**4**	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	**bbb+**	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of July 15, 2019)*

Commonwealth Bank of Australia	
Issuer Credit Rating	AA-/Stable/A-1+
Certificate Of Deposit	A-1+
Commercial Paper	
Foreign Currency	A-1+
Junior Subordinated	BB+
Junior Subordinated	BBB
Senior Unsecured *South Africa National Scale*	zaAAA
Senior Unsecured	A-1+

Ratings Detail (As Of July 15, 2019)*(cont.)		
Senior Unsecured		AA-
Subordinated		BBB
Subordinated		BBB+
Issuer Credit Ratings History		
09-Jul-2019	*Foreign Currency*	AA-/Stable/A-1+
07-Jul-2016		AA-/Negative/A-1+
01-Dec-2011		AA-/Stable/A-1+
09-Jul-2019	*Local Currency*	AA-/Stable/A-1+
07-Jul-2016		AA-/Negative/A-1+
01-Dec-2011		AA-/Stable/A-1+
Sovereign Rating		
Australia		AAA/Stable/A-1+
Related Entities		
ASB Bank Ltd.		
Issuer Credit Rating		AA-/Stable/A-1+
Certificate Of Deposit		
Local Currency		A-1+
Commercial Paper		
Foreign Currency		A-1+
Senior Unsecured		AA-
Subordinated		BBB
ASB Capital Ltd.		
Preference Stock		BBB-
ASB Capital No.2 Ltd.		
Preference Stock		BBB-
ASB Finance Ltd.		
Issuer Credit Rating		AA-/Stable/A-1+
ASB Finance Ltd. (London Branch)		
Commercial Paper		
Foreign Currency		A-1+
CBA Funding NZ Ltd.		
Issuer Credit Rating		AA-/Stable/A-1+
Commercial Paper		
Foreign Currency		A-1+
Colonial Holding Co. Ltd.		
Issuer Credit Rating		A/Stable/A-1
Senior Unsecured		A
Senior Unsecured		A-1
Short-Term Debt		A-1
CommBank Europe Ltd.		
Issuer Credit Rating		AA-/Stable/A-1+
Commonwealth Bank of Australia, New York Branch		
Senior Unsecured		AA-

Ratings Detail (As Of July 15, 2019)*(cont.)	
Commonwealth Bank of Australia (New Zealand Branch)	
Preferred Stock	BB+
KCL Master Trust	
Senior Secured	AA-
The Colonial Mutual Life Assurance Society Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.