

Commonwealth Bank of Australia (CBA AU)

FUNDAMENTAL VIEW¹

As of 09 Oct 2023

- CBA has a very strong franchise in Australia; it is the leader in the retail market and is making good progress in challenging NAB in business banking.
- It has been the best managed of the Australian banks for many years and has outperformed peers. It lost some of its luster in the latter part of the 2010's due to regulatory and compliance lapses amid charges of complacency, but has since improved into a better institution.
- Its capital and liquidity position is robust, whilst asset quality has generally been stable.

RISKS & CATALYSTS

As of 09 Oct 2023

- CBA's financial health is closely linked to the Australian economy, in particular retail credit quality, mainly housing loans.
- Earnings/NIMs are under pressure from mortgage competition and higher funding costs.
- However, losses on housing loans have been minimal; the low stock on the housing market has led to home prices rising from Mar-23 onwards, contrary to expectations. Rental vacancy rates are particularly low at 1%, providing support to the investment market. Australia's low unemployment rate in the mid 3%'s has also been a strong support factor for asset quality.

CREDIT QUALITY SCORE (CQS)²

As of 22 Jan 2024

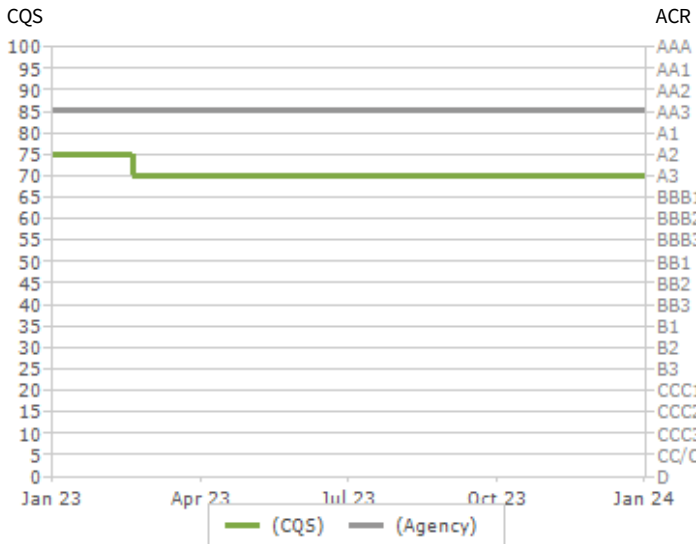
CURRENT CQS

70

CQS OUTLOOK³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 26 Dec 2023

AUD MN	Y19	Y20	Y21	Y22	Y23
Return on Equity	12.7%	10.5%	11.7%	12.7%	14.0%
Total Revenues Margin	2.5%	2.4%	2.3%	2.1%	2.2%
Cost/Income	46.2%	45.9%	47.0%	46.3%	43.5%
APRA CET1 Ratio	10.7%	11.6%	13.1%	11.5%	12.2%
International CET1 Ratio	16.2%	17.4%	19.4%	18.6%	19.1%
APRA Leverage Ratio	5.6%	5.9%	6.0%	5.2%	5.1%
Impairment Charge/Avg Loans	0.2%	0.3%	0.1%	(0.0%)	0.1%
Gross Impaired Loans/Total Loans	0.5%	0.5%	0.4%	0.3%	0.4%

BUSINESS DESCRIPTION

As of 09 Oct 2023

- Originally established by the Australian government in 1911, CBA functioned for part of its history as Australia's central bank until the establishment of the Reserve Bank of Australia in 1959. It remained under government ownership until the early 1990s after which it underwent a transformation from a bureaucratic public sector bank into a widely respected commercial organisation.
- Over the past twenty years, CBA has consolidated its position as the leading bank in Australia with a 24-28% share in household deposits and lending, helped by its acquisition during the 2008 crisis of Bank of Western Australia.
- In New Zealand it owns ASB Bank, but otherwise has been selling non-core assets including its life insurance business.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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