

Commonwealth Bank of Australia

8 March 2023

Disclaimer

This bond or financial product has not been reviewed or recommended by FIIG research nor should this document be considered as credit research. This Factsheet is only a summary document, designed to assist Investors identify the key elements of the company bond or financial product referred to in this document and should be read in conjunction with the other offering documentation available in relation to the financial products. This Factsheet is not complete information concerning any financial product and should not be relied on as such.

Sector: Financials
Sub-sector: Banks
Country: Australia
Ownership: Public

Issuer Outline

The Commonwealth Bank of Australia (CBA) is one of the four major banks that dominate banking in Australia and New Zealand. It is the largest bank in Australia by assets and market capitalisation (AUD165bn as at 6 March 2023), accounting for over a quarter of the retail banking market. The bank provides personal banking and business/corporate banking services primarily across four main operating divisions:

- **Retail banking services (AUD4.9bn FY22 cash earnings):** banking and general insurance products to personal and private bank customers;
- **Business banking (AUD3.0bn):** business, corporate and agribusiness customers, as well as equities trading and margin lending through CommSec;
- **Institutional banking and markets (AUD1.1bn):** serves the commercial and wholesale banking needs of corporate, institutional, and government clients;
- **New Zealand (AUD1.3bn):** retail and business banking in New Zealand, including wealth management and insurance.

Key Financials (AUDm)

LTM (30 Jun)	2022
Net interest income	19,473
Credit loss provisions	357
NPAT	9,673
Gross loans	884,084
Customer deposits	857,586
Net interest margin (%)	1.90
Non-performing loans (%)*	0.87
Credit losses (benefit) (%)	(0.04)
CET 1 ratio (%)	11.5

Source: Company, FIIG Securities. *As measured by stage 3 loans (impaired and 90-days past due)

Summary Bond Details (see last page for full list)

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call ¹	Maturity Date
AU3CB0293769	AUD 900m	Unsec. Sub. T2	6.86% ²	Semi-Annual	9 Nov 2027	9 Nov 2032
AU3FN0073029	AUD 1,100m	Unsec. Sub. T2	3M BBSW+2.70%	Quarterly	9 Nov 2027	9 Nov 2032
AU3FN0067989	AUD 700m	Unsec. Sub. T2	3M BBSW+1.90%	Quarterly	14 April 2027	14 April 2032
AU3CB0288389	AUD 400m	Unsec. Sub. T2	4.946% ³	Semi-Annual ²	14 April 2027	14 April 2032
AU3FN0062600	AUD 1,500m	Unsec. Sub. T2	3M BBSW+1.32%	Quarterly	20 Aug 2026	20 Aug 2031
AU3FN0070579	AUD 1,400m	Snr. Unsecured	3M BBSW + 1.02%	Quarterly	N/A	18 Aug 2027
AU3FN0070561	AUD 1,200m	Snr. Unsecured	3M BBSW + 0.80%	Quarterly	N/A	18 Aug 2025
AU3CB0291672	AUD1,000m	Snr. Unsecured	4.20%	Semi-Annual	N/A	18 Aug 2025

¹Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call.

²Coupon resets to 3M BBSW + 270bps (paid quarterly) if not redeemed at first call date. ³Coupon resets to 3M BBSW + 190bps (paid quarterly) if not redeemed at first call date.

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

Commonwealth Bank of Australia

Tier 2 Structure

Interest Deferral/Cancellation	Interest will be deferred only in the highly unlikely circumstances that the payment would result in the issuer becoming insolvent. Any missed interest payment will accumulate.
Non-Viability Trigger	If the prudential regulator determines that the issuer is at the point of non-viability (loosely defined as the point in which the issuer is failing or likely to fail), the issuer may be required to convert into equity or write-off some or all the face value of the Tier 2 notes.

Strengths

- Dominant market position:** CBA is one of the four major banks that dominate banking in Australia and New Zealand, and is the largest bank in Australia by assets and market capitalisation, accounting for over a quarter of the retail banking market in Australia. Major bank profitability metrics have migrated toward the middle of global peers as yields have fallen and capital requirements have increased in recent years. Despite this, they remain highly profitable. Credit metrics are typically toward the stronger-end of global comparisons.
- Strong capitalisation, underpinned by high quality earnings profile:** CBA exhibits a strong regulatory capital ratio, recently reporting a Common Equity Tier 1 capital ratio of 11.5% at 30 June 2022, comfortably above minimum requirements and approximately AUD4.7bn above APRA's "unquestionably strong" target of 10.5% (equivalent to ~2.1x normalised earnings).
 Composition of regulatory capital is comparable with peers for CBA, with common equity accounting for ~84% of Tier 1 capital. Quality of earnings is strong and again comparable with averages across Australia given the bank's predominant exposure to residential mortgage lending, with net interest income accounting for ~78% of operating revenues. Net interest income is typically viewed favourably in terms of earnings quality, as it has many recurring characteristics that are largely dependent of the ability of households and business to repay their loans.
- Relatively low-risk lending book:** CBA's asset quality benefits from a focus on relatively lower risk residential mortgage lending, with the bank reporting non-performing loans (impaired and past due) of 0.87% (toward the lower end of global peers), most of which relates to housing (and as such, is well-secured). Single-name concentrations within CBA's corporate and institutional book are relatively modest by global standards.
- Sound macro environment:** Australian financial institutions benefit from operating in an economy characterised as having a very high degree of economic resilience with low susceptibility to event risk. While the Australian economy has recovered relatively strongly from the direct impacts of the pandemic, the current high inflation environment and associated interest rate increases by the Reserve Bank of Australia have the potential to put strain on the post-pandemic recovery, with increased pressure on consumers. The current low level of unemployment and significant savings accumulated over the past two years should provide a buffer. Nevertheless, CBA maintains adequate level of credit provisioning to account for this uncertain outlook. Australian banks including CBA are overseen by a highly regarded prudential regulator, APRA, who oversees banking, insurance and superannuation, with the aim of maintaining the integrity, safety and soundness of financial institutions.
- Strong investment-grade credit ratings down the capital structure:** CBA, along with its peers, remains one of the highest rated financial institutions across the globe, which extends down the capital structure (including the most junior-ranked securities (Tier 1 perpetual hybrids), which are rated investment grade).

Risks

- Relatively high reliance on wholesale funding:** Although the major banks, including CBA, benefit from a strong funding franchise, both domestically and offshore, and across various currencies and instruments, they remain highly reliant on

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

Commonwealth Bank of Australia

wholesale funding compared with global peers. In recent years, the major banks have greatly extended the maturity of their wholesale term debt, reducing the exposure to a short-term dislocation in wholesale funding markets.

- **Modest diversity by global peer standards:** Like its peers, CBA exhibits a modest level of diversity by both product and geography, with its lending base heavily weighted toward residential mortgages in Australia and New Zealand. This leaves the bank primarily exposed to the performance of the Australian and New Zealand mortgage markets (and as such, the high levels of household debt in both countries). The exposure to residential mortgages is somewhat mitigated by mortgage loans that are full recourse and are fundamentally written with the intention to remain on the balance sheet of the bank.

Risks relevant to Subordinated Unsecured Tier 2 instruments

- **Subordinated ranking:** Tier 2 instruments are unsecured and subordinated instruments, ranking ahead only of ordinary shares and additional Tier 1 hybrids. Tier 2 instruments rank behind senior creditors, which includes depositors and senior unsecured creditors.
- **Interest is deferrable (but cumulative):** Interest is deferrable for Tier 2 capital instruments, but typically only in the highly unlikely circumstance that the payment would result in the bank becoming insolvent. Deferred interest does however accumulate.
- **Basel III compliant structural features:** Tier 2 subordinated instruments are classified as Basel III compliant Tier 2 capital instruments. As such, they contain the following features:

- **Conversion or write-down following a Non-Viability Trigger Event:** If the prudential regulator determines that the issuer is at the point of non-viability (loosely defined as the point in which the issuer is failing or likely to fail), the issuer may be required to convert some or all of its Tier 2 hybrids into ordinary shares.

Generally speaking, it is expected that any Tier 1 hybrids outstanding will be converted into equity before Tier 2 hybrids. If, for any reason, the conversion does not take place, the face value of Tier 2 hybrids set aside for conversion will be written off and noteholders will not be compensated (including for any unpaid distributions or interest).

Conversion of Tier 2 notes following a non-viability trigger event is subject to a maximum number of shares being issued. As such, if the notes are converted into ordinary shares, the value of ordinary shares an investor receives may be significantly less than the face value of their notes.

- **Optional call dependent on regulatory approval:** Tier 2 hybrids include an early call feature where the face value of the instrument may be repaid early in cash. The optional redemption requires regulatory approval, which may not be provided.

In general, regulators are unlikely to provide approval for a Tier 2 hybrid to be called if it results in a reduction in the issuer's capitalisation; regulators are unlikely to provide approval for a redemption or resale unless the issuer has, or is expected to, issue an instrument of similar size to replace the instrument subject to that call. To the extent the optional call was expected not to be exercised, it is likely that the price of the notes will be negatively affected.

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

Commonwealth Bank of Australia

Summary Bond Details (see last page for full list)

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call ¹	Maturity Date
USQ2704MAB48	USD 1,250m	Unsec. Sub. T2	3.74%	Semi-Annual	N/A	12 Sep 2039
USQ2704MAA64	USD 1,250m	Unsec. Sub. T2	3.61%	Semi-Annual	12 Sep 2029	12 Sep 2034
AU3CB0297653	AUD 1,750m	Unsec. Sub. T2	6.704% ⁴	Semi-Annual	15 Mar 2033	15 Mar 2038
AU3CB0293769	AUD 900m	Unsec. Sub. T2	6.86% ²	Semi-Annual	9 Nov 2027	9 Nov 2032
AU3FN0073029	AUD 1,100m	Unsec. Sub. T2	3M BBSW + 2.70%	Quarterly	9 Nov 2027	9 Nov 2032
AU3FN0067989	AUD 700m	Unsec. Sub. T2	3M BBSW + 1.90%	Quarterly	14 Apr 2027	14 Apr 2032
AU3CB0288389	AUD 400m	Unsec. Sub. T2	4.946% ³	Semi-Annual ²	14 Apr 2027	14 Apr 2032
AU3FN0062600	AUD 1,500m	Unsec. Sub. T2	3M BBSW + 1.32%	Quarterly	20 Aug 2026	20 Aug 2031
AU3FN0070579	AUD 1,400m	Snr. Unsecured	3M BBSW + 1.02%	Quarterly	N/A	18 Aug 2027
AU3CB0291680	AUD 900m	Snr. Unsecured	4.40%	Semi-Annual	N/A	18 Aug 2027
AU3FN0070561	AUD 1,200m	Snr. Unsecured	3M BBSW + 0.80%	Quarterly	N/A	18 Aug 2025
AU3CB0291672	AUD1,000m	Snr. Unsecured	4.20%	Semi-Annual	N/A	18 Aug 2025

¹Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call.

²Coupon resets to 3M BBSW + 270bps (paid quarterly) if not redeemed at first call date. ³Coupon resets to 3M BBSW + 190bps (paid quarterly) if not redeemed at first call date.

⁴Coupon resets to 3M BBSW + 245bps (paid quarterly) if not redeemed at first call date.

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

Commonwealth Bank of Australia

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced or distributed to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

Certain statements contained in the information may be statements of future expectations and other forward-looking statements. These statements involve subjective judgement and analysis and may be based on third party sources and are subject to significant known and unknown uncertainties, risks and contingencies outside the control of the company which may cause actual results to vary materially from those expressed or implied by these forward looking statements. Forward-looking statements contained in the information regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Opinions expressed are present opinions only and are subject to change without further notice.

No representation or warranty is given as to the accuracy or completeness of the information contained herein. There is no obligation to update, modify or amend the information or to otherwise notify the recipient if information, opinion, projection, forward-looking statement, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

FIIG shall not have any liability, contingent or otherwise, to any user of the information or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance or completeness of the information. In no event will FIIG be liable for any special, indirect, incidental or consequential damages which may be incurred or experienced on account of the user using information even if it has been advised of the possibility of such damages.

FIIG provides general financial product advice only. As a result, this document, and any information or advice, has been provided by FIIG without taking account of your objectives, financial situation and needs. Because of this, you should, before acting on any advice from FIIG, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If this document, or any advice, relates to the acquisition, or possible acquisition, of a particular financial product, you should obtain a product disclosure statement relating to the product and consider the statement before making any decision about whether to acquire the product. Neither FIIG, nor any of its directors, authorised representatives, employees, or agents, makes any representation or warranty as to the reliability, accuracy, or completeness, of this document or any advice. Nor do they accept any liability or responsibility arising in any way (including negligence) for errors in, or omissions from, this document or advice. Any reference to credit ratings of companies, entities or financial products must only be relied upon by a 'wholesale client' as that term is defined in section 761G of the Corporations Act 2001 (Cth). FIIG strongly recommends that you seek independent accounting, financial, taxation, and legal advice, tailored to your specific objectives, financial situation or needs, prior to making any investment decision. FIIG does not make a market in the securities or products that may be referred to in this document. A copy of FIIG's current Financial Services Guide is available at www.fiig.com.au/fsg.

An investment in notes or corporate bonds should not be compared to a bank deposit. Notes and corporate bonds have a greater risk of loss of some or all of an investor's capital when compared to bank deposits. Past performance of any product described on any communication from FIIG is not a reliable indication of future performance. Forecasts contained in this document are predictive in character and based on assumptions such as a 2.5% p.a. assumed rate of inflation (unless otherwise stated), foreign exchange rates or forward interest rate curves generally available at the time and no reliance should be placed on the accuracy of any forecast information. The actual results may differ substantially from the forecasts and are subject to change without further notice. The information in this document is strictly confidential. If you are not the intended recipient of the information contained in this document, you may not disclose or use the information in any way. No liability is accepted for any unauthorised use of the information.

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.
