

Important Dates	
Offer Opens / Close Date	27 October 2008 / 5 December 2008
Start Date	16 December 2008
Capital Protection Date or Maturity Date	24 June 2014
Delivery Asset purchase Date:	1 st July 2014
Key Information	
Investment Type	CSA is a deferred purchase agreement (DPA) where units in the SPDR S&P/ASX 200 fund are delivered to investors at maturity.
Underlying Index	S&P/ASX 200 Index.
Issuer	Commonwealth Bank of Australia (CBA).
Broker	Commonwealth Securities Limited ("CommSec").
Capital Protection	CBA provides 100% capital protection at maturity.
Distributions	No coupons will be paid.
Participation Rate*	100% -120%.
Loan(s)	Finance of up to 100% available to approved applicants from CBA. Minimum loan of \$10,000.
Minimum Investment	\$10,000 with increments of \$1,000 thereafter.
Liquidity	Monthly, acceptance of early exit requests is subject to CBA's consent. Amounts withdrawn before maturity are not capital protected and are subject to early termination fees.

Fees & Commissions	
Brokerage Fee**	0.55% (incl. GST).
Early Termination Fee	1.50% (incl. GST).

* Final participation rates to be set on the Trade Date.

** Brokerage fee is payable if investor chooses to receive cash payment from the sale of the Delivery Asset.

What this Rating means

The **Recommended** rating indicates that Lonsec has conviction that the fund or product can achieve its objectives and, if applicable, outperform peers over an appropriate investment timeframe. The manager or product has a number of competitive advantages in people, process and product design. The investment is a recommended entry point to access this asset class or strategy.

Using this Product

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page

➤ Capital Series Australia (CSA) provides investors with the opportunity to gain exposure to the price growth potential of the Australian equities market. Maximum percentage asset class allocations for all risk profiles are outlined in Lonsec's Risk Profile Review.

➤ CSA incorporates capital protection at maturity that may provide additional comfort to more risk averse investors. Lonsec considers this product to be most suited to balanced and some growth risk profile investors.

Lonsec Opinion of this Product

➤ An investment in the Capital Series Australia (CSA) offers investors the opportunity to gain medium term enhanced exposure to the price growth potential of the Australian equity index with the benefit of capital protection at maturity. Lonsec views the structure created by CBA as a relatively efficient means of providing capital protected access to Australian equities.

➤ Investors can choose to gain exposure to the Australian equity market via a managed fund or an exchange traded fund, receive dividends and any franking credits and be exposed to both positive and negative price movements. CSA offers investors exposure to the Australian equity market with the benefit of 100% capital protection at maturity and participation of between 100% and 120% of the price movements. The final participation rate will be set on the Trade Date. Investors do not receive any dividends or franking credits. CBA may also lend 100% of the investment proceeds to approved investors.

➤ Lonsec believes the index used in the product is appropriate for investors seeking passive exposure to the Australian equities.

The index offers broad representation, investability and transparency. The index is widely recognised in the industry and provides clear rules for security selection and exclusion. Importantly, the index used is sponsored and calculated independently of the Issuer.

➤ The participation rate in this style of product is affected by (amongst other things) volatility in the Underlying Index. Volatility in most financial markets at present is extremely high relative to levels over the past few years following the continuation of problems in global credit markets. Higher volatility, all other things being equal, has the effect of reducing participation rates.

➤ Lonsec notes that CBA has significant experience and resources for structuring investment products both in Australia and abroad.

➤ Withdrawal fees are clearly outlined and in line with similar products. However, CBA may profit (or lose) from hedging arrangements undertaken when managing its contractual obligations under the deferred purchase agreement (DPA) structure. These amounts are “at risk” as the hedging arrangements require regular management over the term of the investment. These amounts are obfuscated in the participation rate, making fee comparison difficult.

Investor Suitability

- Investors seeking capital growth and not reliant on dividends and / or franking credits.
- Investors who believe recent equity market turmoil provides a buying opportunity but want the safety net of 100% capital protection at maturity.
- Investors utilising any investment loans should be comfortable with the risks associated with borrowing to invest. Investors should be comfortable funding interest payments from their own financial resources.

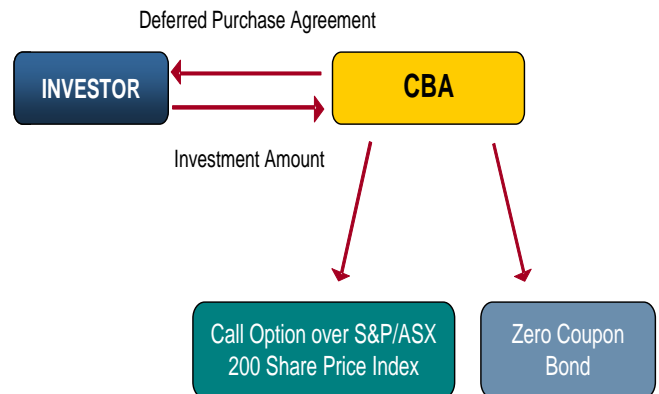
Issuer Profile

CBA is one of Australia’s leading financial institutions founded under the Commonwealth Bank Act in 1911 and commenced operations in 1912. As at August 2008, CBA’s long term credit ratings were AA by S&P, Aa1 by Moody’s and AA by Fitch Rating.

How does the Product Work

CSA is designed as a “set and forget” 5.5 year investment.

The structure of the product can be shown as follows:



Investors enter into a DPA with CBA. CBA then purchases a 5 yr and 6 month AUD zero-coupon bond and a 5 yr and 6 month call option linked to the Underlying Index. The bond provides the 100% capital protection at maturity and the call option provides the upside potential.

An investor’s exposure to the Underlying Index is enhanced due to the participation rate. The participation rate is impacted by prevailing interest rates in Australia, the volatility of the Underlying Index and forecast distributions on securities comprising the relevant index (amongst other things).

Investor returns are determined by the performance of the Underlying Index. The index return is calculated on “point to point” basis, as follows:

$$\text{Index Return} = \frac{\text{Index Ending Level} - \text{Index Starting Level}}{\text{Index Starting Level}}$$

$$\text{CSA} = \text{Index Return} \times \text{Participation rate}$$

An investor’s return at maturity is then calculated as:

$$\text{Payoff at Maturity} = \text{Investment Amount} + (\text{Investment Amount} \times \text{Index return})$$

Assuming:

Initial Investment Amount	\$100
Index starting level	4,100
Index ending level	5,740
Participation rate	110%
Index return (Approx)	40%
CSA return (40% x 110%) (Approx)	44%

Payoff at Maturity = \$100 + (\$100 x 44 %)
= **\$144**

In the example above, investors would receive the value of their initial investment, plus the growth in the Underlying Index at a 110% participation rate providing a total return of 44% or \$144.

Given the investment is capital protected, should the index produce negative returns, the payoff at maturity will be the initial investment amount.

Early termination by investors invalidates the capital protection and will attract an early termination fee.

Full outlines of these calculations are provided in the PDS on pages 8 to 9 of Part 2.

Lonsec views this structure as an efficient and relatively simple means of providing capital protected access to the Underlying Index.

Underlying Index

The S&P/ASX 200 Index is recognised as the investable benchmark for the Australian equity market.

The S&P/ASX 200 Index is maintained by the S&P Australian Index Committee, a team of five including three Standard & Poor's economists and index analysts and two Australian Securities Exchange representatives.

The Index Committee reviews constituents quarterly to ensure adequate market capitalisation and liquidity. Both market capitalisation and liquidity are assessed using the previous six months data.

The following table outlines the performance of the S&P/ASX Index over the various periods ending September 2008:

S&P/ASX 200 Index

Periods Ending September 2008

	1 Yr	3 Yrs	5 Yrs	7 yrs
Performance (% pa)	-26.8	4.0	12.4	10.6
Standard Deviation (% pa)	17.6	14.4	12.3	11.8
Sharpe Ratio	-1.9	-0.2	0.5	0.4

Source: Morningstar, Lonsec

In the 5 year period to September 2008, the Index produced a gross annualised return of 12.4% with a volatility of 12.3%. Over the 1 year period to September 2008, the Index returned -26.3%.

What Happens at Maturity?

At maturity investors have a choice of receiving physical delivery of the delivery asset (units in SPDR S&P/ASX 200 Exchange Traded Fund) or instructing CBA to sell the delivery asset and realise sale proceeds equal to the final value of CSA (calculated as described previously). This arrangement is known as a deferred purchase agreement.

If investors choose to receive cash payment from the sale of the delivery asset, they will incur a Brokerage Fee of 0.55% of the maturity value.

There may be different taxation implications depending on the choice made by investors. Investors are advised to seek their own taxation advice.

Financing the Investment

Investors may use their own funds to enter into an investment in CSA or may apply to CBA for a loan to fund their investment. Investors have the following financing option:

- Capital Investment Loan** – CBA may lend up to 100% of the investment amount (full recourse). Rates will be finalised prior to the issue date but are indicatively 9.05% pa. fixed rate payable yearly in advance or fixed rate payable monthly in arrears 9.35% or variable rate payable monthly in arrears 9.65%.
- Interest in Advance Loan** – For the capital investment loan borrowers, CBA may lend 100% of the year's interest payment on a full recourse basis. The interest in advance loan is to be repaid in equal monthly instalments of principal and interest over the year. CBA has advised that the interest rate on the interest in advance loan is indicatively 8.39% pa.

Risks

An investment in CSA carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers the major risks to be:

- **Performance risk** – The value of an investment in CSA is dependent on the performance of Underlying Index. The index is not actively managed and can be affected by many different factors including but not limited to interest rates, economic policies, political events, war and natural events. There is no guarantee the value of CSA will increase over the investment term.
- **Leverage risk** – Investors utilising the investment or other loans should be aware that gains and losses are magnified through the use of borrowings.
- **Counterparty risk** – Investors are exposed to the creditworthiness of CBA, as CSA returns are dependent on CBA performing its obligations as they fall due. As at August 2008, CBA's long term credit ratings are AA by S&P, Aa1 by Moody's and AA by Fitch Rating.
- **Loss of Capital Protection** – Capital protection is only provided at maturity. In certain circumstances, such as changes in the law or where an index can no longer be used, an early maturity could ensue. Loss of capital protection can also result from an early redemption request from an investor. An investor can receive proceeds less than their initial investment in the event of an early maturity.
- **Exercise of discretion by CBA** – CBA has wide powers under the CSA to determine the value of the investment. This can occur where there is an adjustment event such as the cancellation of an index or where an index sponsor makes a material change to the method of calculation. This also includes substitution of the delivery asset with another security.

Taxation

Investors should generally be able to claim a tax deduction for interest incurred on any loan used to fund the acquisition of CSA, provided the interest was incurred for the purposes of deriving assessable income.

Any gains made by Investors in relation to CSA and the Delivery Asset should be subject to taxation under the capital gains tax (CGT) rules.

Investors are encouraged to read the letter from law firm Greenhoods and Freehills Pty Ltd for a tax opinion on CSA.

These comments constitute 'General Advice' only and Lonsec advises potential investors to consult a taxation specialist before making a decision to invest (or not to invest) based upon these taxation considerations. Investors should refer to Section 4 of Part 1 and Section 5 within Part 2 of the PDS.

Liquidity

CSA is not listed on the Australian stock exchange or any other exchange. Due to the nature of the investment, investors should have the intention of holding an investment in CSA to the capital protection date. However early redemption requests can be made to CBA.

Investors should be aware that at the time of early termination, CBA will take into account break costs and investors will also have to pay an early termination fee.

For investors utilising the investment loan, any redemption prior to maturity of the investment loan will require repayment of the investment loan. There may be interest break costs and any prepaid interest may not be refunded. Capital protection will be lost in respect to any investment redeemed prior to the capital protection date.

Fees

Brokerage – 0.55% of the Maturity Value. Brokerage fee is payable if investor chooses to receive cash payment from the sale of the Delivery Asset.

Early Termination Fee – 1.50% of the Early Termination Value.

Break Costs – Break costs are associated with unwinding the hedge arrangements CBA established in connection with the investment.

Further Information

Further information and monthly net asset values can be obtained by contacting CBA:

Phone: 13 15 20

Email: capitalseries@cba.com.au

Internet: www.comsec.com.au/capitalseries

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Date Prepared: October 2008

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Release Authorised by: Michael Elsworth

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