

Important Dates

Offer Opens / Close Date	23 February 2009 / 3 April 2009
Start Date	20 April 2009
Capital Protection Date or Maturity Date	27 October 2014
Settlement Date	6 November 2014
Observation Date	5 business days prior to maturity date

Key Information

Investment Type Capital Series Australia II 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").

Strategies
Strategy 1 – Capital protection of 100% with capital growth **capped** at 80% at maturity
Strategy 2 – Capital protection of 80% with unlimited potential for capital growth at maturity

Capital Protection CBA provides 100% (*Strategy 1*) and 80% (*Strategy 2*) capital protection **at maturity**.

Delivery Asset SPDR S&P/ASX 200 Fund

Distributions No coupons will be paid.

Participation Rate 100%.

Loan(s) Finance of up to 100% is available under *Strategy 1* and up to 80% under *Strategy 2* to approved applicants from CBA. Minimum loan of \$10,000.

Minimum Investment \$10,000 per strategy with increments of \$1,000 thereafter.

Liquidity Monthly. CBA will accept early exit requests in most circumstances. Amounts withdrawn before maturity are not capital protected and are subject to early termination fees.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).

Adviser Commissions CBA will pay adviser commissions from their own funds.

** 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 II (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 growth risk profile investors.

Product Risk Characteristics (Current Portfolio Level)

	Low	Moderate	High
Leverage			
Liquidity Risk			
Concentration			
Credit Risk			
Volatility			

Risks are categorised "Low", "Moderate" or "High", based on Lonsec's qualitative opinion of the risks inherent in the product.

Lonsec Opinion of this Product

- An investment in the Capital Series Australia II (CSA) offers investors the opportunity to gain medium term exposure to the price growth potential of the Australian equity index with the benefit of 80% or 100% capital protection at maturity. Lonsec views the structure created by CBA as an 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 80% or 100% capital protection at maturity. Investors do not receive any dividends or franking credits. CBA may also lend up to 100% under Strategy 1 and 80% under Strategy 2 of the investment proceeds to approved investors.

➤ The two strategies represent a trade-off between the level of capital protection and growth potential. This has become a feature of this style of product following the extreme volatility in financial markets (relative to levels over the past several years). Investors should note the calculation to determine the final value at maturity is a point-to-point calculation. This means investors receive the benefit if the Index increases strongly towards maturity. However, the cap levels applied to Strategy 1 means investors do not receive the full benefit of any increase in the index above and beyond 80%. Any sharp fall close to maturity has the potential to erode earlier gains.

➤ 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.

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

➤ Various components of the product pricing are based on the Issuer’s costs and option hedging prices, some of which the Issuer determines in its discretion. As is often the case with structured product pricing generally, these prices will not be transparent to the investor.

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 80% or 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.

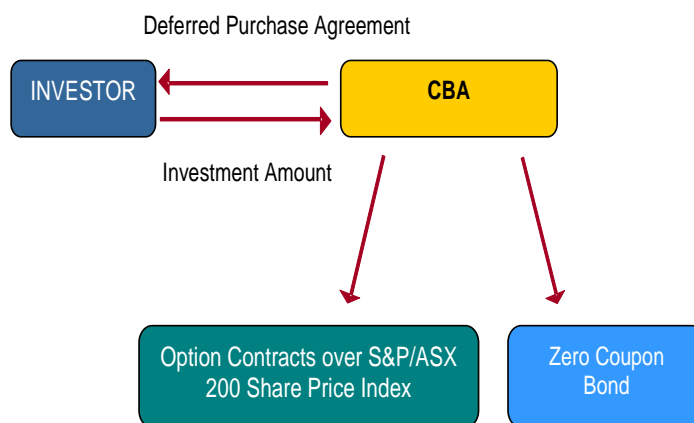
Issuer Profile

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:



CSA offers two strategies, as follows:

Strategy	Capital protection at maturity	Potential for Capital growth
Strategy 1	100%	Up to 80%
Strategy 2	80%	Unlimited

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

Investor returns are determined by the performance of the Underlying Index and the strategy chosen. The index return is calculated on a “point to point” basis between the Start Date and the Observation Date.

Assuming a Starting level of the Underlying Index of 3500, investors return at maturity can be shown as:

S&P/ASX 200 Index (Ending Level)	% change in the Index	% Return at Maturity	
		STRATEGY 1	STRATEGY 2
2500	-28.57%	0.00%	-20.00%
3000	-14.29%	0.00%	-14.29%
3500	0.00%	0.00%	0.00%
4000	14.29%	14.29%	14.29%
4500	28.57%	28.57%	28.57%
5000	42.86%	42.86%	42.86%
5500	57.14%	57.14%	57.14%
6000	71.43%	71.43%	71.43%
6500	85.71%	80.00%	85.71%

For example, when the percentage change in the Underlying Index is -28.57% at maturity, investors under Strategy 1 will receive their capital back as 100% of their initial investment amount is protected but investors under Strategy 2 suffer a 20% loss to their initial investment as only 80% of their initial investment is protected. If the percentage change in the Underlying Index is 85.71% at maturity, returns under Strategy 1 are capped at 80% and investors under the Strategy 2 receive the full benefit of the rise. Investors opting for Strategy 2 should be higher risk profile investors, comfortable with the trade-off of risking part of their capital for the potential of generating higher returns.

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

Full outlines of these calculations are provided on pages 12 to 16 within Part 2 of the PDS.

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 January 2009:

S&P/ASX 200 Share Price Index				
Periods Ending January 2009				
	1 Yr	3 Yrs	5 Yrs	7 yrs
Performance (% pa)	-37.3	-10.4	1.6	0.3
Standard Deviation (% pa)	18.3	16.0	13.9	12.8
Sharpe Ratio	-2.4	-1.1	-0.3	-0.4

Source: Morningstar, Lonsec

In the 5 year period to January 2009, the Index produced a gross annualised return of 1.6% with a volatility of 13.9%. Over the 1 year period to January 2009, the Index returned -37.3%.

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% (under Strategy 1) and up to 80% (under Strategy 2) of the investment amount (full recourse). Rates will be finalised prior to the issue date but are indicatively 8.05% pa. fixed rate payable yearly in advance or fixed rate payable monthly in arrears 8.35% or variable rate payable monthly in arrears 7.65%.
- **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 8.50% 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.

In Taxation Determination TD 2008/22, the Commissioner of Taxation (Commissioner) expresses the view that two taxing points for CGT purposes will arise in a typical deferred purchase agreement (DPA).

First taxing point: A "CGT event" will happen when the Delivery Assets are delivered to an investor on the settlement date, even if the investor continues to hold the Delivery Assets beyond that date.

The cost base will be the initial investment amount (plus any application fee and any applicable brokerage costs and non-deductible professional advisory fees) paid by the investor upon entry.

Second taxing point: A separate /additional CGT gain or loss would arise when the investor sells their Delivery Assets. The cost base of the Delivery Assets should be an amount equal to their market value on the settlement date.

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 in the event this occurs. 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.

Adviser Commissions: CBA will pay adviser commissions from their own funds. These are:

Upfront Commission: Up to 2.20% (incl. GST) on the investment amount.

Trail Commission: Up to 0.55%p.a (incl. GST) on the loan balance under the Investment loan

Further Information

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

Phone: 1300 786 039

Email: capitalseries@cba.com.au

Internet: www.commbank.com.au/corporate/financial-markets/structured-investments/capital-series/

Glossary

Absolute Return	Top line' actual return, after fees
Standard Deviation	Volatility of monthly Absolute Returns
Sharpe Ratio	Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)

Analyst Disclosure & Certification

Analyst remuneration is not linked to the rating outcome. The Analyst(s) may hold the product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s) holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

Date Prepared: February 2009

Analyst: Shailesh Jain

Release Authorised by: Michael Elsworth

IMPORTANT NOTICE: The following relate to this document prepared and published by Lonsec Limited ABN 56 061 751 102 ("Lonsec") and should be read before making any investment decision about the product(s). This report, dated October 2008, expires when the initial offer closes or if there are any material changes in relation to the information contained in this report or any disclosure or offer document issued in relation to this offer. Lonsec reserves the right to change its opinion, rating and/or withdraw the report at any time on reasonable grounds.

Disclosure at the date of publication: Lonsec receive a fee from the Issuer or distributor for rating the product(s) using comprehensive and objective criteria. Lonsec's fee is not linked to the rating outcome. Costs incurred during the rating process of international funds, including travel and accommodation expenses are paid for by the fund Manager to enable on-site reviews. Lonsec does not hold the product(s) referred to in this document. Lonsec's representatives and/or their associates may hold the product(s) referred to in this document, but detail of these holdings are not known to the Analyst(s).

Warnings: Past performance is not a reliable indicator of future performance. Any express or implied rating or advice presented in this document is limited to "General Advice" and based solely on consideration of the investment merits of the financial product(s) alone, without taking into account the investment objectives, financial situation and particular needs ('financial circumstances') of any particular person. Before making an investment decision based on the rating or advice, the reader must consider whether it is personally appropriate in light of his or her financial circumstances or should seek further advice on its appropriateness. If our General Advice relates to the acquisition or possible acquisition of particular financial product(s), the reader should obtain and consider the Product Disclosure Statement for each financial product before making any decision about whether to acquire a product.

Lonsec's rating process relies upon the publicly available information published by the Issuer. Should the Issuer or Distributor no longer be an active participant in Lonsec rating process, Lonsec reserves the right to withdraw the document at any time and discontinue future coverage of the CBA Capital Series Australia.

Disclaimer: This document is for the exclusive use of the person to whom it is provided by Lonsec and must not be used or relied upon by any other person. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this document, which is drawn from public information not verified by Lonsec. Conclusions, ratings and advice are reasonably held at the time of completion but subject to change without notice. Lonsec assumes no obligation to update this document following publication. Except for any liability which cannot be excluded, Lonsec, its directors, employees and agents disclaim all liability for any error or inaccuracy in, or omission from, this document or any loss or damage suffered by the reader or any other person as a consequence of relying upon it.