

CBA Capital Series Trio



Important Dates	
Offer Opens / Close Date	7 September 2009 - 23 October 2009
Start Date	4 November 2009
Capital Protection Date or Maturity Date	11 May 2015
Settlement Date	21 May 2015
Observation Date	5 Business days prior to Maturity
Key Information	
Investment Type	Capital Series Trio is a Deferred Purchase Agreement (DPA) where units in the SPDR S&P/ASX 200 fund are delivered to investors at maturity.
Reference Assets	<p>Strategy 1: S&P/ASX 200 Index</p> <p>Strategy 2: Gold</p> <p>Strategy 3: Hang Seng China Enterprise Index (40%); TAIEX index (30%); KOSPI 200 Index (30%).</p>
Issuer	Commonwealth Bank of Australia (CBA).
Broker	Commonwealth Securities Limited ("CommSec").
Strategies	<p>Strategy 1 – Capital protection of 100% with capital growth capped at 70% at maturity</p> <p>Strategy 2 – Capital protection of 100% with capital growth capped at 70% at maturity</p> <p>Strategy 3– Capital protection of 80% with unlimited potential for capital growth at maturity</p>
Capital Protection	CBA provides 100% (Strategy 1 & 2) and 80% (Strategy 3) capital protection at maturity .
Delivery Asset	SPDR S&P/ASX 200 Fund
Distributions	<p>Strategy 1 & 2 – Conditional coupon based on performance of Reference Asset.</p> <p>Strategy 3 – No coupons will be paid.</p>
Participation Rate	100%.
Loan(s)	Finance of up to 100% is available under Strategy 1 & 2 and up to 80% under Strategy 3 to approved applicants from CBA. Minimum loan of \$10,000.
Minimum Investment	\$10,000 per strategy
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 Amounts withdrawn before maturity are not capital protected and are subject to early termination fees.
Platform availability	Colonial First State FirstWrap
Fees & Commissions	
Brokerage Fee**	Up to 0.55% (incl. GST).
Early Termination Fee	Up to 1.50% (incl. GST).
Adviser Commissions	CBA may 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 Trio (Trio) provides investors with the opportunity to gain exposure to the price growth potential of the Australian and Asian equity markets and Gold with the potential for coupon payments under Strategies 1 & 2. Lonsec considers Gold exposure as an allocation to Alternative Assets. Maximum percentage asset class allocations for all risk profiles are outlined in Lonsec's Risk Profile Review.

➤ Trio incorporates 100% capital protection **at maturity** for Strategies 1 & 2 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. Strategy 3 has 80% capital protection **at maturity** and is more suited to growth investors.

Trio may suit:

- 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.

Fund Risk Characteristics

	Low	Moderate	High
Leverage	▲		
Liquidity Risk		▲	
Concentration		▲	
Credit Risk	▲		
Volatility			▲

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the product's asset class and the risks relative to other products in the relevant Lonsec sector universe.

Lonsec Opinion of this Product

- An investment in the Capital Series Trio (Trio) offers investors the opportunity to gain medium term exposure to the price growth of the Australian, Chinese, Taiwanese and Korean equity indices and Gold with the benefit of 80% or 100% capital protection at maturity. Conditional coupons are payable under Strategies 1 and 2. Lonsec views the structure created by CBA as an efficient means of providing capital protected access to the underlying investments.
- Investors can choose to gain exposure to the Australian and Asian equity market and Gold price 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. Trio offers investors exposure to the Reference Assets with the benefit of 80% or 100% capital protection at maturity. Investors may also receive distributions under Strategies 1 & 2 based on the performance of the S&P/ASX 200 Index and Gold price. Investors do not receive any dividends or franking credits. CBA may also lend up to 100% under Strategies 1 & 2 and 80% under Strategy 3 to approved investors.
- The three 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 Reference Asset increases strongly towards maturity. However, the cap levels applied to Strategies 1 & 2 means investors do not receive the full benefit of any increase in the Reference Asset above 70%. Any sharp fall close to maturity has the potential to erode earlier gains.
- Lonsec believes the indices used in the product are appropriate for investors seeking passive exposure to the Australian and Asian equities. The indices offer broad representation, investability and transparency. The indices are widely recognised in the industry and provide clear rules for security selection and exclusion. Importantly, the indices used are sponsored and calculated independently of the Issuer.
- Lonsec has reviewed many structured products by CBA and considers the staff and resources for structuring investment products to be suitably qualified / experienced 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.

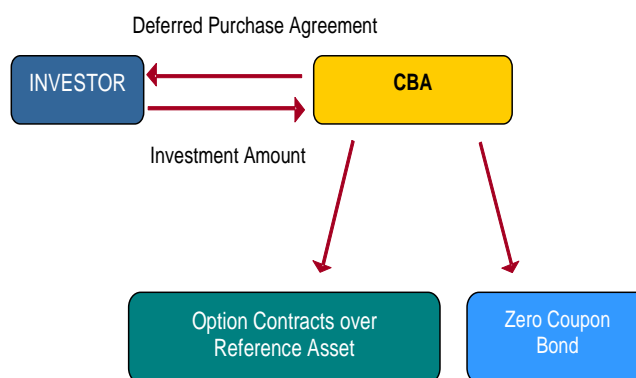
Issuer Profile

CBA is one of Australia's leading financial institutions founded under the Commonwealth Bank Act in 1911 and commenced operations in 1912. As at July 2009, 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

Trio is designed as a "set and forget" 5.5 year investment.

The structure of the product can be shown as follows:



Trio offers three strategies, as follows:

Strategy	Underlying Indices	Capital protection at maturity	Potential for capital growth	Coupon payments
Strategy 1	S&P/ASX 200 Index	100%	Up to 70%	5.0% starting from Year 1.5 subject to the performance of the S&P/ASX 200 Index.
Strategy 2	Gold	100%	Up to 70%	3.0% starting from Year 1.5 subject to the performance of the Gold price.
Strategy 3	40% - Hang Seng China Enterprises Index 30% - TAIEX Index 30% - KOSPI 200 Index	80%	Unlimited	No coupon payments

Investor returns are determined by the performance of the Reference Asset and the strategy chosen. The index return is calculated on a "point to point" basis between the Start Date and the Observation Date.

An investor's pay-off at maturity under **Strategies 1 & 2** are:

Investment Amount + Investment Amount x
(Participation Rate x Max (0, % change in the Index))

subject to a cap of 70% under Strategies 1 & 2.

Assuming an initial investment amount of \$100 at the Start Date, an investor's payoff at maturity can be shown as:

% change in Index	Payoff at Maturity under Strategies 1 & 2
-30	\$100
-20	\$100
-10	\$100
-5	\$100
0	\$100
5	\$105
10	\$110
20	\$120
30	\$130
50	\$150
70	\$170
80	\$170
90	\$170
100	\$170
110	\$170

For example, when the percentage change in the Reference Asset is -30% at maturity, investors under Strategies 1 & 2 will receive their capital back (\$100) as 100% of their initial investment amount is protected. However, if the percentage change in the Reference Asset is 110% at maturity, returns under Strategies 1 & 2 are capped at 70% or pay-off of \$170.

Investors under Strategies 1 & 2 may receive coupon payments over the investment term based on the performance of the Reference Asset as per the tables below:

Year	% change in Index from Start Date	Date	Strategy 1 Coupon payment	Strategy 2 Coupon payment
1.5	≥110%	4/05/2011	5%	3%
2.5	≥120%	4/05/2012	5%	3%
3.5	≥130%	6/05/2013	5%	3%
4.5	≥140%	5/05/2014	5%	3%
5.5	≥150%	4/05/2015	5%	3%

If the Underlying Index does not reach the levels on the dates indicated, the coupon payment will be zero for that period.

An investor's pay-off at maturity under **Strategy 3** is:

Investment Amount + Investment Amount x
(Participation Rate x Max (-20%, % change in the Indices))

The table overleaf offers an example of investor's pay-off at maturity per \$100 invested under Strategy 3:

Indices	Actual returns	Weighting	Actual returns multiplied by weighting	Payoff at maturity
Hang Seng China Enterprises Index	80%	40%	32%	
TAIEX Index	70%	30%	21%	
KOSPI 200 Index	90%	30%	27%	
% change in the Indices			80%	\$180
Hang Seng China Enterprises Index	-10%	40%	-4%	
TAIEX Index	-30%	30%	-9%	
KOSPI 200 Index	-10%	30%	-3%	
% change in the Indices			-16%	\$84
Hang Seng China Enterprises Index	-50%	40%	-20%	
TAIEX Index	-40%	30%	12%	
KOSPI 200 Index	-20%	30%	-6%	
% change in the Indices			-38%	\$80

For example, when the percentage changes in the indices are -38% at maturity, investors under Strategy 3 suffer a 20% loss to their initial investment as 80% of their initial investment amount is protected. However, investors receive the full benefit of any rise in the underlying Indices as there is no cap on returns. Investors opting for Strategy 3 should be higher risk profile investors, comfortable with the trade-off of risking part of their capital for the potential of generating higher returns. Investors under Strategy 3 do not receive any coupon payments.

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

Full outlines of these calculations are provided on pages 21 to 29 within Part 2 of the PDS.

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

Reference Assets

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 July 2009:

S&P/ASX 200 Share Price Index				
Periods Ending July 2009				
	1 Yr	3 Yrs	5 Yrs	7 yrs
Performance (% pa)	-14.7	-5.2	3.7	4.7
Standard Deviation (% pa)	23.7	17.5	15.0	13.5
Sharpe Ratio	-0.8	-0.7	-0.2	-0.1

Source: Morningstar, Lonsec

In the 5 year period to July 2009, the Index produced a gross annualised return of 3.7% with a volatility of 15%. Over the 1 year period to June 2009, the Index returned -14.7%.

Gold

The price of gold (measured in troy ounces and generally quoted in US dollars) is determined on the open market by members of the London Bullion Market Association (LBMA) on a daily basis.

The LBMA is the London-based trade association that represents the wholesale over-the-counter market for gold and silver in London. Trading is conducted amongst members of the LBMA, loosely overseen by the Bank of England. Most of the members are major international banks or bullion dealers and refiners. Five members of the LBMA meet twice daily to "fix" the gold price in a process known as the London Gold Fixing.

It acts as the principal point of contact between the market and its regulators and provides framework for refining standards and good trading practices amongst firms engaged in refining, trading, vaulting and transporting of gold and silver.

The following table outlines the performance of the Gold over the various periods ending July 2009:

GOLD				
Periods Ending July 2009				
	1 Yr	3 Yrs	5 Yrs	7 yrs
Performance (% pa)	4.4	14.4	19.5	15.2
Standard Deviation (% pa)	30.5	23.6	21.5	20.1

Source: Lonsec, CBA, Bloomberg

Hang Seng China Enterprises Index (HSCEI)

The Hang Seng China Enterprises Index (HSCEI) is a market capitalisation weighted index made up of H-share listed on the stock exchange of Hong Kong. The companies in the HSCEI cover a wide variety of market sectors and represent a broad cross-section of the mainland Chinese market.

The following table outlines the performance of the HSCEI over the various periods ending July 2009:

HSCEI				
Periods Ending July 2009				
	1 Yr	3 Yrs	5 Yrs	7 yrs
Performance (% pa)	-3.1	21.2	23.2	28.9
Standard Deviation (% pa)	17.3	38.4	30.2	28.1

Source: Lonsec, CBA, Bloomberg

TAIEX Index (TSEC Index)

The TSEC Index is a capitalisation-weighted index of all listed common shares traded on the Taiwan stock exchange. The TSEC Index covers all of the stocks excluding preferred stocks, full-delivery stocks and newly listed stocks, which are listed for less than one calendar month.

The following table outlines the performance of the TSEC over the various periods ending July 2009:

TSEC				
Periods Ending July 2009				
	1 Yr	3 Yrs	5 Yrs	7 yrs
Performance (% pa)	0.8	2.7	5.3	5.3
Standard Deviation (% pa)	21.3	26.9	21.6	22.7

Source: Lonsec, CBA, Bloomberg

KOSPI 200 Index (KS200)

The KS200 is the South Korean index, indicative of the top 200 stocks in the Korea Exchange. It maps over 70% of the total capitalization of the exchange and is the most liquid index for the South Korean market. The KS200 was started on January 3rd, 1990 with a base value of 100. The Futures and Options markets in Korea use this index to base their calculations.

The following table outlines the performance of the KS200 over the various periods ending July 2009:

KS200				
Periods Ending July 2009				
	1 Yr	3 Yrs	5 Yrs	7 yrs
Performance (% pa)	-11.5	4.81	15.6	12.3
Standard Deviation (% pa)	21.4	24.9	25.1	25.3

Source: Lonsec, CBA, Bloomberg

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 Trio (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 up to 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 Trio 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 Strategies 1 & 2) and up to 80% (under Strategy 3) 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 9.25% or variable rate payable monthly in arrears 7.30%.
- **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 Trio 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 Trio 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 Trio 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 Trio returns are dependent on CBA performing its obligations as they fall due. As at June 2009, 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 Trio 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

Any gains made by Investors in relation to Trio 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 Trio.

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

Trio 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 Trio 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 may 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:

Igor kolevski: 0433 799 205

Moghseen Jadwat: 0424 186 195

Phone: 1300 786 039

Email: structuredproductsdirect@cba.com.au

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

Glossary

Performance	Total return (income and growth) - % per annum
Standard Deviation	A measure of the dispersion around a central point. A smaller number implies more concentrated dispersion and, hence, lower volatility.
Sharpe Ratio	Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)

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Date Prepared: August 2009

Analyst: Shailesh Jain

Release Authorised by: Michael Elsworth

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