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CommBank PERLS VIII Capital Notes (CBAPE)

Fixed Income

Issue overview

Issuer	CBA
Issue ASX code	CBAPE
Face value	$100
Estimated offer size	$1.25bn
Bookbuild margin	5.20-5.35%
Franking	100%
Dividend payments	Quarterly
First dividend payment	15 Jun 2016
Minimum application	$5,000
Call Date	15 Oct 2021
Mandatory Exchange	15 Oct 2023

Timeline

Lodgement of prospectus	16 Feb 2016
Bookbuild margin	23 Feb 2016
Announcement of margin	24 Feb 2016
Offer opens	24 Feb 2016
Offer closes	18 Mar 2016
Issue date	30 Mar 2016
ASX listing (deferred settlement)	31 Mar 2016

Investments in CBA PERLS VIII Capital Notes are an investment in CBA and may be affected by the ongoing performance, financial position and solvency of CBA. They are not deposit liabilities or protected accounts of CBA under the Bank Act 1959 (Cth).

Additional Disclosure: Bell Potter Securities Limited is acting as Co-manager to the CBA PERLS VIII issue and will receive fees for this service.

Limiting supply at a record 5.20-5.35% bookbuild margin

CBA's new $1.25bn PERLS VIII Capital Notes (CBAPE) has been launched as a Basel III compliant replacement issue for the $1.17bn PERLS III (PCAPA) ahead of its 6 April 2016 step-up date. The Reinvestment Offer appears highly attractive, with the 5.20-5.35% bookbuild range providing a substantial uplift on PCAPA's 1.05% issue margin. Replacing a step-up pref with one which provides for Mandatory Exchange also provides greater certainty on receipt of face value at a expected future date (subject to satisfying Mandatory Exchange Conditions).

Launching a new security when prevailing margin on ASX listed major bank hybrids are at their highest level since early 2009 and wholesale senior debt funding costs are at a 4 year high has prompted CBA to cap the broker firm offer at $650m. We view this as an important measure to create some scarcity value.

Risk / reward attractive given CBA's financial strength

The financial strength of CBA is highlighted by it lifting 1H16 cash net profit 4% to a record $4.8bn. The $5bn entitlement offer launched in Aug 2015 has seen its Common Equity Tier 1 (CET1) ratio lift to 10.2% at 31 Dec 2015, providing a buffer of $20.1bn above the Capital Trigger Event, requiring CBA's CET1 ratio to be above 5.125%.

Pricing broadly in line with secondary market

The 5.20-5.35% bookbuild range essentially reflects current trading in the existing ASX listed major bank hybrids. The desire for higher income levels provides the potential for greater investor support of CBAPE relative to other lower margin bank hybrids of a similar duration.

Figure 1: Trading margins on debt and equity securities

	Ranking (prior to exchange)	Security	Trading Margin over BBSW	Maturity / Mand Conv*	First Call
Higher Ranking	Senior debt	CBA (OTC) senior	125bp	Jan 2021	
↕	Subordinated debt	CBA (OTC) subordinated	275bp	Nov 2024	Nov 2019
	Preference securities	**CBAPE (Tier 1)**	**520-535bp**	**Oct 2023***	**Oct 2021#**
Lower Ranking	Equity	Ordinary CBA Shares	~600bp	Perpetual	

WHERE NOT CONVERTED OR WRITTEN-OFF ON ACCOUNT OF A CAPITAL TRIGGER EVENT OR A NON VIABILITY TRIGGER EVENT.

SOURCE: YIELDBROKER, BELL POTTER

* MANDATORY CONVERSION IS SUBJECT TO SATISFYING THE MANDATORY EXCHANGE CONDITIONS CBAPE IS PERPETUAL AND MANY NOT BE EXCHANGED.

Key features

- **Initial grossed up running yield of 7.50-7.65% (5.25-5.35% fully franked):** Floating rate based on 3 month bank bill of 2.30% + 5.20-5.35% bookbuild margin.
- **Option to redeem at year 5.5 with mandatory exchange at year 7.5:** CBA has the option to redeem CBAPE at the 15 Oct 2021 Call Date, subject to APRA approval and CBA being solvent, and a Capital Trigger or a Non-Viability Trigger Event not having occurred. CBAPE may not be exchanged on the scheduled Mandatory Exchange Date, and you may continue to hold CBAPE indefinitely.
- **Ordinary dividend restrictions:** Applies on the non payment of CBAPE distributions. CBAPE distributions are discretionary and subject to the distribution payment conditions being satisfied. Unpaid distributions are non-cumulative.

CommBank PERLS VIII Capital Notes

PERLS III Reinvestment	Dates
PCAPA Ex Entitlement	18 Feb 2016
PCAPA Record Date	22 Feb 2016
PCAPA cease trading	24 Feb 2016
Reinvestment offer opens	24 Feb 2016
Reinvestment offer closes	18 Mar 2016
PCAPA ex dividend	24 Mar 2016
Reinvestment Issue Date	30 Mar 2016
ASX listing (deferred settlement)	31 Mar 2016
PCAPA dividend paid	6 Apr 2016

PERLS III Redemption	Dates
PCAPA Ex Entitlement	18 Feb 2016
PCAPA Record Date	22 Feb 2016
PCAPA cease trading	24 Feb 2016
Reinvestment offer opens	24 Feb 2016
Reinvestment offer closes	18 Mar 2016
PCAPA ex dividend	24 Mar 2016
PCAPA Redemption	6 Apr 2016
PCAPA dividend paid	6 Apr 2016

Reinvestment Offer for PERLS III holders

As the PERLS VIII (CBAPE) offer is essentially a replacement issue for PERLS III (PCAPA), CBA is offering the opportunity to reinvest PCAPA securities held at the 22 February 2016 record date into new CBAPE securities (ex entitlement date 18 February 2016). **Investors who buy PCAPA on market on either Tuesday 16 February 2016 or Wednesday 17 February 2016 will be eligible to participate in the Reinvestment Offer.** CBA will also give priority to allocations under the Reinvestment Offer over applications received under the Securityholder Offer.

PCAPA holders essentially have three options:

- **Option 1: Participate in Reinvestment Offer:** For PCAPA holders that lodge their Personalised Reinvestment form by 18 March 2016, CBA will buy participating securities at $200 on the 30 March 2016 Reinvestment Date. CBA will then reinvest proceeds into CBAPE. Investors will also receive a final PCAPA dividend payment of $1.1798 fully franked on 6 April 2016.
- **Option 2: Sell PCAPA on market:** PCAPA is expected to cease trading on 24 February 2016.
- **Option 3: Do nothing and receive $200 Cash Redemption:** In addition to receiving $200 cash redemption per PCAPA security on 6 April 2016, holders will also receive the final $1.1798 fully franked dividend. We note PCAPA will cease trading once the Reinvestment Offer opens on 24 February 2016, six weeks before redemption on 6 April 2016. Clause 8.1 (c) of the PCAPA prospectus states "On receipt of an Exchange Notice, a PERLS III Holder must not deal with, transfer, dispose or otherwise encumber the PERLS III which are subject of the Exchange Notice".

Overall the Reinvestment Offer appears highly attractive, given the uplift in issue margin from 1.05% on PCAPA to 5.20-5.35% on CBAPE.

Offers for Broker Firm and Securityholders

- **Broker Firm Offer:** This is available to clients of Bell Potter, which is a Syndicate Broker to the CBAPE issue. Broker firm bids will participate in the Bookbuild to be held on 23 February 2016.
- **Securityholder Offer:** Available to investors in CBA, PERLS III (PCAPA), PERLS VI (CBAPC), PERLS VII (CBAPD) or Colonial Group Subordinated Notes (CNGHA). Applications for investors holding these securities at the 22 February 2016 record date requires a HIN or SRN. The closing date for the Securityholder Offer is 18 March 2016.

There is no Customer Offer or General Offer.

CommBank PERLS VIII Capital Notes

Trading margins on bank hybrids near GFC peak

Figure 2 tracks the average trading margins split across 4 sectors:

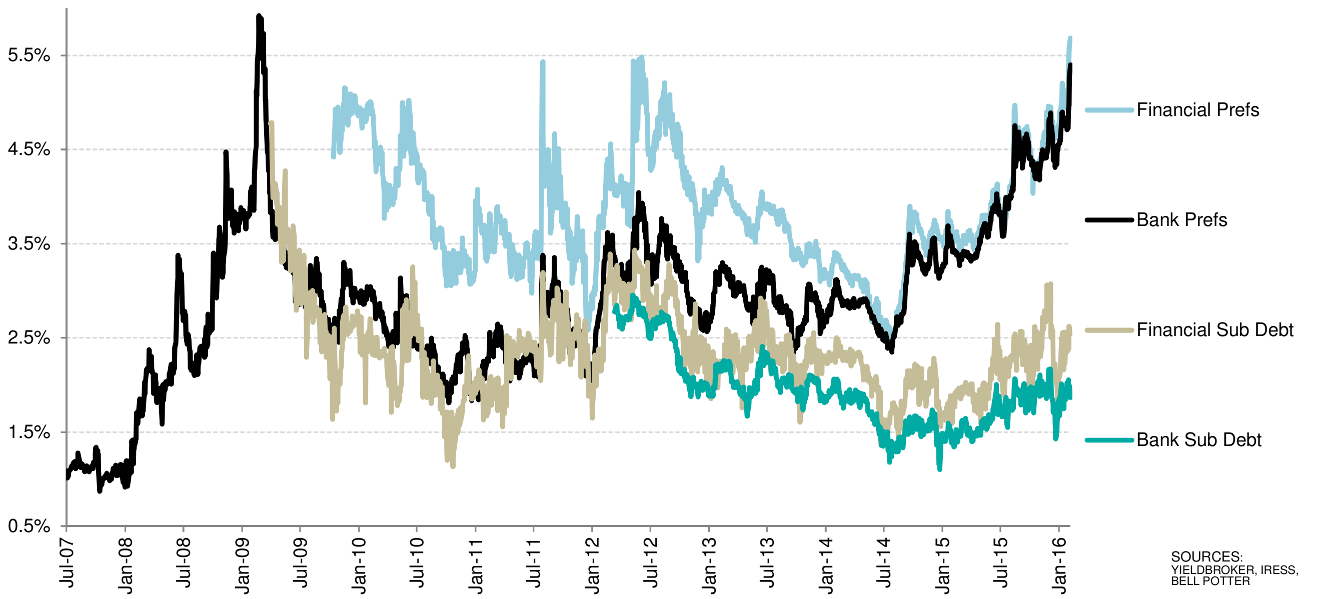
* Financial Prefs (AMPPA, BENPD, BENPE, BENPF, BOQPD, CGFPA, IAGPC, IANG, MBLPA, MBLPB, MQGPA, MQGPB, SUNPC, SUNPE)

* Bank Prefs (ANZPA, ANZPC, ANZPD, ANZPE, ANZPF, CBAPC, CBAPD, NABPA, NABPB, NABPC, WBCPC, WBCPD, WBCPE, WBCPF)

* Financial Subordinated Debt (AMPHA, CNGHA, SUNPD)

* Bank Subordinated Debt (ANZHA, NABHB, WBCHA, WBCHB).

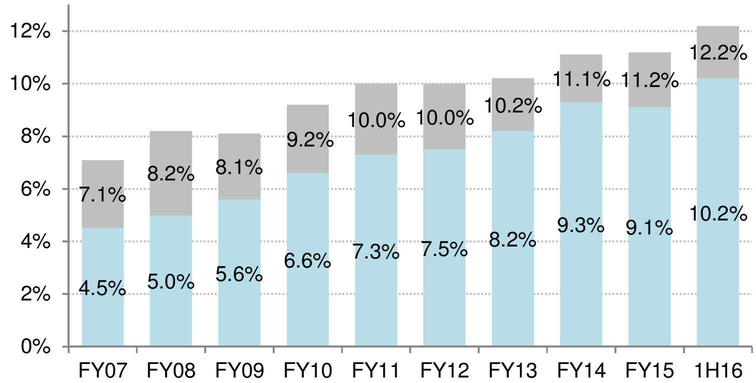
Figure 2: Trading margins on ASX listed debt and hybrid sectors



SOURCES: YIELDBROKER, IRESS, BELL POTTER

The spike in trading margins on major bank preferred equity is inconsistent with the financial strength of CBA. It recently reported a 4% increase in 1H16 cash net profit to $4.8bn, when cash net profit to the 12 months ending 31 Dec 2015 was $9.3bn. CBA successfully raised $5bn in its entitlement offer launched in Aug 2015, boosting its Common Equity Tier 1 capital to 10.2%.

Figure 3: CBA Common Equity Tier 1 Capital and Total Tier 1 Capital



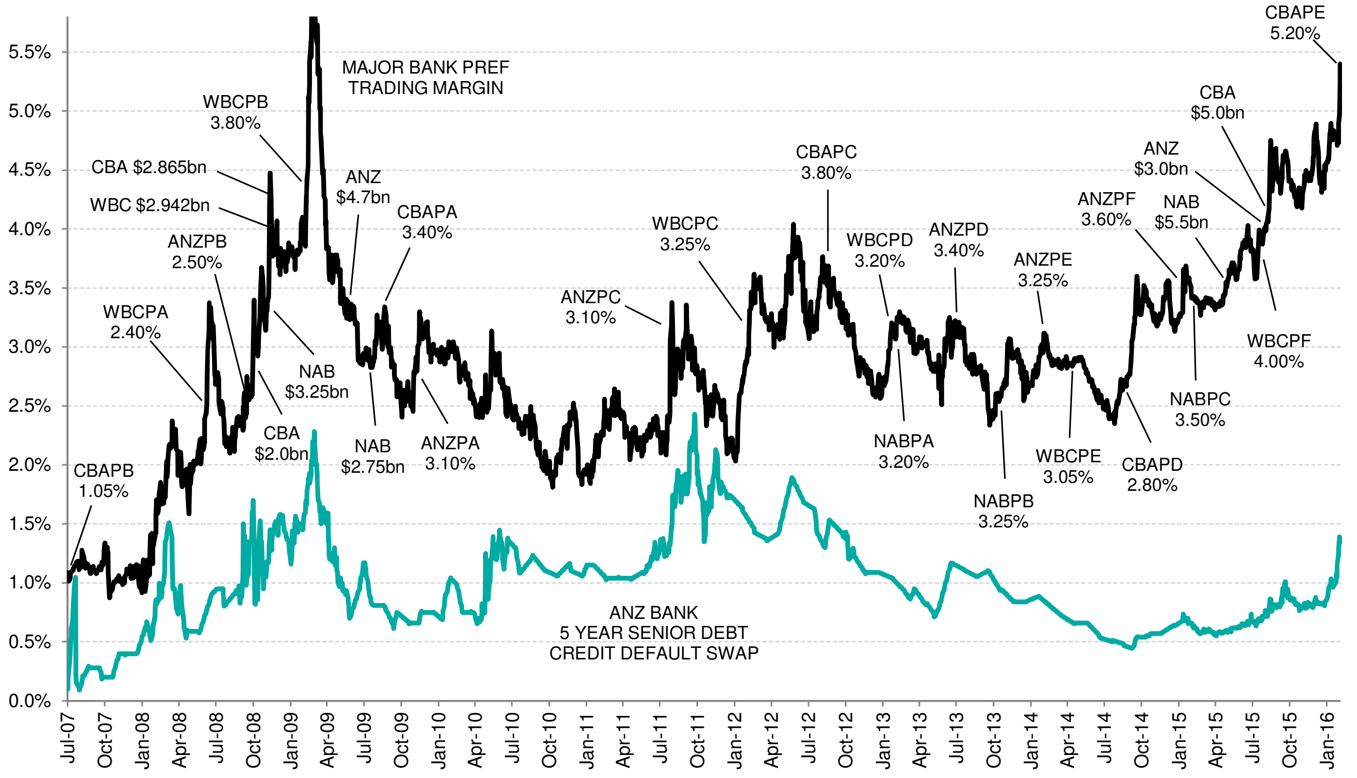
SOURCE: COMPANY DATA, BELL POTTER

CommBank PERLS VIII Capital Notes

Hybrid margin spread to CDS remains excessive

Major bank credit default swaps (CDS) is a way of measuring risk associated with the issuer. The CDS represents the insurance margin the holder of the bond pays to the seller of the CDS to protect against default. The spike in the average trading margin of major bank prefs continues to appear excessive relative to the modest uptick in major bank CDS. It would appear investors in preferred equity of major banks are being more than adequately compensated for the incremental risks in moving down the capital structure.

Figure 4: Average trading margin - major bank prefs and capital notes versus 5 year senior debt credit default swaps



SOURCES: IRESS, BLOOMBERG, BELL POTTER

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Investor preference for high margin / high income securities

The desire for higher income provides the potential for greater investor support of CBAPE relative to other lower margin bank hybrids of a similar duration. Historically, CBAPC (PERLS VI) launched in September 2012 has been one of the better supported securities in the ASX listed hybrid market. Its 3.80% issue margin was only surpassed by the 4.00% issue margin on WBCPF launched in July 2015. When comparing CBAPC with WBCPD whose issue margin is 0.60% less at 3.20%, the average trading margin on CBAPC has been 0.25% lower since WBCPD listed on 12 March 2013. There is only 81 days difference in duration between the call dates: 17 December 2018 on CBAPC and 8 March 2019 for WBCPD.

Figure 5: Average Trading Margin: CBAPC versus WBCPD

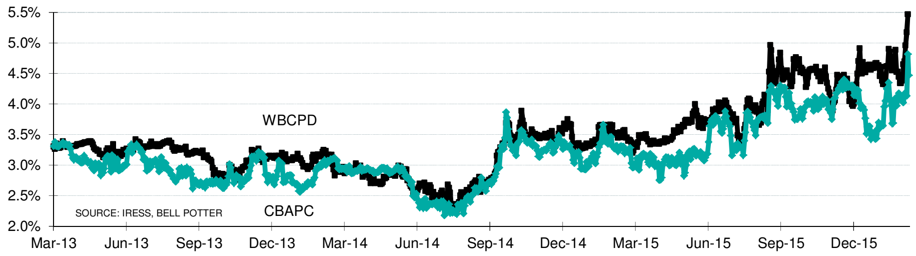
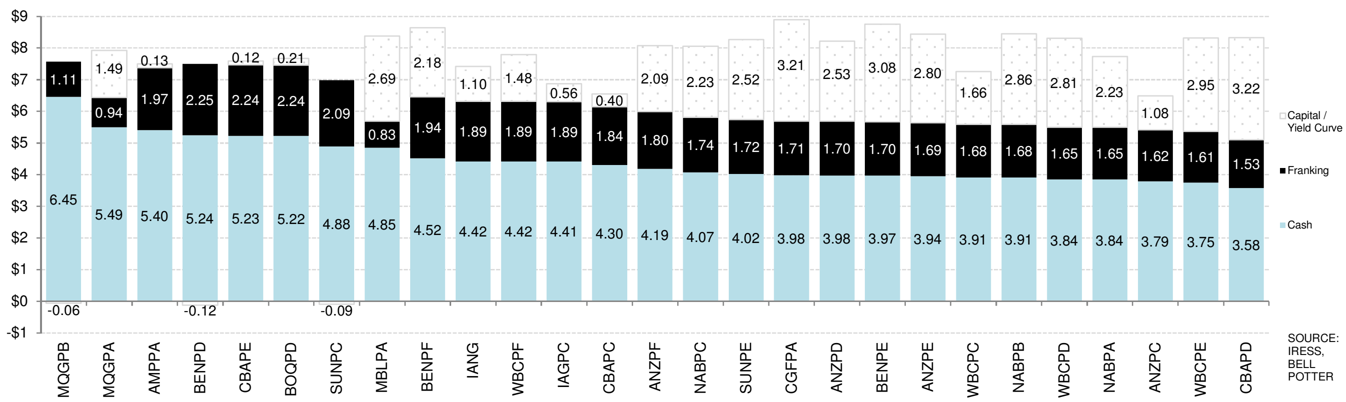


Figure 6 provides a ranking of securities on the highest cash distribution component. The white box represents the gap between income levels and Yield to First Call (maturity), where this component of return is associated with the impact of the capital price premium / discount allowing for bank bill movements priced in by the yield curve. In a low interest rate world, there appears to be continued investor support for high margin securities over lower margin securities.

Figure 6: Forecast cash and franking payments per bank and financial hybrid security (annualised)



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CBAPE pricing reflects prevailing market conditions

While the 5.20-5.35% bookbuild margin range is below the spot average trading margin of 5.40% on the 14 ASX listed major bank prefs, it appears attractive relative to the average trading margin of 4.87% over the last four weeks since 18 January 2016. The spike in trading margin over recent days appears common with pre-positioning trading, where there were increasing market expectations CBA would launch a new hybrid to refinance the $1,167m PCAPA security ahead of its 6 April 2016 step-up date.

Figure 7: Listing performance of Basel III Compliant Additional Tier 1 Hybrid Issues: 2011-2016

Security	Launched	Issue Margin	Trading Margin Index Bank / Financial	Issue Margin Spread vs Trading Margin	Listing Date	Opening Price	Trading Margin Index Bank / Financial	Trading Margin Index Change Since Launch
CBAPE	16 Feb 2016	5.20%	5.40%	-0.20%	31 Mar 2016			
MQGPB	23 Nov 2015	5.15%	4.57%	0.58%	21 Dec 2015	$100.51	4.77%	0.20%
AMPPA	26 Oct 2015	5.10%	4.27%	0.83%	1 Dec 2015	$100.10	4.70%	0.43%
WBCPF	27 Jul 2015	4.00%	3.94%	0.06%	9 Sep 2015	$99.00	4.51%	0.57%
BENPF	27 Apr 2015	4.00%	3.47%	0.53%	16 Jun 2015	$99.10	3.91%	0.44%
NABPC	17 Feb 2015	3.50%	3.43%	0.07%	23 Mar 2015	$100.00	3.40%	-0.03%
ANZPF	27 Jan 2015	3.60%	3.63%	-0.03%	6 Mar 2015	$99.99	3.33%	-0.30%
MBLPA	16 Sep 2014	3.30%	3.20%	0.10%	9 Oct 2014	$98.00	3.62%	0.42%
BENPE	3 Sep 2014	3.20%	2.92%	0.28%	13 Oct 2014	$98.00	3.76%	0.84%
CGFPA	27 Aug 2014	3.40%	2.82%	0.58%	10 Oct 2014	$99.00	3.69%	0.87%
CBAPD	18 Aug 2014	2.80%	2.62%	0.18%	2 Oct 2014	$97.00	3.45%	0.83%
WBCPE	7 May 2014	3.05%	2.90%	0.15%	24 Jun 2014	$101.48	2.61%	-0.29%
SUNPE	31 Mar 2014	3.40%	3.11%	0.29%	9 May 2014	$101.19	3.11%	0.00%
ANZPE	11 Feb 2014	3.25%	3.12%	0.13%	1 Apr 2014	$100.75	2.89%	-0.23%
NABPB	12 Nov 2013	3.25%	2.78%	0.47%	18 Dec 2013	$100.25	2.88%	0.10%
ANZPD	3 Jul 2013	3.40%	3.19%	0.21%	8 Aug 2013	$100.00	2.88%	-0.31%
MQGPA	14 May 2013	4.00%	3.65%	0.35%	20 Jun 2013	$100.70	3.91%	0.26%
NABPA	13 Feb 2013	3.20%	3.20%	0.00%	21 Mar 2013	$99.75	3.15%	-0.05%
WBCPD	30 Jan 2013	3.20%	3.12%	0.08%	12 Mar 2013	$99.94	3.15%	0.03%
BOQPD	7 Nov 2012	5.10%	4.17%	0.93%	27 Dec 2012	$101.00	4.07%	-0.10%
SUNPC	25 Sep 2012	4.65%	4.61%	0.04%	7 Nov 2012	$101.48	4.17%	-0.44%
BENPD	24 Sep 2012	5.00%	4.49%	0.51%	1 Nov 2012	$101.00	4.26%	-0.23%
CBAPC	3 Sep 2012	3.80%	3.34%	0.46%	18 Oct 2012	$101.61	3.10%	-0.24%
IAGPC	19 Mar 2012	4.00%	4.11%	-0.11%	2 May 2012	$99.60	4.01%	-0.10%
WBCPC	16 Feb 2012	3.25%	3.19%	0.06%	26 Mar 2012	$99.75	3.24%	0.05%
ANZPC	23 Aug 2011	3.10%	2.98%	0.12%	29 Sep 2011	$100.00	2.80%	-0.18%

SOURCE: COMPANY DATA, IRESS, BELL POTTER

CommBank PERLS VIII Capital Notes

Mandatory Exchange Conditions

In order for bank Convertible Preference Shares (CPS) and Capital Notes to qualify as Additional Tier 1 capital, APRA has imposed a maximum exchange number in order to limit the dilution of ordinary shares upon conversion.

This maximum exchange number represents the face value of the preference share divided by 50% of the volume weighted average price (VWAP) of the issuer on the 20 business days preceding the issue date (Issue Date VWAP). For example, if CBA's 20 day VWAP was $74.30 before the issue date, the maximum exchange number would be 2.69 CBA shares per CBAPE security (i.e. $100 / (50% x $74.30)).

To protect CBAPE holders from receiving less than face value at Mandatory Exchange, there are a number of Exchange Conditions to be aware of:

- First: VWAP of ordinary shares on the 25th business day before a possible Scheduled Conversion Date (8 Sep 2023) must be above 56% of the Issue Date VWAP. Using the CBA price on 15 Feb 2016 of $74.30 x 56% = $41.61.
- Second: VWAP of ordinary shares during the 20 business days immediately preceding a potential Mandatory Exchange Date (15 Sep 2023 - 14 Oct 2023) must be greater than 50.51% of the CBAPE Issue Date VWAP (i.e. $37.53).
- Third: Continuous trading (i.e. No Delisting Event) prior to a possible Mandatory Exchange Date - to provide protection should investors wish to sell the ordinary shares they receive upon conversion. A Delisting Event occurs when CBA is delisted or suspended, or there is an Inability Event.

If the Mandatory Exchange Conditions are not satisfied, conversion on the Mandatory Exchange Date will not occur. Under this scenario, the security will remain on issue and continue to pay distributions at the same margin. The Exchange Conditions will be tested on each subsequent future quarterly dividend date. The payment of CBAPE dividends is subject to satisfaction of the Distribution Payment Conditions.

Figure 8: Mandatory Exchange Conditions

	CBAPE	ANZPA	ANZPC	ANZPD	ANZPE	ANZPF	CBAPC	CBAPD	NABPA	NABPB	NABPC	WBCPC	WBCPD	WBCPE	WBCPF
Date of Hybrid Issue	30-Mar-16	18-Dec-09	29-Sep-11	7-Aug-13	31-Mar-14	5-Mar-15	17-Oct-12	1-Oct-14	20-Mar-13	17-Dec-13	23-Mar-15	23-Mar-12	8-Mar-13	15-Jun-14	8-Sep-15
Mandatory Conversion Date	15-Oct-23	15-Dec-16	1-Sep-17	1-Sep-23	24-Mar-22	24-Mar-15	15-Dec-20	15-Dec-24	22-Mar-21	19-Dec-22	23-Mar-22	30-Mar-20	8-Mar-21	23-Sep-24	22-Mar-23
Conversion Discount	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Issue Date VWAP	$74.30	$21.80	$19.53	$29.16	$32.30	$35.18	$56.08	$78.62	$30.64	$33.86	$38.03	$20.83	$29.89	$34.37	$31.23
50% Dilution Cap	$37.15	$10.90	$9.77	$14.58	$16.15	$17.59	$28.04	$39.31	$15.32	$16.93	$19.02	$10.42	$14.95	$17.23	$15.62
Max Conv No (Face Value/Dilution C	2.69	9.17	10.24	6.86	6.19	5.69	3.57	2.54	6.53	5.91	5.26	9.60	6.69	5.81	6.40
Conv Test 1 - % Issue Date VWAP	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	55.56%	56.12%	56.12%	56.12%
Conv Test 1 Security Price	$41.61	$12.21	$10.94	$16.33	$18.09	$19.70	$31.41	$44.02	$17.16	$18.96	$21.30	$11.57	$16.77	$19.29	$17.53
Conv Test 2 - % Issue Date VWAP	50.51%	50.51%	51.28%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%
Conv Test 2 Security Price	$37.53	$11.01	$10.01	$14.73	$16.31	$17.77	$28.33	$39.71	$15.48	$17.10	$19.21	$10.52	$15.10	$17.36	$15.77
Conv Test 3 - Continuous Trading	Yes	Yes	Yes	Yes	Yes	Yes	n/a	Yes	Yes	Yes	Yes	n/a	n/a	n/a	n/a
Parent Share Price - 15 Feb 2016	$74.30	$22.84	$22.84	$22.84	$22.84	$22.84	$74.30	$74.30	$24.75	$24.75	$24.75	$28.63	$28.63	$28.63	$28.63
Prem/Disc to Dilution Cap	100.0%	109.5%	133.9%	56.7%	41.4%	29.8%	165.0%	89.0%	61.6%	46.2%	30.2%	174.9%	91.6%	66.2%	83.3%
Prem/Disc to Conversion Test 1	78.6%	87.1%	108.8%	39.9%	26.3%	15.9%	136.6%	68.8%	44.2%	30.5%	16.2%	147.4%	70.7%	48.4%	63.4%

SOURCE: COMPANY DATA, BELL POTTER

CommBank PERLS VIII Capital Notes

Early Conversion Events: Capital Trigger and Non-Viability

The fallout from the Global Financial Crisis has seen the Basel Committee on Banking Supervision establish new capital reforms to be phased in between 1 January 2013 and 1 January 2019. The key objective of these new reforms is to ensure banks are adequately capitalised in the event of future crises. On 28 September 2012, APRA published its final Basel III prudential standards which include a number of changes to the eligibility criteria for capital instruments, including stricter criteria for instruments to qualify as Additional Tier 1 Capital.

These requirements include a Capital Trigger Event and a Non-Viability Trigger Event, where securities such as CBAPE must be converted into ordinary equity if the financial position of CBA requires an immediate injection of capital. These prudential standards also require Australian banks to hold a minimum Common Equity Tier 1 Capital Ratio of 4.5% on 1 Jan 2013. This increased to 8.0% on 1 Jan 2016 after inclusion of the 2.5% Capital Conservation Buffer and a further 1.0% D-SIB (Domestically Systemically Important Banks) Capital Buffer.

Capital Trigger Event

A Capital Trigger Event occurs when either CBA determines, or when APRA notifies CBA that it believes CBA's Common Equity Tier 1 Capital Ratio is equal to or less than 5.125%. Under this Trigger, CBA must immediately Exchange enough CBAPC, CBAPD and CBAPE securities to boost the Common Equity Tier 1 (CET1) Capital Ratio above 5.125%. CBA's Basel III Common Equity Tier 1 Capital Ratio at 31 Dec 2015 stood at 10.2%, providing a buffer of $20.1bn. If we include CBA's cash net profit for the 12 months to Dec 2015 of $9.3bn, a breach of the Common Equity Trigger requirement appears very low, particularly as CBA has options such as cutting ordinary dividends and undertaking equity raisings.

Non-Viability Trigger Event

In addition, CBAPE will be Exchanged if APRA determines that CBA would be non-viable in the absence of an exchange or a public sector injection of capital. We note there are currently no precedents for a Non-Viability Trigger Event. Types of situations in which APRA may become concerned about non-viability include being insolvent, significant capital losses and financial stress, prolonged difficulties in raising funding in the public or private market, or maintaining sufficient liquidity.

Potential for Loss under Trigger Event if CBA below $14.86

Exchange resulting from a Capital Trigger Event or a Non-Viability Trigger Event will be done at the VWAP of CBA shares traded on the 5 Business Days immediately preceding the Conversion Date. While this is not subject to the Mandatory Exchange Conditions, it is still subject to the Maximum Conversion Number, which represents the face value of the preference share divided by 20% of the issue date VWAP. If CBA's 20 day VWAP was $74.30, the maximum conversion number would be 6.73 CBA shares per CBAPE security (i.e. $100 / (20% x $74.30)). As such, CBAPE investors may be exposed to receiving less than face value if CBAPE is converted at less than $14.86. In practice this will only occur in the unlikely scenario that the issuer suffers severe impairment losses and does not raise equity to absorb those losses.

As it is likely that conversion under one of these Trigger Events would occur prior to a company Wind Up, CBAPE holders will hold ordinary shares and rank equally with other holders of ordinary shares (i.e. lose priority ranking).

CommBank PERLS VII Capital Notes

Inability Event

One additional risk is an Inability Event where CBAPE will be written off if CBA is not able to issue ordinary shares from Conversion within five Business Days of the Trigger Event Conversion Date (i.e. Capital Trigger Event or Non-Viability Trigger Event). Scenarios under which this may occur include CBA being prevented from issuing ordinary shares by circumstances outside of its control, including an applicable law or order of any court, or action of any Government authority from issuing shares.

Under an Inability Event, CBAPE holder's rights (including to dividends and face value) are immediately and irrevocably terminated, resulting in CBAPE losing its value and investors will not receive any compensation.

Investment risks

Key Security Risks include:

- CBAPE is not a bank deposit protected by the Government guarantee scheme
- CBAPE is subordinated and unsecured, and ranks behind deposits, senior debt and subordinated debt in CBA.
- CBAPE distributions are non-cumulative and discretionary.
- CBAPE distribution payments are subject to the following Payment Conditions:
  - ⇒ CBA, in its absolute discretion, making the Distribution;
  - ⇒ Payment not resulting in a breach of CBA's capital requirements as they are applied to the CBA Level 1 Group or the CBA Level 2 Group or both under APRA's prudential standards;
  - ⇒ Payment not resulting in CBA becoming insolvent; and
  - ⇒ APRA not otherwise objecting to the payment.
- Adverse movement in credit spreads as a result of a tightening in the availability and cost of credit.
- New issues may offer more attractive issue terms and margins, placing downward pressure on the security price.
- Adverse change in CBA's and financial performance which combined with a major bad debt event could lead to the Common Equity Tier 1 Capital Ratio falling below 5.125%, resulting in automatic conversion under the Capital Trigger Event. Automatic conversion may also be required under a Non-Viability Trigger Event.
- CBAPE will lose its value and investors will not receive any compensation if CBA is not able to issue ordinary shares within 5 business days from Conversion under a Capital Trigger Event or Non-Viability Trigger. Scenarios under which this may occur include CBA being prevented from issuing ordinary shares by circumstances outside of its control, including an applicable law or order of any court, or action of any Government authority from issuing shares.
- Exchange of CBAPE at the 15 October 2023 Mandatory Exchange Date requires CBA's share price at the time of Mandatory Exchange to be above certain thresholds. If these thresholds are not met in October 2023 or at future quarterly dividend payment dates, CBAPE may remain on issue indefinitely.
- CBAPE holders may receive $101.01 of ordinary shares for each CBAPE security held on the Mandatory Exchange Date, based on the 20 day VWAP. This VWAP may be higher than the market value of CBA shares on Exchange.

Investment risks (continued)

Key Business Risks of CBA include:

- A material deterioration in global capital markets and the Australian economy.
- Adverse regulatory changes.
- Operational risks and trading errors.
- Increasing competition.
- Credit rating downgrades.
- Losses associated with counterparty exposures.
- Poor performance of acquired businesses.

Refer page 49 (Section 5) of the prospectus dated 16 February 2016 for further information on risks.

Additional investment risk:

ASIC "Be wary of the risks" warning: Money Smart website

The ASIC publication should be used as guidance which may be relevant to your consideration of CBAPE – namely, information for retail investors who are considering investing in hybrid securities.

You can find this guidance by searching 'hybrid securities' at www.moneysmart.gov.au.

Basically, hybrid securities (including subordinated notes and convertible preference shares) may be from well-known companies but they are very different from 'normal' corporate bonds.

Some hybrid securities make investors take on 'equity-like' risks. Some also have terms and conditions that allow the issuer to exit the deal or suspend interest payments when they choose. Some are very long-term investments (for example, more than 20 years).

Hybrid securities may be unsuitable for you if you need steady returns or capital security typically from a bank term deposit style of investment.

Learning more about investing in bank hybrid securities

CBA has developed an interactive module on bank hybrid securities basics which may assist you to better understand bank hybrid securities, their features and risks. It explains the different ways you may invest in a bank, including by depositing money or investing in securities issued by a bank.

The module is available from www.commbank.com.au or from:

commbank.com.au/about-us/shareholders/securities/bank-hybrid-securities-basics.html

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Additional risks of hybrid securities

Hybrid securities are perpetual and do not constitute a deposit liability of the Issuer. They may be exchanged at the Issuer's discretion at the Optional Exchange Date (first call date) and then at the Mandatory Conversion Date if certain conditions have been satisfied. Hybrid securities pay discretionary dividends which are not cumulative if unpaid. Hybrid securities have complex terms of issue and each investment will differ in terms of conditions, time frame and interest rates. They often involve heightened risk and may not be suitable for all investors.

There are additional risks associated with this kind of investment as compared to a term deposit with the same issuer. These risks include:

- A 'trigger event' occurring leading to a deferral of interest payments or the Issuer repaying the hybrid early or much later than expected;
- Credit spreads widening making the return from the investment less attractive in comparison to other products;
- Additional new issuance at a higher margin;
- Market price volatility;
- Liquidity risk for hybrids is generally greater than shares in the Issuer company;
- Subordinated ranking;
- Distributions are at the discretion of the issuer;
- These products may be perpetual and can only be redeemed or exchanged for either cash or equity at the Issuer's option;
- Early repayment is at the Issuer's discretion

You should acquaint yourself with the specific returns, features, benefits and risks unique to any hybrid security before investing in them. If you do not understand, or have any concerns about a particular product you should talk to your Adviser. ASIC has published guidance, which may be relevant to your consideration of an investment of this kind, called "Hybrid securities and notes", under the heading 'Complex investments' at **www.moneysmart.gov.au/investing**

Disclosure of interest:

Bell Potter Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Additional disclosure:

Bell Potter Securities Limited has acted as Co-manager to the following issues: AMPHA, ANZPD, ANZPE, BENPD, BOQPD, CBAPC, CBAPD, CNGHA, CTXHA, CWNHA, IANG, MXUPA, MQGPB, NABHB, NABPA, NABPB, NFNG, ORGHA, PCAPA, SUNPC, SUNPD, TAHHB, TTSHA, WBCHA, WBCHB, WBCPF, WOWHC, and WBC's Oct 2015 retail entitlement offer. Bell Potter Securities Limited received fees for these services.

Bell Potter Securities Limited is acting as Co-manager to the CBAPE issue and will receive fees for this service.

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