

DETERMINED TO BE BETTER THAN WE'VE EVER BEEN.

# Australian Covered Bonds Primer



**Commonwealth**Bank



# Disclaimer

## Disclaimer

This presentation is confidential and is not intended to be used by anyone other than you. The information does not take into account your investment objectives, financial situation or particular needs. Nothing contained in the information constitutes tax, accounting, legal, financial product or investment advice or a recommendation.

This presentation is not an offer to sell, or the solicitation of an offer to buy, any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. Neither Commonwealth Bank nor any of its affiliates, nor any of their directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this presentation. Commonwealth Bank makes no representation or warranty, express or implied as to, and assumes no responsibility or liability for, the accuracy or completeness of, or any errors or omissions in, any information contained herein or in any accompanying material.



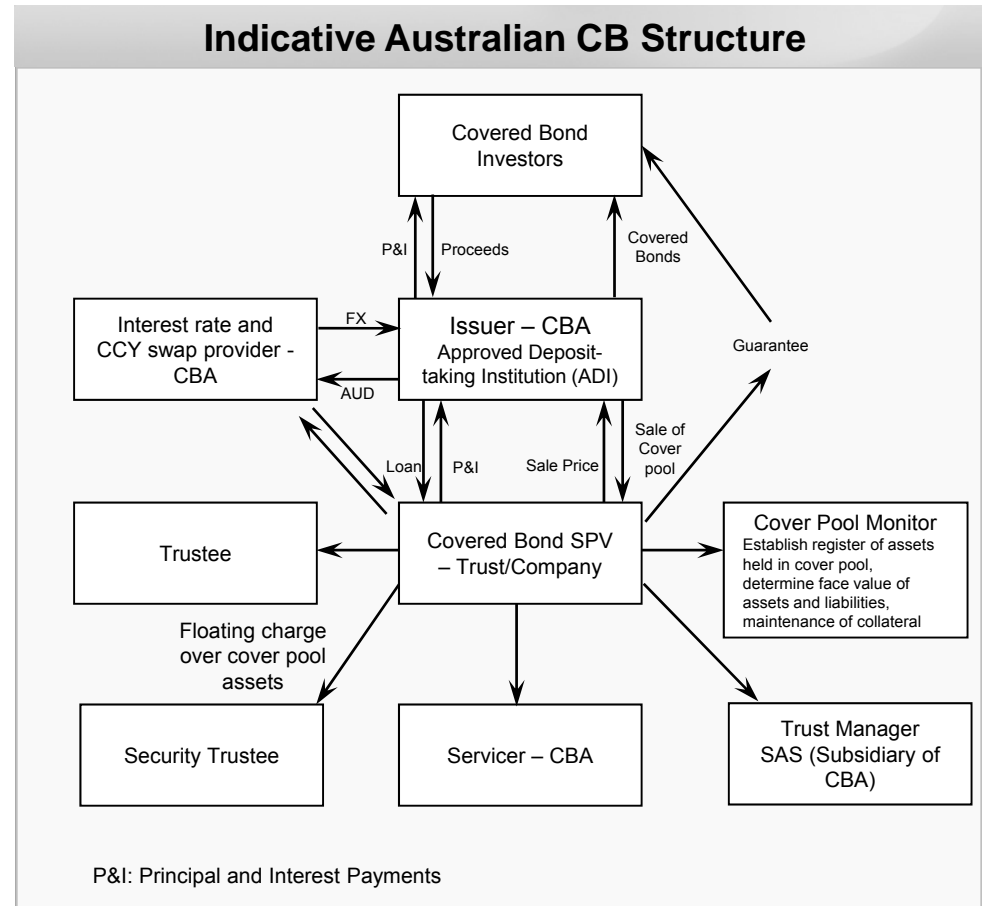
# Australian Covered Bonds

- Previously not allowed in Australia
  - Banking Act 1959 provides that depositors rank above other claims on the bank
  - No deposit insurance scheme in Australia prior to 2008 Financial Claims Scheme (FCS)
- Draft legislation released in March 2011
- Final legislation expected to be passed in late 2011
- Issuance only allowed under the legislative framework
- Approved Deposit-taking Institution (ADI) (i.e. APRA regulated bank) will be the covered bond issuer
- Segregation of cover assets will be achieved via a special purpose vehicle (SPV)
- Legislation will provide legal certainty for the segregation of the cover pool in bankruptcy
- APRA will have prudential supervision responsibilities for CB issuers
- Limits on issuance and certain minimum standards and requirements for issuers and their programs
- Independent cover pool monitor required
- Expect monthly testing and reporting
- Proposed maximum issuance cap of 8% of ADI Australian assets
  - for CBA implies covered bond programme cap of ~\$30-35bn based on current balance sheet
- First issuance expected early 2012



# Australian Covered Bonds

- Cover pool assets expected to include:
  - Cash
  - Australian Government debt instruments
  - ST bank paper up to 15% of face value of covered bonds. Only “third party” and RBA Repo eligible paper included
  - Derivatives relating to the covered bond issuance such as currency and interest rate swaps
  - Residential (“maximum LTV of 80%”) & commercial properties (“maximum LTV of 60%”)
- AUD market expected to develop
  - Covered bonds expected to be repo-eligible with RBA
  - Would qualify as Basel III liquid assets via the RBA “Committed Liquidity Facility”
  - APRA will not accept covered bonds as Level 2 liquid assets until market liquidity proven





# Australian Covered Bonds - Comparison

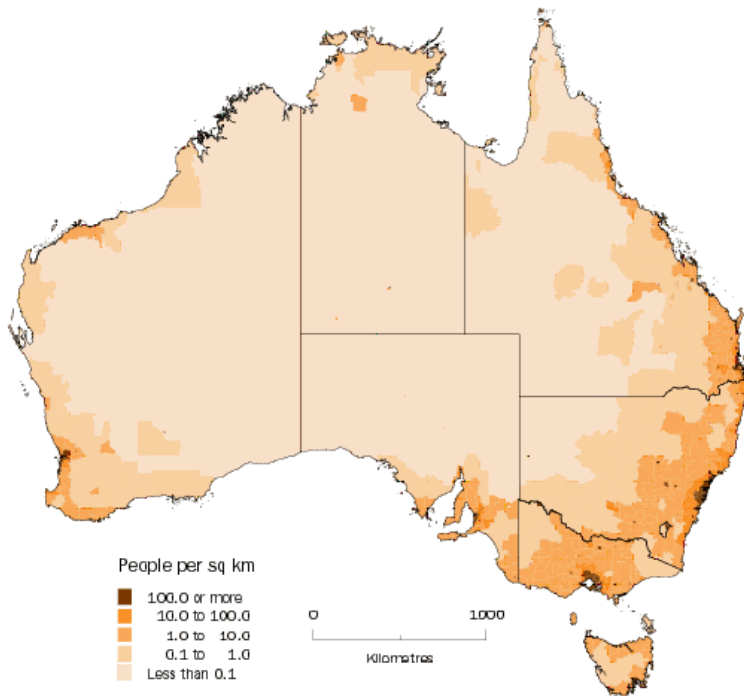
	Australia	New Zealand	Canada	UK	Germany	France	Sweden	Norway
Issuer	Authorised Deposit Taking Institutions (ADIs)	Registered financial institutions	Federally regulated financial institutions	Credit institution authorised to carry out regulated activities in the UK	All credit institutions with special license for Pfandbriefe issuance	Specialised credit institution	Banks and credit institutions with special licence from SFSA	Licensed specialised credit institution (Kreditforetak)
Legislation	Yes	Pending	Pending	Yes	Yes	Yes	Yes	Yes
Segregation	Cover assets assigned to SPV	Cover assets assigned to SPV	Cover assets assigned to SPV	Cover assets assigned to SPV	On balance sheet	Special Purpose Issuer	On balance sheet	Special Purpose Issuer
Issuance limit	8% (including OC) of total Aust assets	10% of total assets	4% of total assets	No	No	No	No	No
Eligible cover pool asset	Residential mortgages, commercial mortgages	Residential mortgages (proposed aligning eligible assets for the Reserve Bank's Domestic Markets' operations as cover pool assets)	Residential mortgage loans (currently mostly insured by CMHC)	Public sector debt, mortgage loans, senior MBS (AAA-rated RMBS), ship loans, loans to credit institutions, loans to public-private partnerships	Residential and commercial mortgages, public sector loan, ship and aircraft financing activities	Mortgages, public sector debt, senior ABS backed by mortgages or public sector debt only.	Residential, commercial (restricted to 10% of total pool), agricultural mortgages and public sector loans	Residential & commercial mortgages, public sector loans, secured loans on other registered assets, RMBS/CMBS (20% limit)
Maximum LTV	Residential mortgages 80%, commercial mortgages 60%	As per existing domestic market's operations criteria (proposed)	Uninsured residential 80%, insured residential 90%	Residential mortgages 80%	Residential & commercial mortgages, ships & aircraft loans all 60%	Residential mortgages 80%, guaranteed loans from Guarantee Fund for Social Home Ownership (FGAS) 100%	Residential mortgages 75%, agricultural mortgages 70%, commercial mortgages 60%	Residential mortgages 75%, commercial mortgages 60%
Legal min over collateralisation	Expected 3%	—	Maximum 10% (proposed)	—	2% after stress tests	2%	No minimum	Not specified
Substitute cover limit	Expected to include Aust Govt & 15% ST bank paper		10%	10%	10% for public sector debt, 20% for all other	15%	20%	20% (or 30% with supervisory consent)
Independent asset monitor	Yes	No	Yes	No	Yes	Yes	Yes	Yes
Derivatives permitted as cover	Expected			Yes	Yes, 12% limit on NPV basis	Yes	Yes	Yes
Supervision	Australian Prudential Regulation Authority (APRA)	RBNZ	To be determined	Financial Services Authority	Federal Financial Supervisory Authority (BaFin)	France's Banking Authority (Autorité de contrôle prudentiel)	Swedish Financial Supervisory Authority (Finansinspektionen)	Norway Financial Supervisory Authority (Finanstilsynet)

Source: CBA Markets Research



# Australia – Overview

## Population Density



Source: ABS, 2009

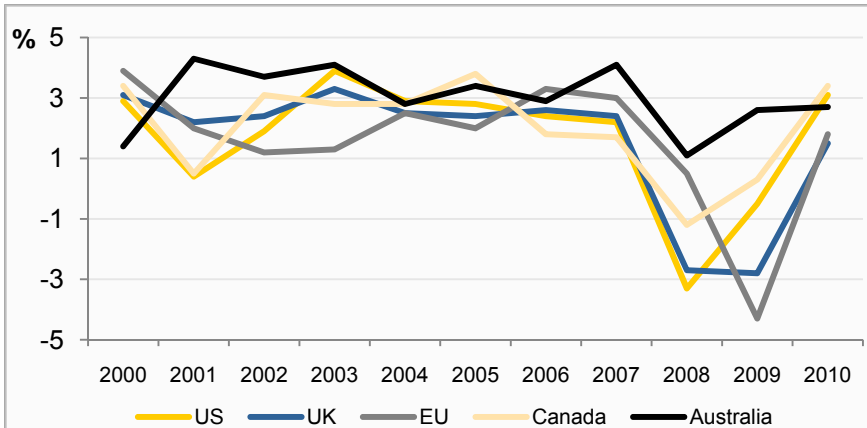
## Key Statistics

Land Mass	7,617,930km <sup>2</sup> (6 <sup>th</sup> *)
Population	22.7m (50 <sup>th</sup> )
Population density	3 people km <sup>2</sup> (235 <sup>th</sup> )
Urbanisation rate	89% (17 <sup>th</sup> )
GDP (Nominal US\$)	\$1.235tr (13 <sup>th</sup> )
GDP (PPP US\$)	\$882.4bn (17 <sup>th</sup> )
GDP (PPP US\$ per capita)	\$39,699 (10 <sup>th</sup> )
Credit Rating	AAA/Aaa/AAA
Exports (% GDP)	23%
Imports (%GDP)	21%
Net Public Debt (% GDP)	12%
Net Foreign Debt (%GDP)	58%
Home ownership (%)	69% (11 <sup>th</sup> )

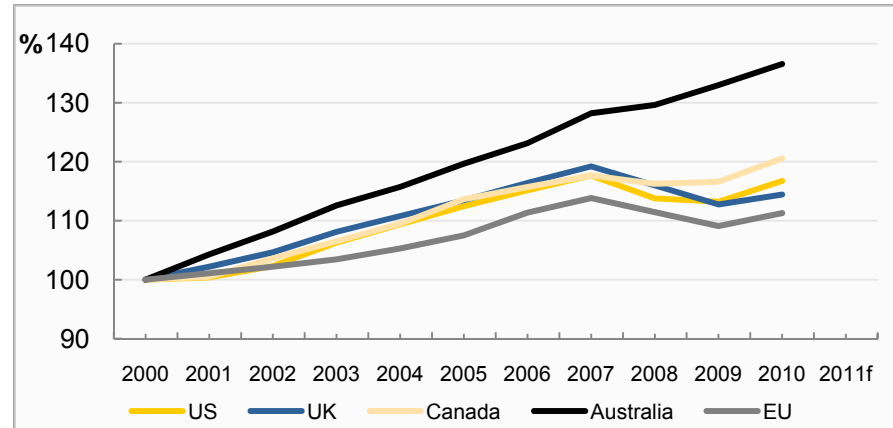
Source: UN, IMF, CIA, ABS, CBA (\*Global Ranking)

# Australia - Economy

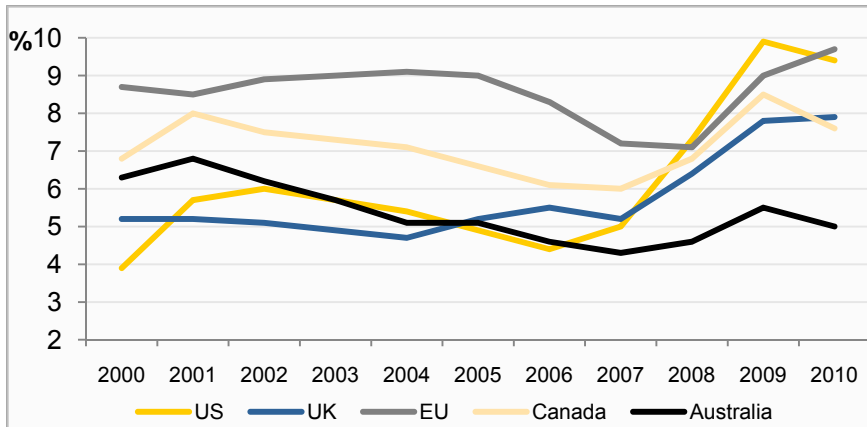
## GDP Growth



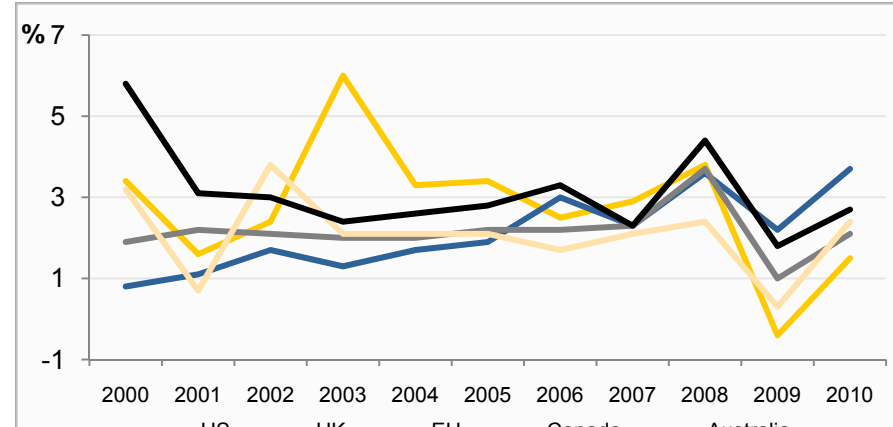
## GDP Growth (Index)



## Unemployment Rate



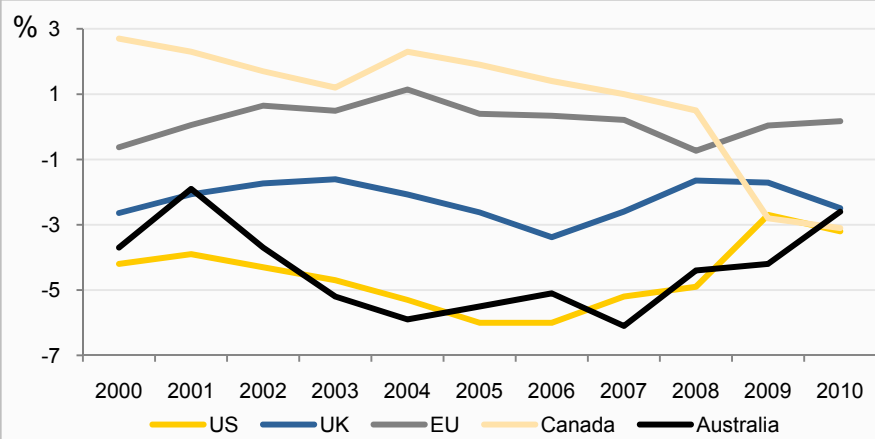
## Inflation



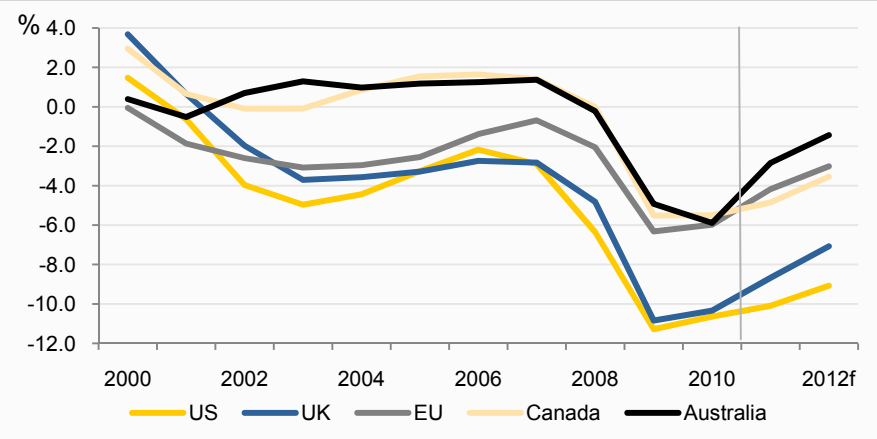
Source: CBA Economics, IMF, OECD, Eurostat, ABS

# Australia - Economy

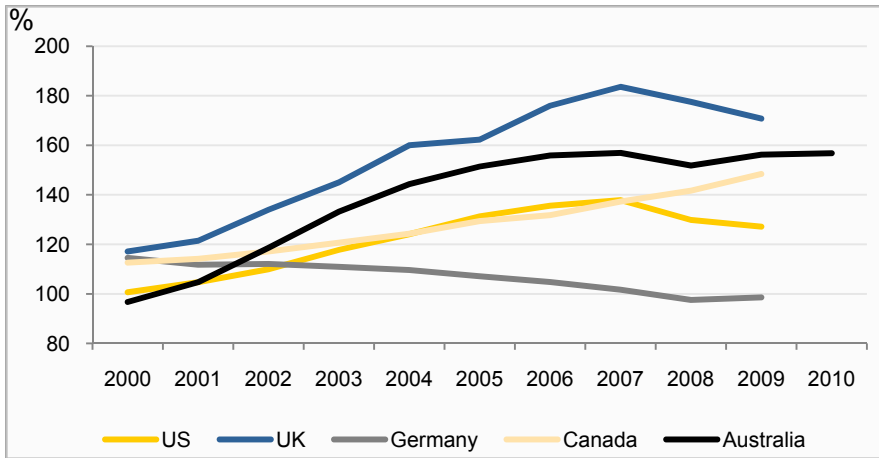
## Current Account



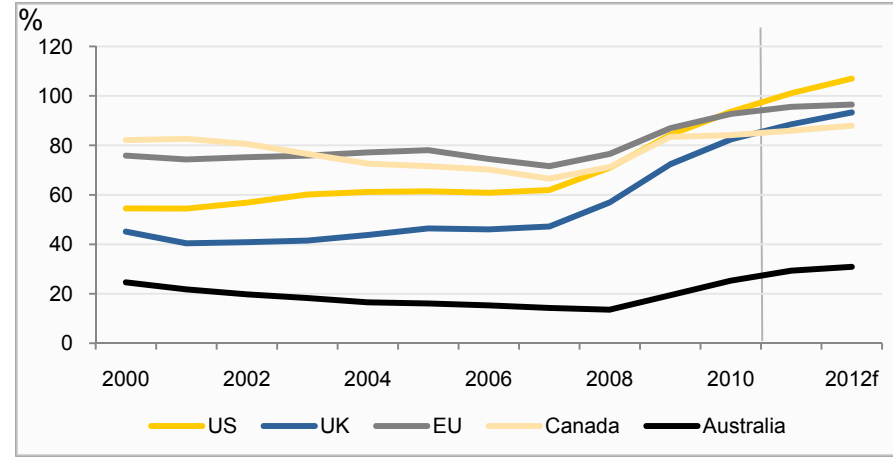
## Government Balance



## Household Debt



## Gross Public Sector Liabilities



Source: CBA Economics, IMF, OECD, Eurostat, ABS



# CBA – Issuer Overview

- ✓ Largest Australian Bank by market cap. and 2<sup>nd</sup> largest listed company on ASX
- ✓ Credit Ratings: AA stable / Aa2 stable / AA stable
- ✓ Tier 1 Capital Ratio of 10.01%; or 13.7% on UK FSA basis
- ✓ Total Assets of \$668bn – mortgages of \$336bn
- ✓ 13 million customers; large distribution footprint
- ✓ #1 in household deposits – 30% share
- ✓ #1 in home lending ~26% share
- ✓ #1 retail funds platform “First Choice” ~11% share



# CBA Financials – Full year to 30 June 2011

Financial		
Cash earnings (\$m)	6,835	+12%
ROE (Cash)	19.5%	+80bpts
Cash EPS (\$)	4.39	+11%
DPS (\$)	3.20	+10%
Cost-to-Income	45.5%	(20bpts)
NIM	2.19%	+6 bpts

Operating Performance by Division		
RBS (\$m)	4,605	+8%
BPB (\$m)	1,717	+8%
IB&M (\$m)	1,639	(7%)
Bankwest (\$m)	771	+12%
Wealth Management (\$m)	799	+2%
NZ (NZD \$m)	843	+20%

Strong balance sheet		
Total Assets (\$bn)	668	+3%
Total Liabilities (\$bn)	631	+3%
FUA (\$bn)	197	+5%
RWA (\$bn)	282	(3%)
Provision to Credit RWA's (%)	2.09	(3 bpts)

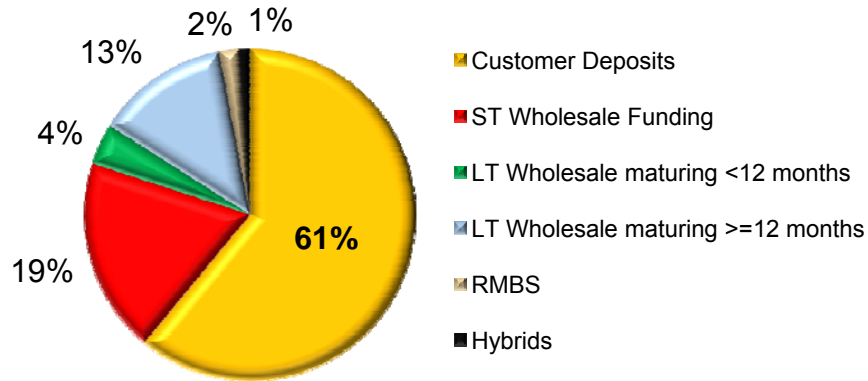
Capital & Funding		
Tier 1 Capital	10.01%	+86 bpts
Tier 1 – UK FSA	13.7%	+90 bpts
LT Wholesale Funding WAM (yrs)	3.6	(0.2)
Deposit Funding (%)	61%	+3%
Liquid Assets (\$bn)	101	+17%

Note: All movements on prior comparative period.

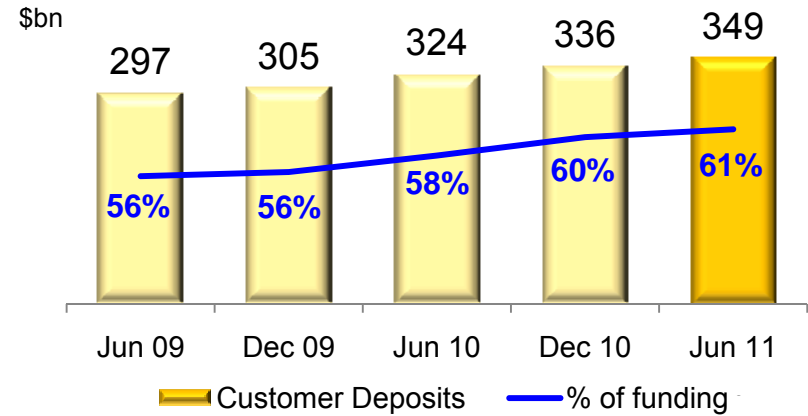


# CBA Funding

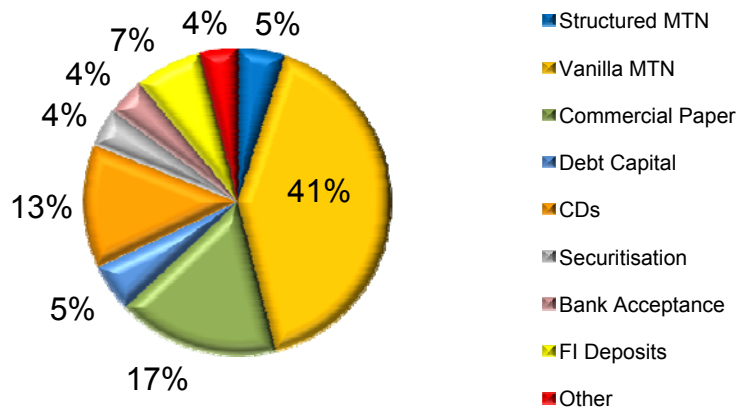
## 61% Deposit Funded



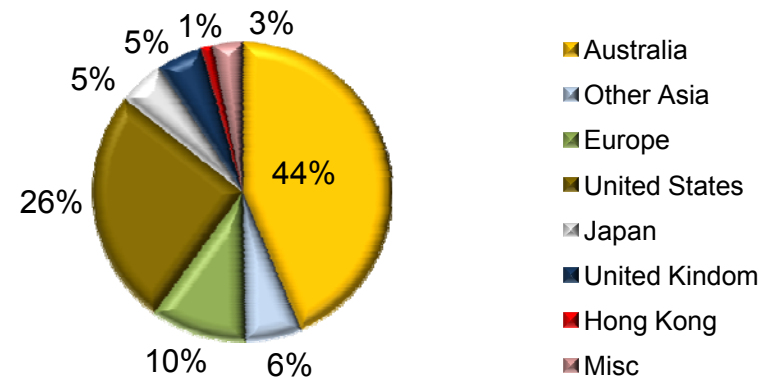
## Customer Deposit Funding



## Wholesale Funding by Product



## Wholesale Funding by Region

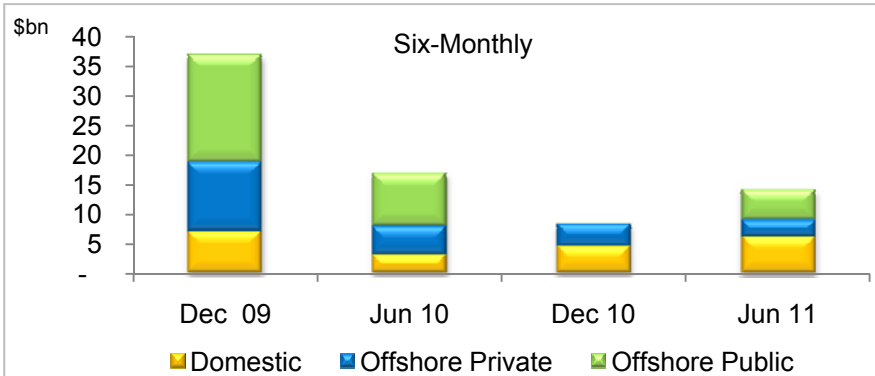


Note: AUD, USD & EURO Public benchmark deals are fully allocated to their respective currency locations



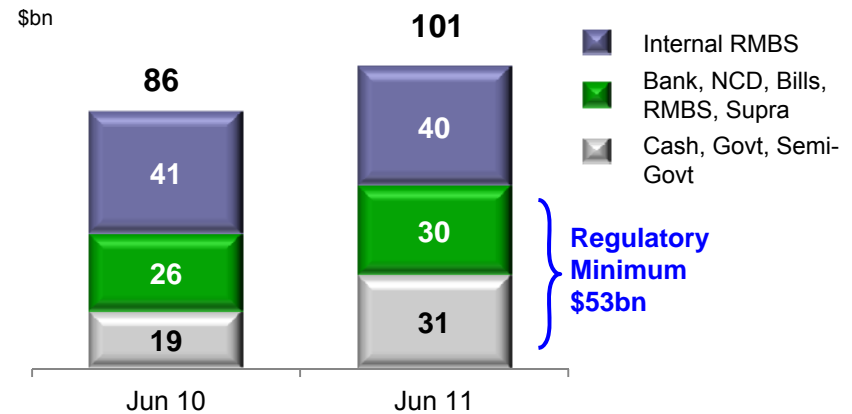
# CBA Funding and liquidity

## Recent Issuance

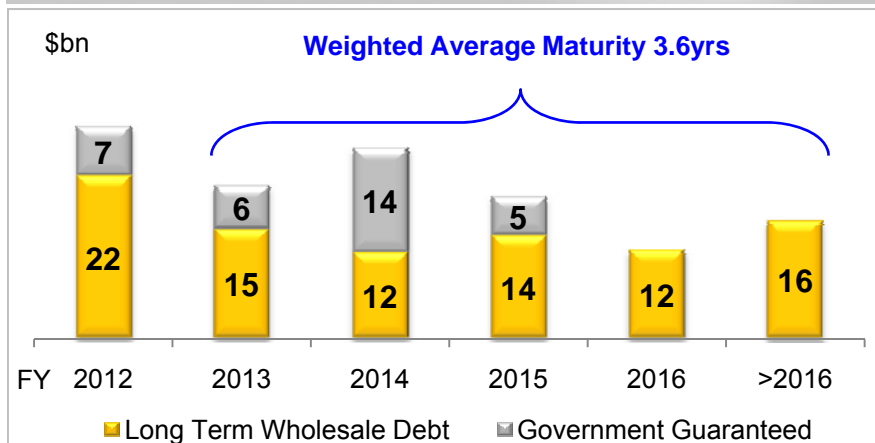


Note: Dec 09 Issuance includes A\$0.4bn Domestic GG Bonds, A\$8.6bn Offshore GG Bonds and A\$2bn PERLS 5

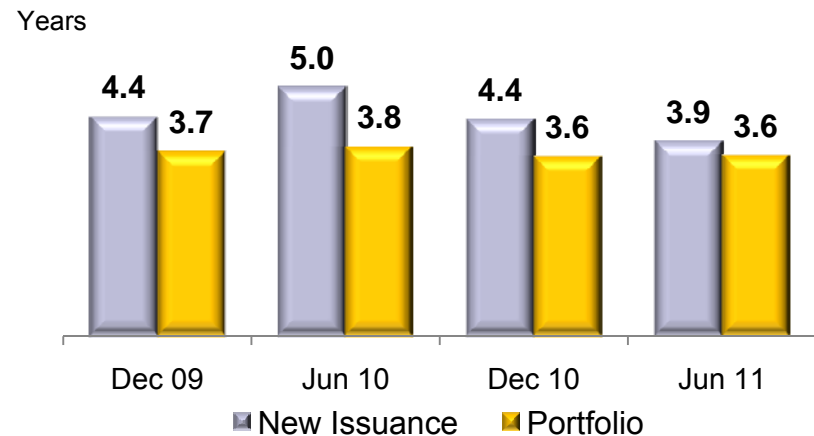
## Liquid assets <sup>1</sup>



## Term maturity profile <sup>2</sup>



## Funding tenor <sup>3</sup>

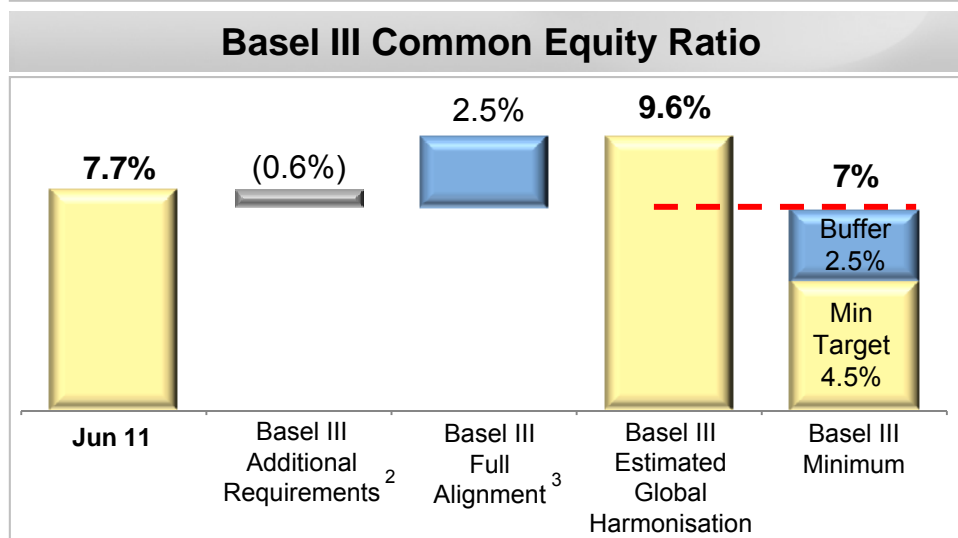
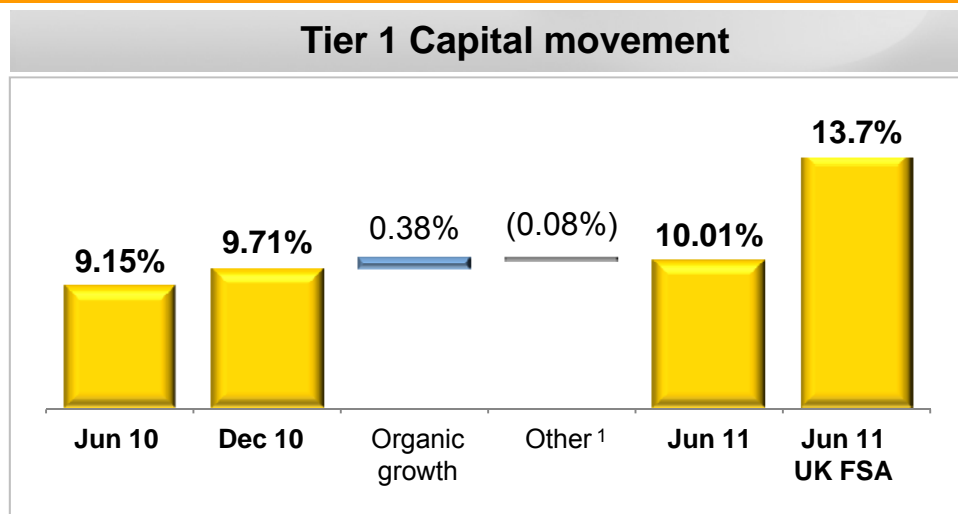


- Adjusted from prior disclosures to include offshore branch liquid assets and exclude the Interbank Deposit Agreement
- Maturity profiles includes all long term wholesale debt. Weighted Average Maturities of 3.6 years includes all deals with first call or maturity of 12 months or greater.
- Weighted Average Maturity. Includes all deals with first call or contractual maturity of 12 months or greater.



# CBA Capital

- Tier 1 Capital 10.01%
- UK FSA equivalent of 13.7%
- Well placed for Basel III:
  - Strong organic growth
  - Global Harmonisation estimate of 9.6% Common Equity
  - APRA due to release Australian Basel III details imminently



1 Other includes some one off movements including increase in deferred tax assets and capitalised software costs, partially offset by decrease in IRRBB RWA .  
 2 Downsides include impact of expected loss moving to 100% Common Equity deduction and increase in RWA (credit, securitisation and market risk).  
 3 Upsides include removal of minimum floors on LGD mortgages, IRRBB and dividends.

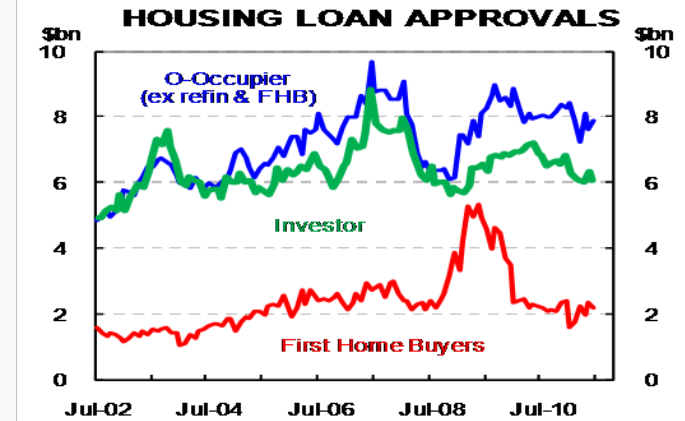


# Australian mortgages

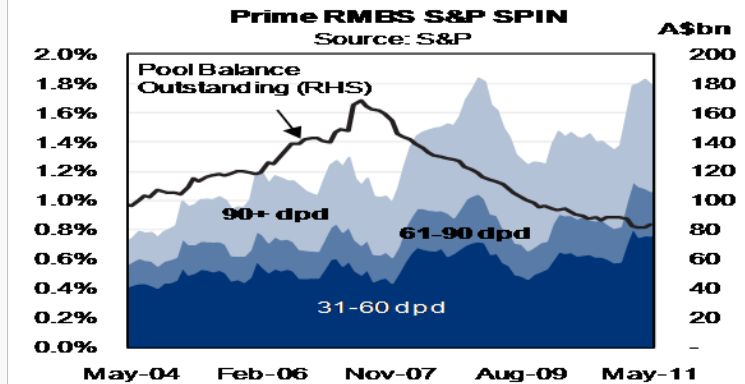
## Typical Australian Mortgage

- Principal and interest amortising 25/30 year loan
- Variable interest rate set at bank's discretion (no specific indexation)
- Limited pre-payment penalty
- Full recourse to the borrower
- No tax deduction for owner occupied housing
- Lenders Mortgage Insurance (LMI) for loans with LVR >80%.
- LMI covers entire loan
- Limited "low documentation" (i.e. self certified) market with tighter lending criteria
- Virtually zero "sub-prime" market
- Major banks account for 80% of new originations and "originate-to-own" with limited securitisation

## Housing Finance



## Mortgage Arrears Prime RMBS SPIN (30+ days arrears)



# CBA home lending

- Portfolio average LVR of 44% (current loan balance / original valuation)
- Average LVR of new funding of 54%
- 69% of customers paying in advance (average 7 payments)
- Maximum LVR of 95% for new and existing best risk customers
- Customers refinancing from another lender max LVR 90%
- Mortgage insurance or low deposit premium required for mortgages above 80% LVR

## CBA home loan portfolio mix

	Jun 11	Jun 10
Owner-Occupied	57%	58%
Investment	33%	32%
Line-of-Credit	10%	10%

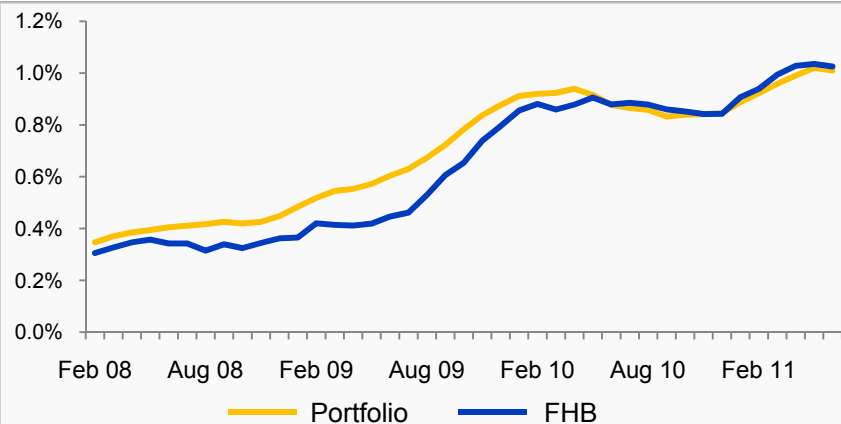
Variable	87%	85%
Fixed	13%	15%

Low Doc %	3%	4%
-----------	----	----

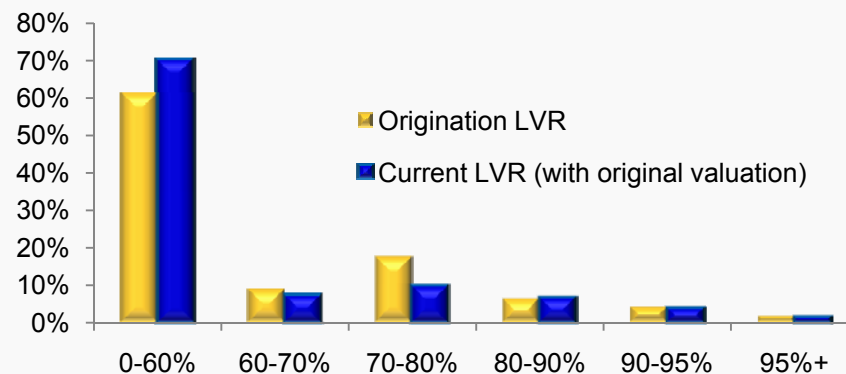
### Originations

Proprietary	63%	64%
Third Party	37%	36%

## CBA Mortgage Arrears



## CBA LVR Distribution



# CBA home loan sensitivity

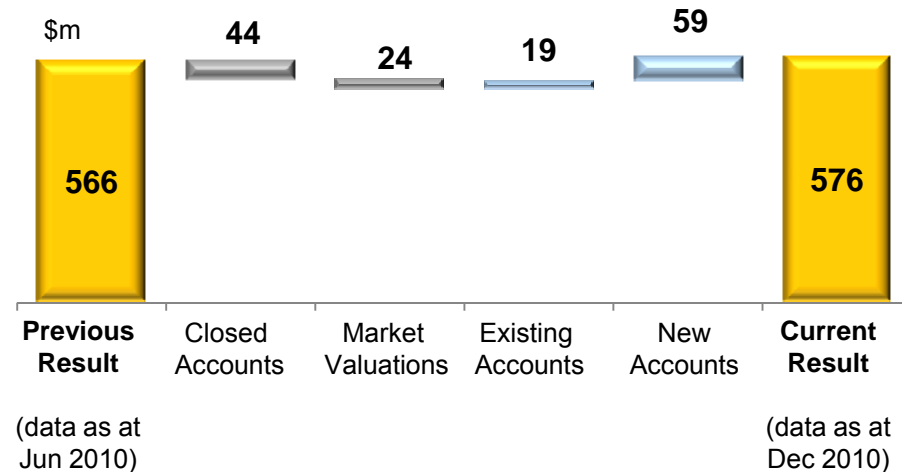
## Expected Loss outcomes

Expected loss \$m	PD stress factor			
	x1	x2	x4	x6
Property value	x1	x2	x4	x6
No decrease	14	17	24	29
10% decrease	35	48	69	86
20% decrease	87	126	194	249
30% decrease	185	281	444	<b>576</b>

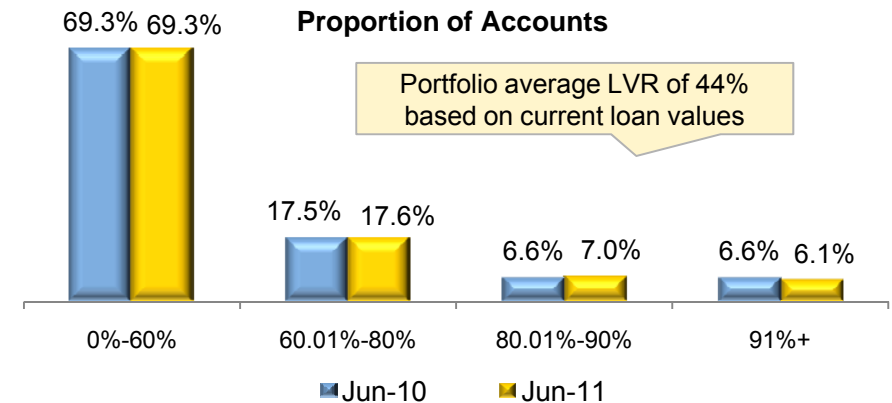
- Example excludes potential losses on insured loan balances (~\$1.232bn) – these losses would be borne by the insurer

- Even under high stress test scenarios, portfolio losses would be modest (\$576m)
- Potential losses are mitigated by portfolio quality, including low LVRs (portfolio average 44%) and customers paying in advance (69%) by an average 7 periods
- Loans above 80% subject to either mortgage insurance or low deposit premium

## Six-month Movement



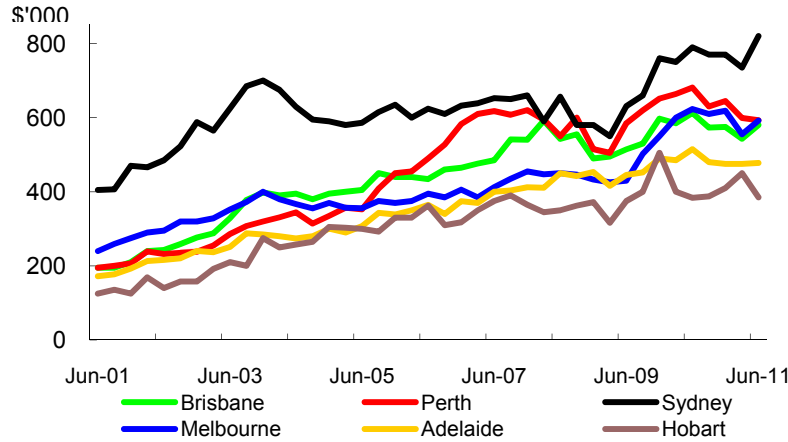
## Portfolio LVR



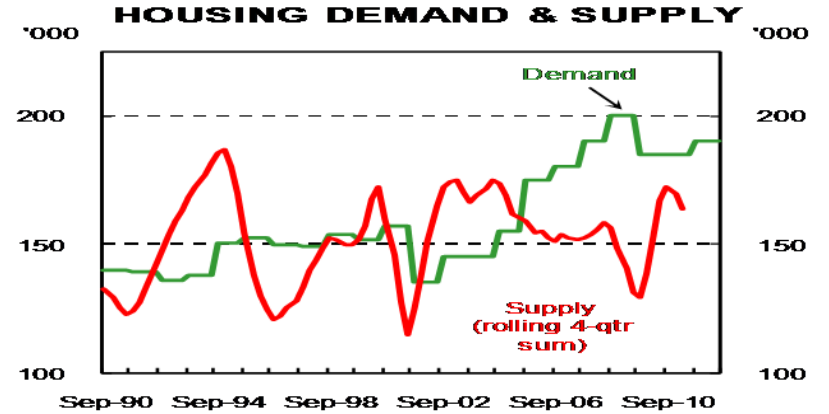
Excludes Bankwest and ASB

# Australian housing market

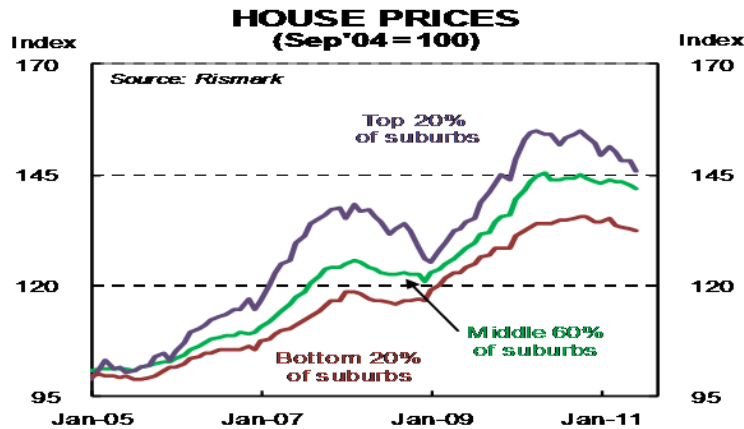
## House Prices – by Market



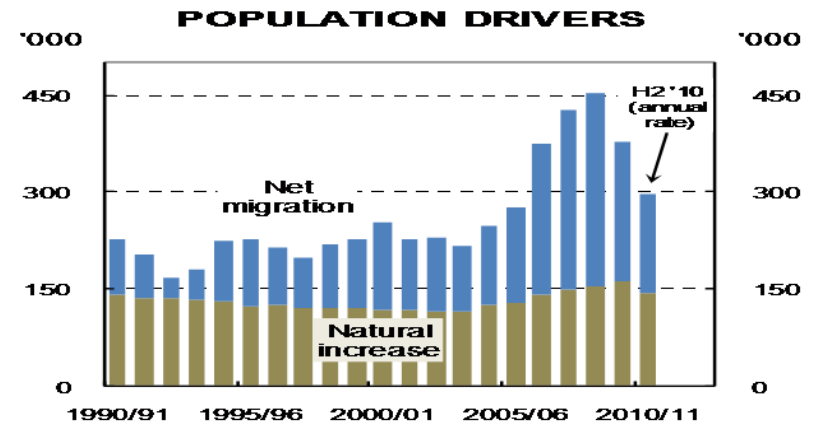
## Excess Demand



## House Prices – by Value



## Population and Migration



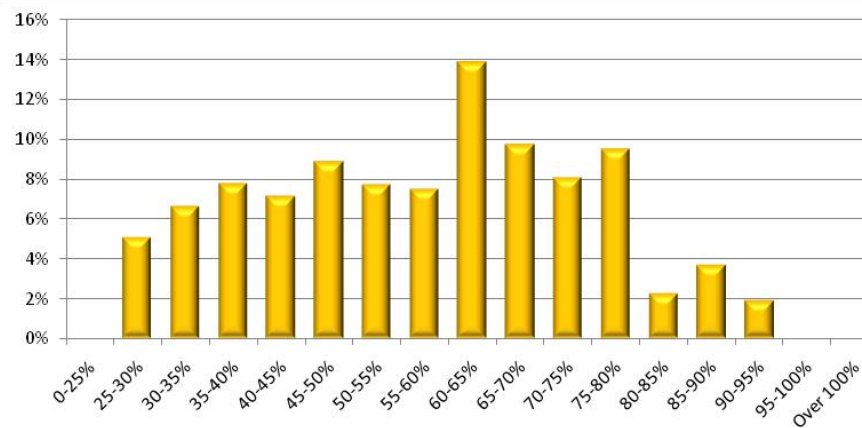
# CBA RMBS mortgage pool

- In April 2011 CBA issued the largest ever A\$ RMBS transaction: Medallion 2011-1
- The A\$3bn deal included both floating rate pass-through and fixed rate soft bullet tranches
- APRA rules (APS120) required the RMBS pool to be representative of mortgages on the CBA balance sheet

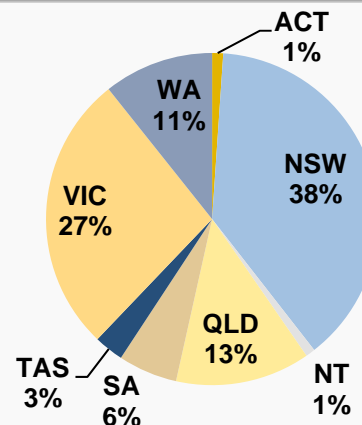
## Key RMBS parameters

Total loan balance	A\$3bn
Wavg Current LVR	57.7%
Wavg Approval LVR	66%
Maximum current LVR	95%
Avg balance	\$247,000
Principal & interest	80%
Interest Only	20%
Owner occupied	77%
Investment	23%
Variable rate	93%

## Distribution by LVR



## Distribution by State





# How to find us

## 24 Hour Global Contact Numbers...

### Sydney

Simon Maidment	+61 2 9118 1339
Richard Nelson – Debt IR	+61 2 9118 1343
Graham Raward	+61 2 9118 1344
Patrick Bryant	+61 2 9118 1345
Ed Freilikh	+61 2 9118 1337
Michael Thiyavutikan	+61 2 9118 1346
Alvin Wei	+61 2 9118 1342
Danny Do	+61 2 9118 1347
Sam Narula	+612 9117 1296

### London

Liam Carden	+44 20 7710 3916
Brendon Roche - ASB	+44 20 7710 3947

### New York

Lisa Balfe	+1 212 336 7730
------------	-----------------

### Mobile Number

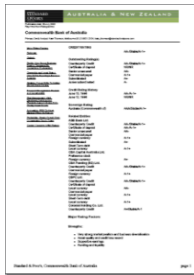
+61 412 227 188
+61 422 165 939
+61 414 317 964
+61 424 754 934
+61 420 364 876
+61 424 506 212
+61 424 506 685
+61 457 528 240

### Email

[simon.maidment@cba.com.au](mailto:simon.maidment@cba.com.au)  
[richard.nelson@cba.com.au](mailto:richard.nelson@cba.com.au)  
[graham.raward@cba.com.au](mailto:graham.raward@cba.com.au)  
[patrick.bryant@cba.com.au](mailto:patrick.bryant@cba.com.au)  
[edward.freilikh@cba.com.au](mailto:edward.freilikh@cba.com.au)  
[michael.thiyavutikan@cba.com.au](mailto:michael.thiyavutikan@cba.com.au)  
[alvin.wei@cba.com.au](mailto:alvin.wei@cba.com.au)  
[danny.do@cba.com.au](mailto:danny.do@cba.com.au)  
[sameer.narula@cba.com.au](mailto:sameer.narula@cba.com.au)

[liam.carden@cba.com.au](mailto:liam.carden@cba.com.au)  
[brendan.roche@asbfinance.co.uk](mailto:brendan.roche@asbfinance.co.uk)

[balfel@cba.com.au](mailto:balfel@cba.com.au)



### 2 Minute Guides to CBA

- English
- French
- German
- Italian
- Spanish
- Thai
- Japanese
- Mandarin
- Cantonese
- Korean
- Vietnamese
- Indonesian



### Programme Documentation

- Euro Medium Term Notes
- US Medium Term Notes
- Commets
- Commercial Paper

[www.commbank.com.au/groupfunding](http://www.commbank.com.au/groupfunding) - Ratings reports; documentation; "2 minute guides"

[groupfunding@cba.com.au](mailto:groupfunding@cba.com.au) – Group email address



DETERMINED TO BE BETTER THAN WE'VE EVER BEEN.



**Commonwealth**Bank

