MOODY'S INVESTORS SERVICE

PRE-SALE REPORT

Commonwealth Bank of Australia – Covered Bond Programme

Covered Bonds / Australia

Closing Date

[•]

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Provisional (P) Ratings

Series	Amount	Coupon	Final Maturity Date	Rating
1	[US$][•]	[•]	[•]	(P) Aaa

The ratings address the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

Transaction Summary

Moody's has assigned a provisional long-term rating of (P)Aaa to the covered bonds (the "Covered Bonds") to be issued under the US$30 billion Covered Bond Programme (the "Programme") of Commonwealth Bank of Australia ("CBA" or the "Issuer"). As of 26 October 2011, the pool of assets (the "Cover Pool") analysed by Moody's consisted of 28,177 residential mortgages with a total outstanding balance of A$7.514 billion. The residential mortgages in the Cover Pool are denominated in Australian dollars and secured by mortgages encumbering properties located in Australia. The Issuer transfers the Cover Pool by way of equitable assignment to Perpetual Corporate Trust Limited as trustee of the CBA Covered Bond Trust (the "CB Guarantor"), which in turn guarantees the Issuer's obligations to Covered Bondholders under the Covered Bonds. In case of an Issuer Event of Default[1], the CB Guarantor will have access to the proceeds from the Cover Pool to fulfil its obligations under the guarantee.

This is the first covered bond programme established by CBA following the enactment of Banking Amendment (Covered Bonds) Act 2011 ("Covered Bond Act") which amends the Banking Act 1959 ("Banking Act").

Before the Covered Bond Act, the Banking Act prohibited any Australian authorised deposit-taking institution ("ADI") from issuing any covered bonds due to deposit holder preference provisions in the Banking Act.

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 2 November 2011. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The definitive ratings may differ from the provisional ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation

As with all covered bonds, the Covered Bonds investors benefit from two layers of protection by having recourse to both the Issuer and the Cover Pool. The rating therefore takes into account the following factors:

» The credit strength of the Issuer (rated Aa2/Prime-1/B-);

» The structure created by the transaction documents;

» The credit quality of the Cover Pool;

» The commitment by the Issuer to maintain over-collateralisation of [•]%. Moody's considers this over-collateralisation to be "committed";

» The Covered Bond Act, which provides protection for the covered bondholders, such as:

  – The assets in the Cover Pool need to be beneficially owned by a covered bond special purpose vehicle – the CB Guarantor.

  – The Australian Prudential Regulation Authority ("APRA") – the regulatory body of all ADIs – has no direction making powers over the assets held by the CB Guarantor for the benefit of the Covered Bondholders and service providers. This limitation mitigates any potential conflict of interest between deposit holders and Covered Bondholders.

  – If the Issuer becomes insolvent, any statutory manager or external administrator has no powers over the assets held by the CB Guarantor for the benefit of the Covered Bondholders and service providers. This also mitigates any potential conflict of interest amongst unsecured creditors and Covered Bondholders and aims at ensuring the continuity of payments under the Covered Bonds following Issuer Event of Default.

  – APRA can restrict the Issuer from issuing Covered Bonds where the Issuer has not complied with the Covered Bond Act.

  – An independent cover pool monitor must be appointed to assess the maintenance of the a register of assets in the Cover Pool and the Issuer's compliance with maintaining the value of the Cover Pool. The cover pool monitor must report on the status of the Cover Pool at least every six months.

Moody's has assigned a Timely Payment Indicator (TPI) of "Probable" to the Covered Bonds. As is the case with other covered bonds, Moody's considers the transaction to be linked to the Issuer's rating, particularly from a TPI perspective. If the Issuer's credit strength deteriorates below A3, all other variables being equal, Moody's would expect the rating of the Covered Bonds to be constrained, and therefore the bonds would likely be downgraded.

  – A multiple notch downgrade of the Covered Bonds might occur in certain limited circumstances. Some examples might be: (a) a sovereign downgrade negatively affecting both the Issuer's senior unsecured rating and the TPI; (b) a multiple notch downgrade of the Issuer; or (c) a material reduction of the value of the Cover Pool.

  – The rating addresses the expected loss posed to investors by the Covered Bonds.

  – The (P) Aaa rating assigned to the existing Covered Bonds is expected to be assigned to all subsequent Covered Bonds issued under this Programme, and any future rating actions are expected to affect all such Covered Bonds. If there are any expectations to this, Moody's will, in each case, publish details in separate press release.

  – Moody's initially analysed and will monitor this transaction using the rating methodology for Covered Bond transactions as described in the Rating Methodology reports "Moody's Rating Approach to Covered Bonds" published in March 2010 and "Assessing Swaps as Hedges in the Covered Bond Market", published in September 2008. All can be found on www.moodys.com in the Credit Policy & Methodologies directory, within the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Credit Policy & Methodologies directory.

Opinion

Strengths of the Transaction

» Issuer: The Covered Bonds are full recourse to CBA, rated Aa2/Prime-1/B-.

» The Covered Bond Act: The Covered Bond Act provides protection for the Covered Bondholders. The act stipulates that:

  – The assets in the Cover Pool must be beneficially owned by a covered bond special purpose vehicle – the CB Guarantor.

  – APRA has no direction making powers over the assets held by the CB Guarantor for the benefit of the Covered Bondholders and service providers.

  – If the Issuer becomes insolvent, any statutory manager or external administrator has no powers over the assets held by the CB Guarantor for the benefit of the Covered Bondholders and service providers.

- APRA can restrict the Issuer from issuing Covered Bonds where the Issuer has not complied with the Covered Bond Act.
- An independent cover pool monitor must be appointed to assess the maintenance of the a register of assets in the Cover Pool and the Issuer's compliance with maintaining the value of the Cover Pool. The cover pool monitor must report on the status of the Cover Pool at least every six months.

» **Credit Quality of the Cover Pool:**

- The Cover Pool comprises 28,177 residential mortgages with a total outstanding balance of A$7.514 billion. Properties must be located in Australia to be eligible for the Cover Pool.
- The Asset Coverage Test only gives benefit up to a maximum of 80% LTV based on indexed valuation of the loans in the cover pool.
- The quality of the collateral is reflected in its collateral score of 8.25%.

» **Refinancing Risk:**

- All covered bonds either benefit from a maturity extension, or in the case of hard bullet bonds are subject to a pre-maturity test under which the Issuer has to pre-fund any bonds maturing within 12 months after the Issuer's short term rating is downgraded below P-1.
- The liquidity reserve fund covering three months of expenses and interest, which is funded if the Issuer's short term rating is downgraded below P-1.
- The Issuer has the ability to reset the interest rate on the variable interest rate mortgage loans in the Cover Pool at its discretion by providing notice to the underlying borrowers in accordance with consumer regulations in Australia. The same discretion also applies to fixed interest rate mortgage loans at the end of the relevant fixed rate period.

» **Market Risk:**

- The Covered Bond Act recognizes hedging agreements as part of the Cover Pool. Hedge counterparties may rank pari-passu with Covered Bondholders if agreed between the parties. Hedge agreements may facilitate to match assets and liabilities payments following Issuer Event of Default.

Weaknesses and Mitigants

» **Issuer:** As with most covered bonds, until Issuer Default[2] the Issuer can materially change the nature of the Programme. For example, new assets may be added to the Cover Pool, new Covered Bonds issued with varying terms and new hedging arrangements entered into. These changes could impact the credit quality of the Cover Pool as well as the overall refinancing risk and market risks.

Mitigants: The Covered Bondholders have a direct claim against the Issuer. Substitution risk is mitigated by (i) the eligibility criteria (described later); and (ii) the Cover Pool composition will be monitored.

» **APRA's Power:** Under the Banking Act, APRA has the power to prevent an ADI maintaining the cover pool in limited circumstances, such as the ADI being in financial difficulties. If APRA exercises such power before an Issuer Default, the credit quality of the Cover Pool may be impacted.

Mitigant: Asset Coverage Test will be conducted on a monthly basis to detect any early sign of deterioration of the quality of the collateral.

» **Credit Quality of the Cover Pool:**

- A deterioration or slump in the market for residential or other estate could negatively affect the value of the properties.

  Mitigants: (i) the moderate LTVs in the Cover Pool; and (ii) the house price stress applied by Moody's in its modelling.

- Covered Bonds are only issued against the portion of loans up to 80% LTV. Value may be given to loans with LTV greater than 80%. This means the value of over-collateralisation can vary depending on the distribution of the LTV in the Cover Pool.

  Mitigant: Moody's factors into the analysis the quality of the "over-collateralisation" when determining required over-collateralisation levels.

» **Refinancing Risk:**

- Following an Issuer Default, to achieve timely principal payment, Covered Bondholders may need to rely on proceeds being raised through the sale of, or borrowing against, assets in the Cover Pool. Following an Issuer Default, the market value of these assets may be subject to high volatility.

Mitigants: (i) The credit strength of the Issuer. The stronger the credit of the Issuer, the lower the chance of being exposed to this risk; and (ii) The refinancing margins used by Moody's in its modeling ensure that certain price discount has been factored in the assessment of the over-collateralisation needed to achieve a given rating.

– Under the Programme, the repayment of the senior demand loan will rank ahead of the Covered Bonds. If the demand loan provider requests a repayment of the senior demand loan (described later in the section "Structural and Legal Aspects"), the CB Guarantor may need to sell assets in the Cover Pool in an amount more than that required to repay the Covered Bonds. The CB Guarantor may then require a longer period of time to sell the assets and also higher volatility to the market value of these assets.

  Mitigant: The repayment of senior demand loan will be satisfied by distribution of assets to the demand loan provider at the book value and subject to the satisfaction of ACT. This prevents the CB Guarantor from the immediate fire sale of assets following Issuer Default, which could precipitate the acceleration of the Cover Pool.

» **Market Risk:** As with most covered bonds, there is potential for exposure to market risks. For example, following an Issuer Default, Covered Bondholders may be exposed to interest rate risk, which could arise from the different payment promises and durations of the Cover Pool and the Covered Bonds.

  Mitigant: The interest and currency hedging agreements in place.

» **De-Linkage:** At inception, the counterparty of the swap agreements is the Issuer. So, prior to an Issuer Default, a swap replacement may have to be found for the swap to continue to support the Programme post Issuer Default.

  Mitigant: The swap agreements include replacement and collateralisation triggers.

» **Commingling Risk:** Prior to an Issuer Default, the borrowers will pay into a collection account which is in the name of the Servicer and serves also for collecting other payments. This may lead potentially, in the event of an Issuer Default, to cash belonging to the CB Guarantor becoming unavailable.

  Mitigants: (i) The obligation of the Servicer to transfer the collections into the account of the CB Guarantor within two local business days of receipt if the Servicer is downgraded to below Prime-1; and (ii) replacement of the Servicer when the Servicer gets downgraded below Baa3.

» **Claw-back risk:** Voluntary over-collateralisation will be returned to the Issuer's insolvency estate by virtue of the repayment of the Demand Loan in priority to the Covered Bondholders if the ACT is satisfied.

  Mitigants: Moody's has not given any value to voluntary over-collateralisation in its analysis if it is not contractually committed through the ACT.

Structure Summary

Issuer:	Commonwealth Bank of Australia ("CBA") (Aa2/Prime-1/B-)
Sponsor Bank:	Commonwealth Bank of Australia ("CBA") (Aa2/Prime-1/B-)
Covered Bond Guarantor:	Perpetual Corporate Trust Limited as trustee of the CBA Covered Bond Trust
Structure Type:	Mortgage Covered Bonds
Issued under Covered Bonds Law:	Yes
Applicable Covered Bonds Law:	Banking Amendment (Covered Bonds) Act 2011
Main Originator:	CBA
Original Servicer:	CBA
Intra group Swap Provider:	Yes (Issuer)
Monitoring of Cover Pool:	PricewaterhouseCoopers ("Cover Pool Monitor")
Trustees:	P.T. Limited ("Security Trustee") Deutsche Trustee Company Limited ("Bond Trustee")
Trust Manager:	Securitisation Advisory Services Pty Limited, a wholly owned subsidiary of CBA
Timely Payment Indicator:	Probable

Covered Bonds Summary

Total Covered bonds Outstanding:	A$[•]
Currency of covered bonds:	[US$] (other currencies might also be used)
Extended Refinance Period:	[•]
Principal Payment Type:	Bullet
Interest Rate Type:	[•]

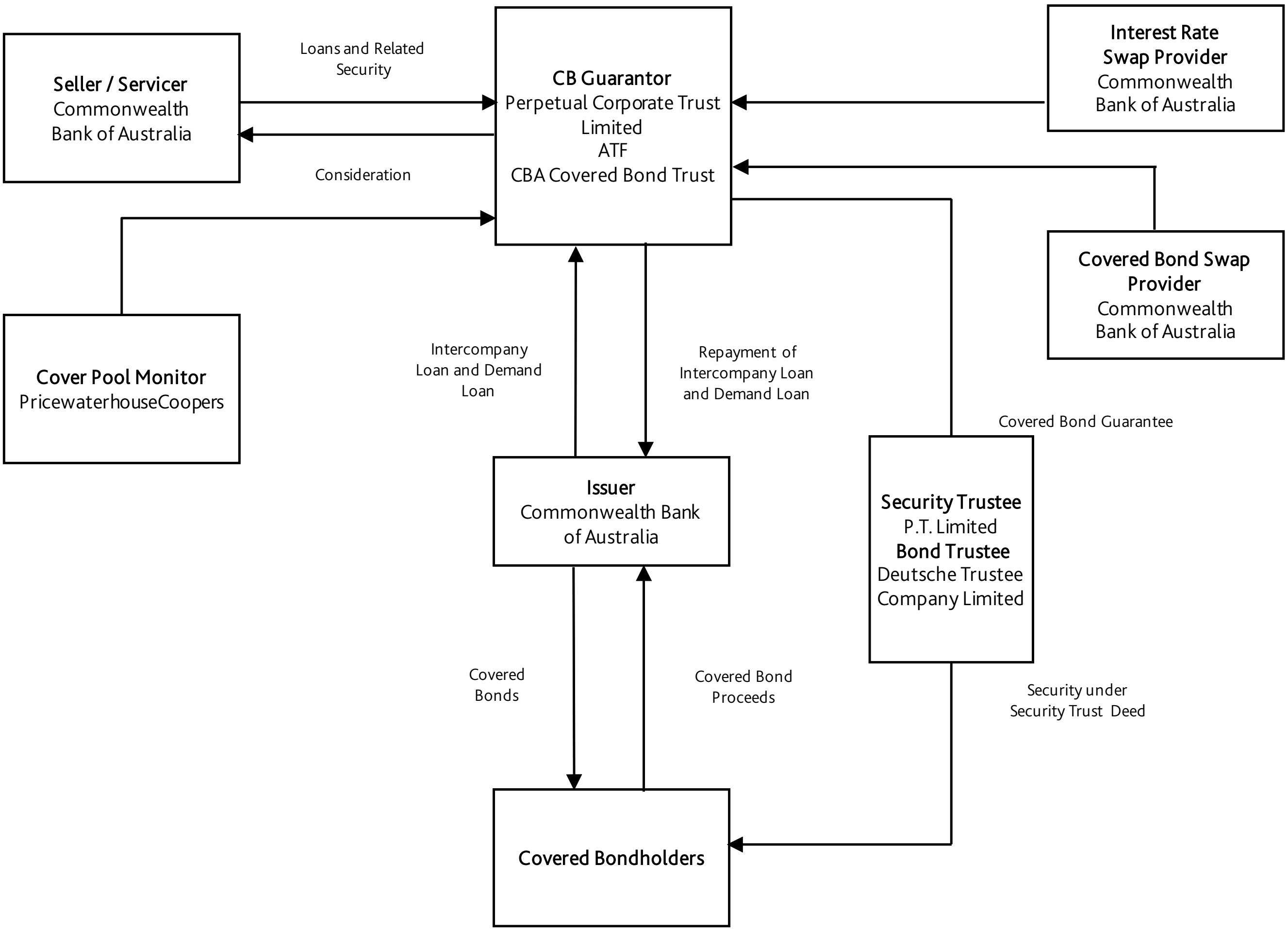
Collateral Summary

Size of Cover Pool:	A$ 7,513,672,138.68
Main collateral type in Cover Pool:	Residential mortgages (100%)
Main Asset Location:	Australia
Loans Count:	28,177
WA Current LTV:	59.31%
WA Seasoning:	26.7 months
WA Remaining Term:	320.1 months
Interest Rate Type:	7.6% fixed 92.4% floating
"Committed" Over Collateralisation:	[ ]% on a nominal basis
Collateral Score:	8.25%
Further details:	See Appendix 1
Pool Cut-off Date:	26th October 2011

Structural and Legal Aspects

CHART 1

Structure Diagram



The Covered Bonds issued by CBA are direct, unsecured and unconditional obligations benefiting from a guarantee given by the CB Guarantor.

Before an Issuer Event of Default, the Issuer will make all payments of interest and principal on the Covered Bonds. The Issuer has mandated the Guarantor to guarantee its payment obligations in favour of the Bond Trustee (Deutsche Trustee Company Limited) acting for the benefit of the Covered Bondholders. The guarantee comes into operation following an Issue Event of Default subject to certain conditions.

Under the Programme, the Issuer will issue Covered Bonds from time to time, in each case constituting direct, unsecured obligations of CBA (Aa2/Prime-1/B-). If the Covered Bondholders have not received the full amount due, then they have an unsecured claim against the Issuer for the shortfall.

Under the intercompany loan agreement, CBA will make term advances to the CB Guarantor with the gross proceeds of each issuance of Covered Bonds.

In addition to the advances under the intercompany loan, CBA will provide a demand loan facility to the CB Guarantor to fund purchase of mortgage loans, repay a term advance, rectify breach of Asset Coverage Test ("ACT"), rectify breach of Pre-Maturity Test or rectify any yield shortfall from the Cover Pool. The demand loan will comprises of: (i) senior demand loan which essentially represents any voluntary over-collateralisation provided by the Issuer over and above the over-collateralisation that is required to satisfy the Asset Coverage Test; and (ii) junior demand loan which represents the over-collateralisation that CB Guarantor is required to hold to satisfy the Asset Coverage Test.

Moody's has not given any value to voluntary over-collateralisation funded through the senior demand-loan because its repayment rank senior to the Covered Bondholders following Issuer Event of Default.

The CB Guarantor will use the proceeds of the intercompany loan and/or demand loan to acquire a portfolio of residential mortgage loans from CBA (as seller) that will comprise the Cover Pool. The purchase price for the initial and any subsequent purchase of loans and mortgages will be on a fully-serviced basis in exchange for cash consideration. If the Cover Pool needs to be increased to satisfy the ACT, the CB Guarantor may request a drawing under the demand loan to enable the CB Guarantor to acquire additional loans and any related security from CBA (as seller) or may request a cash advance from CBA.

Upon an Issuer Event of Default, under the terms of the guarantee, the CB Guarantor will make all interest and principal payments due under the Covered Bonds. For this purpose, the CB Guarantor may draw on its interest in the Cover Pool, its bank accounts and its investments.

Issuer Insolvency

» In compliance with the Covered Bond Act, CBA (as seller) will sell the residential mortgage loans to the CB Guarantor by way of equitable assignment (i.e. without notice to obligors under the loans).

» Upon any title perfection event which includes an Issuer Event of Default, service of a Notice to Pay or downgrade of CBA to below Baa3, the seller (being the Issuer) will perfect the title of the mortgages in the Cover Pool to the CB Guarantor. CB Guarantor must take all necessary steps to perfect title to the mortgages, including lodging mortgage transfers, notifying borrowers of the sale and where they should make future payments and taking possession of all loan files. In addition, the CB Guarantor has the benefit of an irrevocable power of attorney, dated as of the initial date of the sale of the loans, which entitles the CB Guarantor to perfect the legal title to the mortgage securities in the name of the CB Guarantor.

» The Covered Bond Act precludes APRA from having any direction making power over the assets held by the CB Guarantor for the benefit of the Covered Bondholders and service providers. If the Issuer becomes insolvent, any statutory manager or external administrator has no powers over the assets held by the CB Guarantor for the benefit of the Covered Bondholders and service providers. This provision mitigates any potential conflict of interest amongst the unsecured creditors and Covered Bondholders and aims at ensuring the continuity of payments under the Covered Bonds following Issuer Event of Default. This also mitigates claw-back risk as assets transferred to the Cover Pool are deemed to belong to the CB Guarantor, unless otherwise specified.

Cover Tests

There are two key portfolio tests in the Programme: the Asset Coverage Test and the Amortisation Test.

The Asset Coverage Test

The operation of an Asset Coverage Test ("ACT") offers protection against potential collateral deterioration.

Under the Covered Bond Act, the Issuer is required to maintain the assets in the Cover Pool so that the value of these assets is sufficient to meet 103% of the face value of the outstanding Covered Bonds. However the Issuer can commit higher protection levels contractually.

In addition to this statutory requirement, the ACT uses a number of parameters in order to determine whether the required level of collateral is available (i.e. the "Adjusted Aggregate Housing Loan Amount"). These parameters include the LTV Cut-Off percentage, which is currently set at 80%. Covered Bonds may only be issued against the first 80% LTV of any loan. The ACT also covers other risks, including in regard to loan and mortgage arrears. No value is given to any loan more than 90 days in arrears in the calculation of ACT.

Pursuant to the terms of the ACT, the maximum Asset Percentage is [•]%, what translates into an over-collateralisation of [•]%. Over-collateralisation amounts under the ACT are sized to take into account a certain level of deterioration in the credit quality of the Cover Pool. For example, it has been assumed that over time the collateral mix in the Cover Pool may deteriorate in terms of credit quality, by way of house price depreciation, or loans and mortgages with less seasoning.

The ACT is designed to ensure a certain level of over-collateralisation that the Issuer is required to hold to protect Covered Bondholders, and represents the minimum amount of collateral that Covered Bondholders should benefit from following an Issuer Default.

The test will be performed monthly. To pass this test, the collateral should be maintained at a certain level by ensuring that the "Adjusted Aggregate Housing Loan Amount" is at least equal to the A$ equivalent of all Covered Bonds outstanding. If the ACT is breached and is not remedied by the next determination date, no further repayment may be made under the intercompany loan and demand loan and the Issuer will be prevented from issuing further Covered Bonds, until remedied. If the ACT is still not remedied on the second succeeding determination date, the Bond Trustee will serve a Notice to Pay and the security trustee may call an Issuer Event of Default.

The Amortisation Test

Following an Issuer Event of Default and service of Notice to Pay on the CB Guarantor, the CB Guarantor must also ensure on a monthly basis that the Amortisation Test is satisfied. The Amortisation Test is designed to ensure that the level of assets in the Cover Pool is at least as high as the level of Covered Bonds. On a monthly basis, this test compares the amount of Cover Pool assets ("Amortisation Test Aggregate Housing Loan Amount") with the A$ equivalent of the aggregate principal amount outstanding of the Covered Bonds.

The Amortisation Test also covers certain other risks, including loan arrears. No value is given to any loan more than 90 days in arrears in the calculation of the Amortisation Test. A breach of the Amortisation Test will constitute a CB Guarantor Event of Default and the Bond Trustee may serve a CB Guarantee Acceleration Notice on the Issuer and on the CB Guarantor and the security will become enforceable.

Cover Pool Monitor

In accordance with the Covered Bond Act, the Issuer will appoint an independent cover pool monitor to review the correct registration of assets, monitor the compliance with the statutory tests and report information regarding the cover pool. In addition to the legislative requirement of performing the review every six months, the cover pool monitor is required to perform the functions monthly if the Issuer rating falls below Baa3.

Swap Arrangements

The CB Guarantor will enter into interest rate swap agreements that will convert the income from the Cover Pool assets into an amount sufficient to pay interest payable under the intercompany loan and demand loan and the amounts payable by the CB Guarantor under the cover bond swap, plus a certain amount for expenses.

The CB Guarantor will also enter into series-specific swaps that will convert the A$ floating amounts it will receive under the interest rate swaps into the applicable rate and currency amounts of the corresponding series of Covered Bonds.

At inception the swap provider will be CBA. The swap provisions contain replacement and collateralisation triggers.

Other structural features

Other structural features include:

» **Extended maturity:** Bonds issued as soft bullets will benefit from a maturity extension. Such extension will occur automatically if the Issuer and the CB Guarantor fail to redeem the Covered Bonds on their maturity date.

» **Pre-maturity test:** Once the Issuer rating has fallen below Prime-1, all bonds issued as hard bullets and maturing within 12 months will have to be pre-funded by the Issuer. If the Issuer does not pre-fund these bonds, it will be stopped from issuing further Covered Bonds under the Programme, and the CB Guarantor will be able to use the Cover Pool to gain access to enough cash to pre-fund the hard bullet bonds.

» **Liquidity reserve fund:** The Programme also benefits from a liquidity reserve, which will be established if the Issuer rating fall below Prime-1 and which is sized to cover three months of the CB Guarantor's expenses plus three months interest becoming due under the outstanding Covered Bonds or Covered Bond swaps.

» **Commingling risk:** If the Issuer's short-term rating falls below Prime-1, the Issuer (as servicer) must transfer all collections in respect of the Cover Pool assets to the CB Guarantor within two local business day of receipt. Also, a servicer replacement event is triggered upon the loss of Baa3 by the servicer.

» **Servicer replacement:** Upon downgrade below Baa3, the Servicer must (on a reasonable efforts basis) enter into a new servicing deed with a third party under which such party will undertake the servicing obligations.

» **Set-off:** Set-off risk exists as the Issuer is a deposit taking institution. Such risk is mitigated by: (i) the representations and warranties by the seller that the loans are not subject to any set-off; and (ii) title perfection trigger of Baa3, what extinguishes any potential borrowers' counterclaim against the CB Guarantor..

Moody's Rating Methodology

The approach used by Moody's for rating covered bond transactions is detailed in our Rating Methodology.[3] The main assumption is that until its default, the Covered Bonds obligations are supported by the Issuer. After a default of the Issuer, the Programme will rely primarily on the value of the Cover Pool, including swaps to the extent they have survived. The impact of the credit strength of the

Issuer, quality of the collateral, refinancing and market risks are analysed below.

Credit Strength of the Issuer

Covered Bonds constitute direct, unsubordinated, unsecured and unconditional obligations of CBA, which is rated Aa2/Prime-1/B-.

CBA is one of Australia's largest banking organisations, providing a full range of retail banking, wealth management and business banking products and services to its Australian-based customers. As at 30 June 2011, CBA and its controlled entities had consolidated total assets of A$668 billion.

CBA is rated Aa2/Prime-1/B-. For more information on the Issuer see Related Research on CBA on Moody's website.

As with most covered bonds, until Issuer Default the Issuer can materially change the nature of the Programme. For example, new assets may be added to the Cover Pool, new Covered Bonds issued with varying promises and new hedging arrangements entered into. These changes could impact the credit quality of the Cover Pool as well as the overall refinancing risk and market risks. Mitigant: The Cover Bondholders have a direct claim on the Issuer.

The Credit Quality of the Cover Pool

As at the Pool Cut-Off Date, the Cover Pool comprises of 28,177 residential mortgages for a total outstanding balance of around A$7.514 billion.

The eligibility criteria to be met in relation to the sale of the loans to the CB Guarantor, which include e.g.:

» The loan is repayable in A$.

» The term of the loan does not exceed 30 years.

» The loan is a first ranking mortgage.

» At the cut-off date, the respective borrower is not in arrears for more than 30 days.

» The security property has erected on or within it a residential dwelling.

» The loan has been fully drawn.

Moody's was provided with good quality information on the Cover Pool assets.

From a credit perspective, Moody's regards the following portfolio characteristics of the residential mortgage loans as positive:

» The weighted-average current LTV of the Cover Pool is 59.3%.

» The weighted-average seasoning of 26.7 months.

» All loans are full documentation loans.

From a credit perspective, Moody's regards the following portfolio characteristics of the residential mortgage loans as negative:

» Approximately 18.8% of the loans in the Cover Pool are granted on an interest-only basis.

The above-mentioned factors have been incorporated into Moody's analysis. Moody's has assessed the collateral using a scoring model to assess the credit quality of the Cover Pool. The result of the Cover Pool analysis is the Collateral Score. Based on the pool provided, Moody's has calculated a Collateral Score of 8.25%.

See Appendix 1 for more information on the Cover Pool and Appendix 2 for information on income underwriting and valuation.

Substitution Risk

As with most covered bond programmes, there are few restrictions on the future composition of the Cover Pool and this may create substitution risk. There is no assurance that the credit quality of the Cover Pool will not deteriorate over time as new assets are added. Mitigants to substitution risk include:

» The Issuer's business model does not envisage different origination criteria.

» The Asset Coverage Test. Among other benefits this ensures that Covered Bonds are only issued against the portion of loans up to LTV of 80% based on indexed valuation. Further, the Asset Coverage Test takes into account non-performing or defaulted assets. This test is further described under Structural and Legal Aspects above.

» Any future loans to be sold to the CB Guarantor will need to comply with the above-mentioned eligibility criteria.

» The Cover Pool composition will be monitored.

If the quality of the collateral deteriorates below a certain threshold, the Issuer would have the ability, but not the obligation, to increase the over-collateralisation in the Cover Pool to support the current rating. If additional over-collateralisation is not added following a deterioration of the collateral, this could lead to a negative rating action.

Refinancing Risk

Following an Issuer Default, where the "natural" amortisation of the cover pool assets alone cannot be relied on to repay principal, Moody's assumes that funds must be raised against the Cover Pool at a discount if Covered Bondholders are to receive timely principal payment. After an Issuer Default, the market value of these assets may be subject to certain volatility. Examples of the stressed refinance margins used by Moody's for different types of residential and commercial mortgage loans are published in Moody's covered bonds rating methodology. Updates on the stressed refinance margins used were published in February 2008 and April 2009.[4]

Aspects specific to this programme that are refinancing-positive include:

» The CB Guarantor can sell Cover Pool assets in order to make payments on the Covered Bonds.

» The pre-maturity test for hard bullet Covered Bonds.

» In the case of soft bullet covered bonds, provisions to allow for a maturity extension which should in the event of an Issuer Default: (1) improve the sales value of the Cover Pool; and (2) increase chances of timely principal payments.

» The liquidity reserve fund, which provides certain cash amount that might prevent from the Cover Pool acceleration.

Aspects specific to this programme that are refinancing-negative include:

» The swap counterparty is CBA, so prior to Issuer Default a swap replacement would have to be found for the swap to continue to support the transaction post Issuer Default. There is no guarantee that a substitute counterparty could be found in a distressed scenario. The absence of the swap hedging interest and currency risk could lead to the early crystallization of such risks, what in turn could increase the imbalances between assets and liabilities and lead to a failure to pay under the Covered Bonds forcing the CB Guarantor to accelerate.

» Servicer replacement triggers – As a servicer transfer event takes place upon the loss of the servicer's rating of Baa3, there is no guarantee that a substitute servicer could be found to ensure a smooth transition of the functions.

» The absence of any obligation to re-direct the payments received from the underlying borrowers from the Seller to the CB Guarantor until the Seller is downgraded to below Baa3. A sudden migration of the Issuer from investment-grade to default could create some disruption in the Covered Bond payments.

Interest-Rate and Currency Mismatches

As with the majority of covered bonds, there is potential for exposure to interest-rate and currency risks. For example, following an Issuer Default, Covered Bondholders may be exposed to interest rate risk which could arise from the different payment promises and durations of the Cover Pool and the Covered Bonds. Following an Issuer Default, Moody's models separately increasing and decreasing interest rates and then applies the most conservative outcome.[5]

Aspects specific to the Programme that are positive for interest-rate and currency risk include:

» 92.4% of the mortgage loans in the Cover Pool have floating interest rate. A potential sale of the assets could therefore not lead to a crystallization of mark-to-market losses caused by interest rate movements.

» The swap collateralisation provisions and replacement triggers.

Aspects specific to the Programme that are negative for interest-rate and currency risk include:

» The Issuer is the counterparty under the interest rate swaps (on the asset side) and the counterparty under the Covered Bond swap.

Mitigant: CBA is currently highly rated (Aa2/Prime-1/B-).

» The mortgage loans in the Cover Pool are denominated in A$ whereas the planned first Series will be denominated in foreign currency.

Mitigant: The interest and currency hedging agreements.

» There are limited provisions to protect Covered Bondholders against swap termination following late payment on the Covered Bonds.

Linkage

All covered bonds are linked to the Issuer. As a result the Covered Bonds will come under rating stress if the Issuer's credit strength deteriorates. Reasons for this include:

» Refinancing risk: Following an Issuer Default, if principal receipts from collections of the Cover Pool are insufficient to meet the principal payment on a Covered Bond, funds may need to be raised against the Cover Pool. However, the fact that the Issuer has defaulted may negatively impact the ability to raise funds against the Cover Pool.

- The exposure of the Programme to the choices of the Issuer. For example, prior to an Issuer Default, the Issuer may add new assets to the Cover Pool, enter new hedging arrangements and additional bonds may be issued. Each of these actions could negatively impact the value of the Cover Pool.
- More generally, by the incorporation of the strength of the Issuer in Moody's rating methodology.

As a result of this linkage, the probability of default of the Covered Bonds may be higher than expected for a senior unsecured debt. However, Moody's primary rating target is the expected loss which also takes severity of loss into account, which in this case is consistent with the Covered Bond rating.

Moody's Timely Payment Indicators ("TPIs") indicates the likelihood that a timely payment will be made to Covered Bondholders following an Issuer Default, and thus determine the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable amount of over-collateralisation.

Aspects specific to the Programme that are TPI-positive include:

- The ability of the CB Guarantor to sell assets. Under the Covered Bond Act, if the Issuer becomes insolvent, any statutory manager or external administrator has no powers over the assets held by the CB Guarantor for the benefit of the Covered Bondholders and service providers.
- The extendable maturities of the soft-bullet Covered Bonds.
- The Pre-Maturity Test for hard-bullet Covered Bonds.
- The reserve fund of 3 months expenses and interest due on the Covered Bonds.
- Provisions in the swap agreements include collateralisation and counterparty substitution provisions.
- Australian sovereign rating at Aaa in conjunction with well developed securitization market. This provides certain comfort that under the absence of a systemic crisis, a transfer of the Cover Pool of prime-residential mortgage loans is likely.

Aspects specific to the Programme that are TPI-negative include:

- Structural reliance on rating triggers – As it is theoretically possible that the Issuer will face a rapid rating migration, some protective features may not be in place prior to Issuer Default.
- The swap counterparty is CBA, so prior to Issuer Default a swap replacement would have to be found for the swap to continue to support the transaction post Issuer Default. There is no guarantee that a substitute counterparty could be found in a distressed scenario.
- Servicer replacement triggers – The obligation to replace the Servicer only takes place upon the downgrade of the Issuer's rating below Baa3. The Servicer may be replaced although no stand-by parties have been appointed in advance to ensure a smooth transition of the functions.

Based on the considerations discussed above, Moody's has assigned a TPI of "Probable" to the Programme.

Monitoring

The Issuer is expected to deliver certain performance data to Moody's on an ongoing basis. In the event that these data are not made available to Moody's, Moody's ability to monitor the ratings may be impaired. This could negatively impact the ratings or, in some cases, Moody's ability to continue to rate the Covered Bonds.

Moody's Related Research

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

Rating Methodologies:

» Moody's Rating Approach to Covered Bonds, March 2010 (SF191950)

» Assessing Swaps as Hedges in the Covered Bond Market, September 2008 (SF142765)

Special Reports:

» Moody's EMEA Covered Bond Monitoring Overview: Q3 2011, April 2011 (SF242401)

» EMEA Covered Bonds 2010 Outlook & 2009 Review: Covered bond ratings under pressure as issuers' credit strength weakens, February 2010 (SF192452)

» European Covered Bond Legal Frameworks: Moody's Legal Checklist, December 2005 (SF66418)

Announcements:

» Moody's: Australia's covered bond law credit-positive for banks, 28 March 2011

» Moody's downgrades Australia's four major banks to Aa2; outlook stable, 18 May 2011

» Moody's corrects Commonwealth Bank of Australia Ratings, 2 August 2011

» Moody's: Australian Financial Claim Scheme positive for smaller deposit takers, 15 September 2011

» Moody's Proposed amendments positive for Australian covered bonds, 26 September 2011

Special Comments:

» Rating Transition Rates for Covered Bond Programmes, 1996-2008, February 2008 (114622)

» Australia's Major Banks: Emerging Risk Differentiation, But Similarities Still Outweigh Differences, August 2011 (134333)

» Australian bank regulator to require early compliance with Basel III capital standards, September 2011 (135709)

» Australia's Financial Claims Scheme is particularly positive for smaller deposit-takers, September 2011 (136017)

Analysis:

» Commonwealth Bank of Australia, August 2010 (127057)

Credit Opinion:

» Commonwealth Bank of Australia

Banking System Outlook:

» Banking System Outlook: Australia, April 2010 (124228)

Research Guide:

» Australia, June 2010 (125739)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Appendix 1: Cover Pool Information

Overview		Specific Loan and Borrower Characteristics	
Asset type:	Residential	Loans with an external guarantee in addition to a mortgage:	0.0%
Asset balance:	7,513,672,138.68	Interest Only Loans:	18.8%
Average loan balance:	266,671	Loans for second homes / Vacation:	n/d
Number of loans:	28,177	Non owner occupied properties:	22.9%
Number of borrowers:	28,177	Limited income verified:	0.0%
WA Remaining Term (in months):	320.1		
WA Seasoning (in months):	26.7	Performance	
		Loans in arrears (≥ 2 months - < 6 months):	0.0%
Details on LTV		Loans in arrears (≥ 6 months - < 12 months):	0.0%
WA Unindexed LTV (*):	59.3%	Loans in arrears (≥ 12 months):	0.0%
WA Indexed LTV:	n/a	Loans in a foreclosure procedure:	0.0%
Valuation type::	Market Value		
LTV threshold:	80.0%		
Junior ranks::	0.0%		
Prior ranks::	0.0%		

n/d: information not disclosed by Issuer

n/a: information not applicable

(*) Based on property valuation at last credit event

CHART A

Balance per LTV band

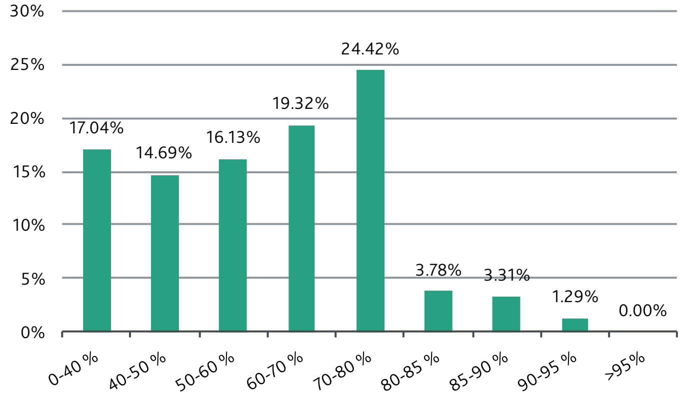


CHART B

Asset Types in Covered Pool

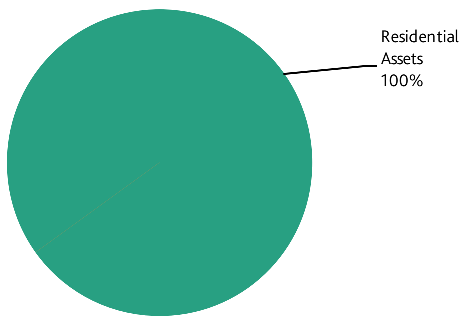


CHART C

Seasoning

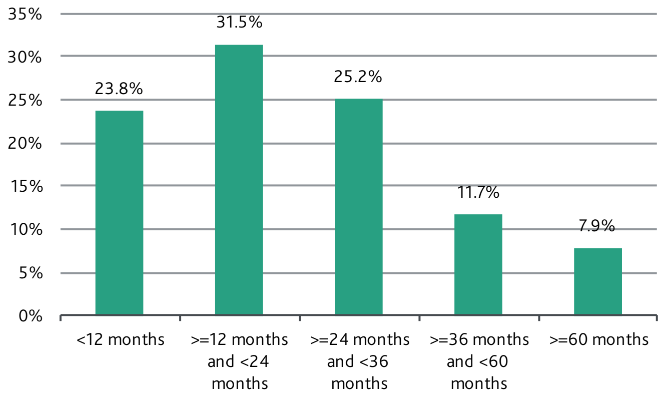


CHART D

Interest Rate Type

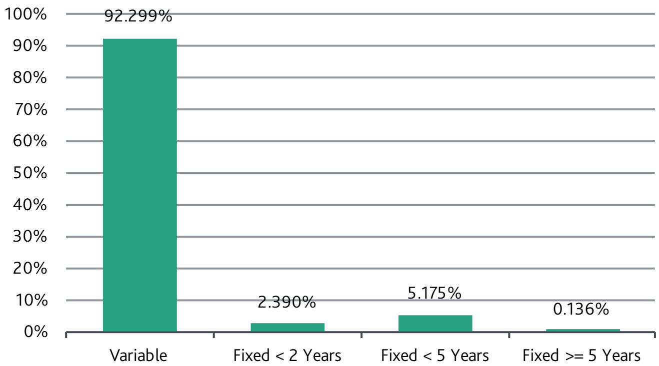
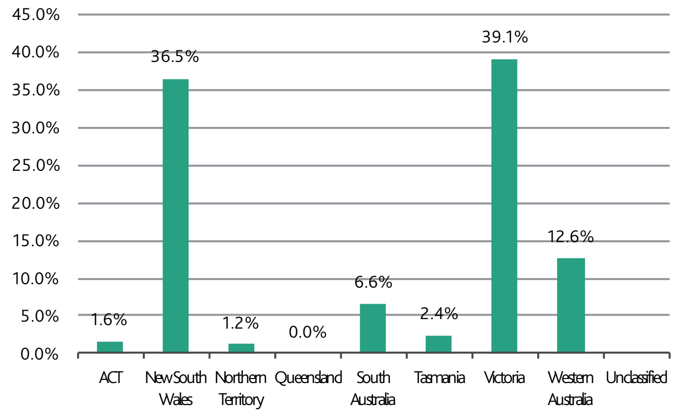


CHART E
Main Country Regional Distribution



Appendix 2: Income Underwriting and Valuation

1. Income Underwriting		
1.1	Is income always checked?	Yes, income verification is required for all borrowers.
1.2	Does this check ever rely on income stated by borrower ("limited income verification")?	No
1.3	Percentage of loans in Cover Pool that have limited income verification	Nil
1.4	If limited income verification loans are in the Cover Pool, describe what requirements lender has in place for these loans.	No limited income verification loans
1.5	Does income in all cases constrain the amount lent (for example through some form of Income Sufficiency Test ("IST").	Yes.
1.6	If not, what percentage of cases are exceptions.	None
For the purposes of any IST		
1.7	Is it confirmed income after tax is sufficient to cover both interest and principal.	Yes for all fixed and variable loans and Principal and Interest loans and interest only loans. In the case of interest only loans, the borrower's ability to repay is assessed on a principal and interest amortising basis after the end of the interest only period.
1.8	If so over what period is it assumed principal will be paid (typically on an annuity basis)? Any exceptions?	The maximum loan term is 30 years. However, a customer can choose a lower term subject to affordability being met over the period of repayments. For loans with an Interest Only period, the principle is amortised after expiry .
1.9	Does the age of the borrower constrain the period over which principal can be amortised?	Yes.
1.10	Are any stresses made to interest rates when carrying out the IST? If so when and for what type of products?	Yes, borrower's ability to repay the loan is assessed on a principal and interest amortising basis. The assessment is undertaken to determine if the borrower can sustain repayments at CBA Standard Variable Rate (SVR) currently set at 7.81% + 1.50%
1.11	Are all other debts of the borrower taken into account at point loan made?	Yes.
1.12	How are living expenses of the borrower calculated? And what is the stated maximum percentage of income (or income multiple if relevant) that will be relied on to cover debt payments. (specify if income is pre or post tax)	Currently living expenses are assumed through the Henderson Poverty Index methodology as published by the Melbourne Institute. CBA uses the net monthly cash position post tax to determine loan affordability instead of past methods of debt to income ratios.
Other comments		
2. Valuation		
2.1	Are valuations based on market or lending values?	Mortgage valuations are instructed to reflect market value. The definition of market value follow international valuation standards and is defined as the "estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.
2.2	Are all or the majority of valuations carried out by external (with no direct ownership link to any company in the Issuer group) valuers?	CBA uses an automated decisioning system known as VAS which follows a risk based approach to determine if an internal or external valuation is required. All external valuations are carried out by independent third parties.
2.3	How are valuations carried out where external valuer not used?	The bank relies on statistical assessments known as Automated Valuation Models (AVMs) to validate owner's estimates or purchase prices which are within an acceptable tolerance parameter. AVMs are prepared by independent third party providers.
2.4	What qualifications for external valuers require?	External valuers are required to be licensed in accordance with provisions of the relevant state and are also required to be members of the Australian Property Institute.
2.5	What qualifications do internal valuers require?	Not used
2.6	Do all external valuations include an internal inspection of a property?	Yes, with the exception of desktop valuations.
2.7	What exceptions?	Desktop valuations are assessed by external valuers. Desktop valuations do not require internal inspection of the property. Their use is limited to properties where there is high confidence of available data.
2.8	Do all internal valuations include an internal inspection of a property?	Internal valuers not used.
2.9	What exceptions?	Not applicable

[1] Issuer Event of Default includes, inter alia, non-payment of interest or principal by the Issuer, breach of asset Coverage Test, dissolution or winding up of the Issuer, or appointment of an administrator over the estate of the Issuer.

[2] Issuer Default may be defined as the removal from the Cover Pool of: (i) support provided by entities within the Issuer group, (ii) ancillary activities of the Issuer group (i.e. those not related to the Cover Pool) and (iii) usually, management functions of the Issuer.

[3] "Moody's Rating Approach to Covered Bonds", published in March 2010 (see Related Research).

[4] Please see Related Research: "Moody's Rating Approach to Covered Bonds", published in March 2010; Press Release: "Moody's announces update of covered bond refinance stresses following credit crisis", published in February 2008; and Press Release: "Moody's increases refinancing margins for European covered bonds", published in April 2009.

[5] The interest and currency stressed rates used over different time horizons are published in Moody's Rating Methodology (please see Related Research: "Moody's Rating Approach to Covered Bonds", published in March 2010).

» contacts continued from page 1

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