Presentation at the INSTO Australian Debt Capital Markets Conference by Michael Ullmer, Group Executive Institutional & Business Services

Title Slide: Raising Capital in a Changing Global Environment

- Good morning.
- I am delighted to be invited to present to you today on raising capital in a changing global environment.
- To provide a context to today's sessions, I will share some broad observations on the growth of the domestic market, current debt raising trends and Australian credits accessing offshore markets.

Slide 2: Disclaimer

The material that follows is a presentation of general background information about the Bank's activities current at the date of the presentation, 20 March 2003. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

Slide 3: Speaker's Notes

- Speaker's notes for this presentation are attached below each slide.
- To access them, you may need to save the slides in PowerPoint and view/print in "notes view."

Slide 4: Growth of the Domestic Corporate Bond Market

- The ability of Australian companies to raise capital via the Australian bond market has increased substantially through the ongoing development of the market.
- The decrease in government bond supply, the growth in managed funds and the demand for diversification and higher returns, have in large part been the drivers for the rapid development of this market.
- The chart illustrates the volume of overall public bond issuance for all classes of non government bonds (including asset backed securities) since 1998.
- Since the substantial increase from 1998 to 1999, the amount of new issuance has grown at approximately 8% to 9% per annum.
- It is encouraging to see the growth in market volume each year but one factor preventing larger volumes being achieved is the capacity of Australian borrowers to source funding from offshore markets. I will discuss this in greater detail shortly.
- After the rapid increase in the number of Kangaroo bonds accessing the Australian market, we have experienced a reduction in foreign entities issuing here over the past 18 months to 2 years. Kangaroo issues in 2002 accounted for less than 17% of overall bond issuance.
- Through CBA's coverage of foreign issuers, we continue to see a high level of foreign issuing interest in our market. However, it is difficult to achieve the funding targets of foreign issuers particularly given the recent decline in the basis swap advantage which is necessary to drive these transactions.

Slide 5: Australian Corporate Bond Issuance by Sector

- If we look at Australian corporate issuance by sector, new bond issuance in 2002 was dominated again by the asset backed sector consisting of residential mortgage backed and commercial mortgage backed securities shown in blue contributing almost 50%.
- The banking sector was also a major contributor accounting for 15%, with broad representation from the major and regional Banks and Australian subsidiaries of offshore Banks.
- AAA credit wrapped bonds accounted for 11%. An example was the A$1.5 billion issue by Southern Cross Airports Corporation to fund the acquisition of Sydney Airport.
- Other strong growth sectors to have emerged in recent years and continued to be sought after in 2002 amidst the turbulence in credit markets was the property trust sector representing 5% of issuance.
- Although we saw some extremely well received issues by household corporate names such as

Woolworths and Wesfarmers, issuance from the traditional corporate sector continued to remain underweight and accounted for only 7%.

Slide 6: Major Developments in the Australian Bond Market

- While the year on year volume of new issues has been steady, what is perhaps more encouraging are a number of major initiatives developing in the Australian market for both borrowers and investors. These include:

- Several of the banks developing off balance sheet Special Purpose Vehicles such as CBA's SHIELD and Deutsche Bank's SELECT, with the objective of re-packaging and tailoring securities to meet investors requirements in terms of credits, cashflows and currencies. The SPV's are providing investors with a greater variety of investment opportunities.
- Another initiative is the emergence of the public private partnerships as a funding strategy of governments to fund developments off balance sheet and provide institutional investors with longer dated securities supported by government cashflows. Transactions such as Spencer Street Railway Station in Melbourne and the NSW Department of Education are examples.

- Although Australian retail investors have traditionally not been large participants in fixed income products, the recent poor performance of equities is pushing investors toward hybrid bond products offering stable returns and capital protection. Through CommSec we are seeing greater volumes and demand for a wider variety of credits. New issue volumes in Reset Securities, Income Securities and Convertible Notes are approaching A$14 billion. A broad range of industries are raising funding from this sector including banks, insurance companies, food retailers and media companies.

Slide 7: CMBS – an Emerging Asset Class

- A new asset class to develop in the last two years has been commercial mortgage backed securities (CMBS). CMBS has created opportunities for property trusts that have not previously been able to obtain funding via the bond market. CMBS has adapted to the requirements of the market by offering enhanced credit features such as security over properties, over collateralisation and liquidity provisions.

- As the graph on the left indicates CMBS bond issues almost doubled in 2002 to A$5billion.

- Commonwealth Bank has been active in arranging CMBS issues for companies such as Centro, MCS, Investa and Australian Prime Property Fund.

- Other asset classes that are developing include 'non conforming' Residential Mortgage Backed Securities for mortgage companies such as the Bluestone Group.

Slide 8: US Traditional Private Placements

- Australasia's premier names such as BHP, Telstra, and the major banks have traditionally had a far greater capacity to source funding in the US, Europe and Asia. However, a recent development has been the surge in demand for lower rated and unrated Australian companies in the traditional US private placement market.

  Lower rated Australian borrowers have historically found the domestic capital markets closed to them, or at best offering relatively short dated maturities in small volumes. Now companies such as Caltex Australia, Boral, PBL and Contact Energy in New Zealand have the capacity to raise longer term fixed rate capital for tenors of 10 to 15 years in sizeable amounts of USD.

  The US private placement market is allowing these borrowers to diversify their funding for terms not available from Australian institutional investors or banks. US investors are willing to commit resources to undertake due diligence to ensure they fully understand the company before making an investment. Since the start of 2002 more than US$2.5bn has been delivered and with the anticipated pipeline for new transactions, domestic bond supply is being restricted further.

  The presentations following mine will address the workings of US private placements. In order to facilitate these transactions for Australian borrowers, a number of Australian banks are forming alliances with US banks. CBA's alliance with Merrill Lynch and NAB with Royal Bank of Scotland are examples. As lenders, the domestic banks clearly understand the credit and the US banks deliver the distribution capacity.

Slide 9: Australian Borrowers Benefit in Global Shift from Equities to Bonds

The negative performance in global share markets in recent times is well highlighted. However, what is worth drawing reference to is the positive impact the adverse share market performance has had on the flow of money into bonds.

If we can use the US as an example, the two charts on screen represent the flow of funds by US mutual investors between equities and government and corporate bonds.

The chart on the left represents the fund flows into equities shown by the red line and the flow into US treasuries shown by the blue line, since 1996, expressed in US$billions. The majority of funds were clearly flowing into equities from 1996 until late 1999 and early 2000. The flow into treasuries over this period was static to declining.

From early 2000 there is a complete reversal with funds rapidly departing equities and a large inflow into treasuries.

Not only has the flow of funds been towards US treasuries, the graph on the right shows that a significant proportion of funds is also departing equities and being allocated to corporate credit.

Slide 10: Increasing Demand for Australian Credit is Creating Offshore Borrowing Opportunities

The current global shift from equities to government and corporate bond assets in conjunction with the sound performance of the Australian economy has had a major impact on the debt raising trends of Australian borrowers. Australian borrowers are increasingly offered opportunities to diversify their sources of funding by tapping demand for their credit in offshore markets.

This chart shows the bond volumes issued by Australian borrowers in both offshore and domestic market in 2002 and year to date 2003. All volumes are expressed in Australian dollar terms.

The yellow bar on the far left highlights the volume issued offshore by Australian corporate credits including the banks and borrowers such as Telstra and BHP, which is the largest sector at approximately A$30 billion. This is substantially higher than the A$21 billion issued in Australia expressed in the red bar on the far right.

An increasing component of offshore issuance has been Australian dollar uridashi issuance into the Japanese retail market, open primarily to the highly rated Australian banks and the state governments. More than A$7 billion has been issued by Australian borrowers into Japan in the last 15 months highlighted by the blue bar.

Offshore demand for Australian residential mortgage backed securities continues to be strong allowing Australian mortgage entities to achieve larger volumes at competitive pricing. The volume issued offshore in the last 15 months shown by the green bar stands at a little over A$23 billion which is slightly higher than domestic RMBS issuance represented by the pink bar.

Slide 11: Commonwealth Bank Achieving Volume and Cost Benefits by Accessing Offshore Demand

Commonwealth Bank is an example of an Australian borrower that is capitalising on the offshore demand for its credit.

The Bank has a comprehensive liability management programme in place to ensure it has adequate, cost-effective funding sustainable in the long term to meet the ongoing liquidity needs of the Group, and to satisfy prudential requirements imposed by management.

The Bank's wholesale funding is well diversified between domestic and offshore and long term and short term. Currently Commonwealth Bank is sourcing approximately 70% of its wholesale funding from a variety of offshore markets including the US, Europe and Asia. The offshore markets provide the Bank with a high level of diversification and higher volumes at extremely competitive pricing.

The chart shows the split of wholesale funding for the bank including domestic and offshore sources. Total wholesale funding at December 2002 stood at A$48.9 billion. The major components of our offshore funding consist of 16% non-syndicated issues via our EMTN programme, securitisation which is predominantly offshore at 15% and short term borrowing via USCP and ECP comprising 23%.

Slide 12: Commonwealth Bank Accessing Offshore Markets: Issuing Highlights

Some of the highlights of our offshore funding include:

A USD 500 million FRN issued in June last year specifically targeted to Asian investors. Mainland China was a focus of the marketing effort and the placement of 25% of the issue into China indicates that funding avenues open to Australian borrowers are broadening.

CBA has capitalised on demand from the Japanese retail market, issuing in the order of A$2 billion of AUD denominated bonds over the last 3 years. These issues have been bought by 75,000 Japanese retail investors and this market is proving for us to be a very cost effective form of medium term AUD funding.

A major part of our funding strategy is to offer structured EMTN private placements to our Asian and European investor base. By committing funding executives in Sydney and London, we have gained a reputation for flexibility as an issuer and subsequently our paper is highly sought after by foreign investors. Despite aggressive funding targets, private placements are becoming an increasing part of our wholesale fund raising. We place more private placements than any other Australian borrower and we are currently ranked in the top 10 for the number of EMTN issues dealt in Europe.

Residential mortgage backed securitisations via our 'Medallion' global offerings have been an extremely successful part of CBA's funding. Since March 2000 we have completed 5 issues raising A$11 billion. Last week we priced our latest Medallion offering for US$1 billion with a 3 year weighted average life priced at 3 month USD libor + 19 basis points. The broad spread of Investors that participated in the transaction are domiciled in the US, Europe and Asia.

Our global Medallion offerings now form a large part of our funding platform and the rationale for going to the offshore markets is their ability to deliver larger volumes at pricing that is currently better than that offered domestically. Offshore investors have responded to CBA's willingness to offer sizeable transactions on a regular basis.

Slide 13: Title Slide: Commonwealth Bank

So, that is an overview of raising capital in a changing global environment. Increasingly, Australian credits are accessing offshore markets as investors want increased exposure to Australia and the general move away from equities to fixed income globally. At the same time, the Australian market is providing increasing opportunity for access by a broader range of Australian and International influences.