Debt Market Update

2014 in Review and Outlook for 2015

Seize the Initiative

Syndicated loan markets
Debt capital markets
Securitisation market
Equity capital market

Extract from 12th edition

CAN

IMPORTANT INFORMATION AND DISCLAIMER

This document was prepared by a member of Commonwealth Bank of Australia's (the Bank) trading or sales desk and is not a product of CBA's Global Markets Research.

The information contained in this document is made available for persons who are wholesale clients, sophisticated investors or professional investors as defined in the Corporations Act 2001.

This document is not to be construed as a solicitation or an offer to buy any securities or financial instruments. This document has been prepared without taking account of the objectives, financial situation (including the capacity to bear loss), knowledge, experience or needs of any specific person who may receive this article. All recipients should, before acting on the information in this report, consider the appropriateness and suitability of the information, having regard to their own objectives, financial situation and needs, and, if necessary seek the appropriate professional or financial advice regarding the content of this report. The information does not purport to be a complete statement or summary of a transaction.

Financial markets products have an element of risk. The level of risk varies depending on the product's specific attributes and how it is used. Potential investors should note that the product discussed is a sophisticated financial product which involves dealing in derivatives. Unless you are familiar with products of this type, this product may not be suitable for you. The Bank will enter into transactions on the understanding that the customer has: made his/her own independent decision to enter into the transaction; determined that the transaction is appropriate; ensured he/she has the knowledge to evaluate and capacity to accept the terms, conditions and risks; and is not relying on any communication from Commonwealth Bank as advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this article. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by the Bank or the wider Commonwealth Bank of Australia Group of Companies. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither the Bank nor any of its subsidiaries accept liability for any loss or damage arising out of the use of all or any part of this article. Any valuations, projections and forecasts contained are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Bank does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met. Past performance is not a reliable indicator of future performance.

The Bank has provided, provides, or seeks to provide, investment banking, capital markets and/or other services, including financial services, to the companies described in the article and their associates. All material presented in this article, unless specifically indicated otherwise, is under copyright to the Bank. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior written permission of the Bank. In the case of certain products, the Bank or one of its related bodies corporate is or may be the only market maker. The Bank, its agents, associates and clients have or have had long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in such interests or securities as principal or agent, including selling to or buying from clients on a principal basis and may engage in transactions in a manner inconsistent with this article.

Unless agreed separately, we do not charge any fees for any information provided in this presentation. You may be charged fees in relation to the financial products or other services the Bank provides, these are set out in the relevant Financial Services Guide (FSG) and relevant Product Disclosure Statements (PDS). Our employees receive a salary and do not receive any commissions or fees. However, they may be eligible for a bonus payment from us based on a number of factors relating to their overall performance during the year. These factors include the level of revenue they generate, meeting client service standards and reaching individual sales portfolio targets. Our employees may also receive benefits such as tickets to sporting and cultural events, corporate promotional merchandise and other similar benefits. If you have a complaint, the Bank's dispute resolution process can be accessed in Australia on phone number 132221 or internationally 61 2 98417000.

Produced by Commonwealth Bank of Australia ABN 48 123 123 124

In the UK: This document is made available in the UK only for persons who are Eligible Counterparties or Professional Clients, and not Retail Clients as defined by Financial Conduct Authority (FCA) rules. The Bank is registered in England No. BR250 and authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority as well as the Australian Prudential Regulation Authority (APRA) in Australia. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

In Singapore: The information in this brochure is made available only for persons who are Accredited Investors or Expert Investors in terms of the Singapore Securities and Futures Act. It has not been prepared for, and must not be distributed to or replicated in any form, to anyone who is not an Accredited Investor or Expert Investor. If you are an Accredited Investor or Expert Investor as defined in Regulation 2(1) of the Financial Advisers Regulations ("FAR"), the Bank is obliged to disclose to you that in the provision of any financial advisory services to you, we are exempted under Regulations 33, 34 and 35 of the FAR from complying with the business conduct provisions of sections 25 (Obligation to disclose product information to clients), 27 (Recommendations by licensees) and 36 (Disclosure of interests in securities) respectively, of the Financial Advisers Act ("FAA").

In Japan: This document is made available only for institutional customers. Commonwealth Bank of Australia, Tokyo Branch is a licensed banking business authorized by Japan Financial Services Agency.

In Hong Kong: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. The provision of this document to any person in Hong Kong does not constitute an offer of securities to that person or an invitation to that person to acquire, apply, or subscribe, for the issue of, or purchase, securities unless the recipient is a person to whom an offer of securities may be made in Hong Kong without the need for a prospectus under section 2 and the Seventeenth Schedule of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) ("Companies Ordinance") pursuant to the exemptions for offers in respect of which the minimum consideration payable by any person is not less than HK$500,000 or its equivalent in another currency. Neither this document nor any part of it is, and under no circumstances are they to be construed as, a prospectus (as defined in the Companies Ordinance) or an advertisement of securities in Hong Kong. The products have not been, nor will they be, qualified for sale to the public under applicable Hong Kong securities laws except on a basis that is exempt from the prospectus requirements of those securities laws. Minimum Investment Amount for Hong Kong Investors: HK$500,000

In the USA: The Bank is authorized to maintain a Federal branch by the Office of the Comptroller of the Currency. This document is made available for informational purposes only. The products described herein are not available to retail investors. NONE OF THE PRODUCTS DESCRIBED ARE DEPOSITS THAT ARE COVERED BY FDIC INSURANCE. This product is not suitable for investment by counterparties that are not "eligible contract participants" as defined in the U.S. Commodity Exchange Act ("CEA") and the regulations adopted thereunder; or (ii) entities that have any investors who are not "eligible contract participants." Each hedge fund or other investment vehicle that purchases the products must be operated by a registered commodity pool operator as defined under the CEA and the regulations adopted thereunder or a person who has qualified as being exempt from such registration requirement. CBA cannot execute swaps with any US person unless our counterparty has adhered to the ISDA Dodd Frank protocol.

Seize the initiative

The Commonwealth Bank of Australia is committed to enhancing our clients' success in both the Australasian and international debt markets. Our market-leading capabilities enable us to provide unique insights into the global debt markets.

We are pleased to provide the 12th issue of our annual Debt Market Update giving our predictions for 2015 together with a comprehensive overview of the events that shaped the syndicated loan, bond and securitisation markets in 2014.

The title of this year's edition, Seize the Initiative, reflects how we believe our clients can continue to capitalise upon the successful loan financing, project financing and new issuances that resulted from the attractive market conditions in 2014 by seizing the funding opportunities that we believe will continue to be available to astute borrowers in 2015. Australasian corporates and banks are still well positioned to take the initiative, with strong balance sheets supported by a relatively robust domestic economy.

Outlook for 2015

Looking ahead, the early signs for the fixed income and loan markets in 2015 are relatively positive albeit with a marked increase in volatility. We believe quantitative easing (QE) will continue to drive liquidity and demand for assets and, in the absence of any large market shocks, the loan and debt capital markets in 2015 should offer borrowers attractive execution opportunities in size and at relatively tight spreads. Ongoing strong underwriting and hold appetites from banks are anticipated to be a key factor in the loan market and, as a consequence, loan pricing is expected to remain tight.

The World Bank has recently downgraded its forecast for global economic growth to three per cent and there would appear to be plenty to worry about, with concerns ranging from volatility in commodity and oil prices, European economic and political uncertainty, Russian posturing, unknowns around QE and an Asian slowdown, to name but a few. Indeed, some of these factors have already resulted in a modest early-year widening in credit spreads. We believe given this uncertain global backdrop the debt markets have the potential to experience periods of increased volatility over 2015. This may result in market conditions that will favour borrowers who have diversified their funding base and who can react with flexibility both in terms of timing and choice of markets when planning and executing their funding strategies to achieve the most efficient outcome.

A positive for our local market is that domestic mergers and acquisitions (M&A) activity is expected to continue its modest growth, while inbound M&A activity is anticipated to be the largest driver of volume in this area. The pipeline of privatisations for key infrastructure assets, including power transmission and distribution assets in Queensland and NSW, should keep market participants busy throughout the year, with bids anticipated from strong onshore and offshore consortiums.

2014 Themes

Strong Liquidity

In last year's edition of the Debt Market Update, Right Place, Right Time, we predicted that 2014 would be a year of strong liquidity for corporate and bank borrowers and this proved to be the case.

Borrowers across Australia and New Zealand did take advantage of accessible debt funding markets, with many capitalising on positive conditions by accessing a range of different markets numerous times during the year. The strong liquidity seen across all debt markets also enabled borrowers in 2014 to negotiate favourable terms and conditions, while contracting margins and continued low interest rates led to significant reductions in their costs of debt capital. It is interesting to note that while corporate activity grew, project financing remained the key driver of new volumes in both the syndicated loan market and the debt capital markets – total volume of Australian project finance (PF) debt financing was US$26.5 billion in 2014 compared to US$5.14 billion in 2013.

Diversification for flexibility

Funding diversification was another key theme of 2014, with borrowers targeting the A$ Medium Term Note (MTN) market where total 2014 bond issuance was A$119.4 billion and the US Private Placement (USPP) market where the total Australian and New Zealand borrower USPP issuance was US$7 billion reaching total issuance of US$54 billion). Several major borrowers did look to the US and European bond markets for larger benchmark transactions of more than US$500 million to meet their diversification requirements resulting in Australian banks and corporates raising A$80.2 billion equivalent in the Euro and US$ Rule 144a markets over 2014.

"The loan and debt capital markets in 2015 should offer borrowers attractive execution opportunities in size and at relatively tight spreads."

Equity Markets

Volatility was a dominant trend for equity market investors in 2014. The S&P/ASX 200 finished the year one per cent up on 2013, but, to put this in context, at one stage the index was up five per cent before retreating to lower levels in the second half of the year. Despite market volatility, volumes in the Australian equity capital markets flourished, led by the strongest initial public offering (IPO) volumes in a decade. The government-owned health insurer, Medibank Private, was floated and was the largest such transaction in Australia since Telstra's debut 17 years ago. It came to the market at the end of the year, raising $5,679 million in the world's third-biggest IPO for 2014.

Securitisation Market

The securitisation markets had their strongest year since 2007, with record issuance volumes and pricing levels. Commonwealth Bank finished the year as number one in the KangaNews Securitisation League Tables – including self-led deals – and we also won the KangaNews 2014 Australian Securitisation Deal of the Year for the A$4 billion Medallion Trust 2014-2 deal.

A$ Bond Issuance Volumes

Deal flow was seen across all sectors of the A$ bond market, with both supranational borrowing authorities and international financial institutions contributing 40 per cent of activity to the market, and domestic banks making up the other major borrower group, accounting for 27 percent of total issuance. Corporate issuances were relatively low, at seven percent of issuance, but this was more due to lack of supply than any demand shortfall. The average maturity of issuance in the domestic bond market also lengthened with a regular supply of seven-year and longer deals (the weighted average market duration increased from 6.8 years to 7.4 years).

Syndicated Loan Volumes

The syndicate loan market volumes were up 19 per cent on last year, driven by a number of large refinancing and major PF transactions, including Origin Energy's A$7,400 million amend and extend, and large acquisitions for Queensland Motorway and Queensland Curtis LNG pipeline. Borrowers raising funds in the market recorded the highest volumes in the transport, services and equipment, and energy and power sectors.

Overall Australian domestic funding volumes raised US$109.2 billion in syndicated loans, A$119.4 billion in domestic bond and A$32.3 billion in residential mortgage-backed security (RMBS) markets which mirrored the global trend as 2014 being a record year for issuance.

Economic Conditions in 2014

In last year's Right Place, Right Time, we predicted that corporate entities would prepare for softer economic conditions by cutting costs, deferring projects and curbing expansion plans, and this was the case in 2014. A downward trend in the resources sector was exacerbated by a sharp fall in the price of oil to below US$50 a barrel, a price decline that also impacted the oil and gas sector.

The subdued economic conditions meant that Australian interest rates remained at 60-year lows, despite rising dwelling prices and an improving property construction outlook. In terms of the currency, the Australian dollar moved sharply lower towards the end of the year, losing ground against the greenback to end the year at US$0.81. It is worth noting that the weaker currency and the diminished A$ interest differential might have an impact on the offshore appetite for A$ assets as the year moves on.

Adding to what was an already a volatile year, there was heightened geopolitical risk associated with Russia and Ukraine, and continued concern about the European economic outlook. Without doubt, 2014 had some bumps in the road and, as outlined in our predictions for 2015, conditions could become increasingly volatile as 2015 progresses, providing motivation for issuers to seize the initiative and capitalise on current good conditions.

We hope you enjoy the insights in this report and it encourages you to "seize the initiative" to review your current and potential financing for 2015 and allow us to assist you in providing specialist input to your own unique financing requirements. We wish all our clients a prosperous year in 2015 and thank you for working with us. As always, we welcome your feedback and comments, and look forward to assisting you with your next capital raising.

Simon Ling
Head of Debt Markets Origination
Commonwealth Bank

Outlook for 2015: Seize the opportunity

Momentum across the market into 2015 is continuing to build with all funding markets open for business. Strong growth is anticipated across debt markets given liquidity is strong, margins are low, corporate balance sheets are strong and economic conditions globally are generally improving.

Refinancing is expected to remain a key driver of activity in 2015 with Australasian corporates having nearly A$70 billion in maturities across the loan markets and debt capital markets still be to refinanced. With all markets functioning well, this task is expected to be easily met with the focus from the market already on upcoming maturities in 2016 (A$110 billion).

Domestic M&A activity across the broader market is expected to increase. Globally, we have already started to see this dynamic with 2014 witnessing the return of the mega deal (greater than US$10 billion) in the US and Europe in particular. More than US$2.9 trillion of merger agreements were struck globally in 2014, buoyed by:

- record low interest rates
- strong balance sheets
- supportive equity markets
- low organic growth prospects
- increasing shareholder activism
- an improved economic outlook and confidence.

With all these factors prevalent in the Australasian market, corporates are well positioned to execute growth strategies with the debt markets ready and willing to support activity. These factors are also expected to benefit leveraged finance activity and when combined with recent fund raisings for a number of large funds, there is plenty of cash to put to work.

The light at the end of the tunnel for the majority of market participants is the upcoming privatisation of the NSW Government's electricity assets. With valuations expected to top A$30 billion, more than A$20 billion of debt is expected to be raised to support the acquisitions. The debt is likely to be distributed across a range of domestic and international debt markets, providing significant volumes for market participants for the next 18 months.

Project finance is expected to continue to provide a steady stream of deals, with PPPs set to fill the void of the mega oil and gas and mining project finance deals, driven by ongoing credit rating pressure on many of the state governments. The completion of several of the recent oil and gas projects is also expected to generate further activity across the market, with the Papua New Guinea LNG plant and Queensland coal seam gas projects all expected to come online during 2015.

The well-worn path of Australasian corporates to international debt capital markets is expected to continue unabated in 2015, with the USPP and Euro MTN markets in particular providing strong execution outcomes through the cycle, as well as significant depth and liquidity. The pipeline for both of these markets looks strong and is expected to be further bolstered as more and more corporates seek funding diversification and increased certainty.

After a strong finish to 2014, the outlook for the domestic A$ and NZ$ MTN markets heading further into 2015 is positive, with low interest rates attracting corporates looking for diversity without the need to execute cross-currency swaps.

The market is expected to open solidly with regular issuers and several of the property REITS having maturities in the first half. These deals are expected to set a strong platform for the rest of the year if they are executed in the domestic markets. Corporates that are able to retain flexibility in their execution processes are expected to achieve the best outcomes in 2015, with volatility in the global macroeconomic environment expected throughout 2015.

Commonwealth Bank of Australia looks forward to supporting our clients' debt-raising initiatives in 2015 and providing execution certainty.

Who can look after the big deals?

CommBank Can.

Our loan market specialists can arrange and manage complex deals involving multiple parties and jurisdictions. We can develop innovative financing structures tailored to your requirements.

Backed by rich analytics, a global network of experts and a deep commitment to high-quality service, we'll help you realise your ambitions.

origin
A$7,400 million
Syndicated Facility
Mandated Lead Arranger and Bookrunner
December 2014

recall – Your Information. Securely Managed.
US$1,050 million
Syndicated Facility
Mandated Lead Arranger and Bookrunner
October 2014

M2 GROUP
$A362.5 million
Syndicated Facility
Mandated Lead Arranger and Bookrunner
October 2014

AERO-CARE Flight Support
A$110 million
Syndicated Facility
Mandated Lead Arranger and Bookrunner
August 2014

WOOLWORTHS LIMITED A.C.N. 000 014 675 A.B.N. 88 000 014 675
A$400 million
Syndicated Facility
Guarantee Facility
Mandated Lead Arranger and Bookrunner
August 2014

ANGLOGOLDASHANTI AUSTRALIA
A$500 million
Syndicated Facility
Mandated Lead Arranger and Bookrunner
August 2014

Sun Group Financing
A$1,900 million
Syndicated Facility
Mandated Lead Arranger and Bookrunner
July 2014

IT'S HOW WE CONNECT
A$1,500 million
Syndicated Facility
Mandated Lead Arranger and Bookrunner
July 2014

Kiwi Property
NZ$875 million
Syndicated Facility
Mandated Lead Arranger and Bookrunner
June 2014

Find out how we can change the game for you.
Contact Simon Ling on +61 2 9118 6463
or visit commbank.com.au/debtmarkets

Contacts.

Head of Debt Markets
Simon Ling
+61 2 9118 6463

Debt Capital Markets
Rob Kenna
+61 2 9118 1219

Corporate
Tabitha Chang
+61 2 9118 1225
Simon Quinnell
+61 2 9118 4158
Penny Schubach
+61 2 9118 1226
Hugh Wallace
+61 2 9118 3204

Financial Institutions
Daniel Cassels
+61 2 9118 1217
Danielle Lavars
+61 2 9118 1221
Alexa Licurse
+61 2 9303 1465

Retail Fixed Income
Truong Le
+61 2 9118 1205

Sovereign and Supras
James Hammermaster
+61 2 9117 0045
Vina Phengsavanh
+61 2 9117 0031

Europe
Jan Keller
+44 20 7710 3626
Katherine Chan
+44 20 7710 3959
Andrew Murray
+44 20 7710 5611

New Zealand
Simon Rutz
+64 9337 4924

USPP
Mark Wang
+1 212 848 9308
Amy Lung
+1 212 848 9341
Hilary Ward
+1 212 848 9373
Adam Terranova
+1 212 848 9205

Debt Markets Securitisation
Rob Verlander
+ 61 2 9118 1228
Justin Mineeff
+61 2 9118 1234
Ernest Biasi
+61 2 9118 1235
Cullen Hughes
+ 61 2 9117 1427
Sophie Gilder
+61 2 9303 1967
Sally Ng
+ 61 2 9118 1232
Warren Barnes
+ 61 2 9118 1238
Andrew Cunningham
+61 2 9118 1222
Elizabeth Lonell
+61 2 9118 1237
Hayden Went
+61 2 9118 1223
Richard Kouch
+61 2 9118 6322
Paulina Ting
+61 2 9115 9430
Tom Lee
+61 2 9280 8556
Mark Allen
+61 2 9118 1239
Peter Zhao
+61 2 9118 1229
John Bakhos
+61 2 9118 1367

Loan Markets & Syndications
Loretta Venten
+61 3 9675 7389

Melbourne
Tony Long
+61 3 9675 7856
Dzung Tran
+61 3 9675 7284

Sydney
Sean Sykes
+61 2 9118 4156
Angus Jackson
+61 2 9118 4154
Tim Bates
+61 2 9117 1099
Grazia Zappia
+61 2 9118 4285
Gordon Soo
+61 2 9118 5890
Phoebe Dunn
+61 2 9280 8411

Hong Kong
Elizabeth Luk*
+852 2844 7502
Ninghong Xie*
+852 2844 7567

London
Andrew Powderly*
+44 20 7710 3984
William Ho*
+44 20 7710 6144

Acquisition & Leverage Finance
John Whelan
+61 2 9118 4164
Kellie Rogers
+61 2 9118 4163
Stephen Dipsellas
+61 2 9118 4165
Jackson Carmichael
+61 2 9303 1110
Arif Tan
+61 2 9118 4162
Andrew Davis
+61 2 9118 4166
Kevin Lee
+61 2 9118 4167

Institutional Lending
Sydney
Joanna White
+61 2 9303 1783
Clare Morgan
+61 2 9118 6596
Paul Keys
+61 2 9303 8191
David Sim
+61 2 9118 4159
Greg Davis
+61 2 9118 4155
Chris Dirckze
+61 2 9118 4062
Lynette Underwood
+61 2 9118 4159
Chris Li
+61 2 9303 1264

Melbourne
Damian Mosca
+61 3 9675 7428
David Champion
+61 3 9675 6313
Onur Karatmanli
+61 3 9675 6329

Agency
Sydney
Garry Armsworth
+61 2 9118 4177
Martin Mood
+61 2 9118 4179
Steven Furlong
+61 2 9118 4322
Anne McLeod
+61 2 9303 8136
Brett Halls
+61 2 9117 1425
Tom Oreskovic
+61 2 9118 7373
Colleen Chiu
+61 2 9118 1128
Kurtis Leabon
+61 2 9118 4173
Tania Stotski
+61 2 9118 7945
Juanita Hodges
+61 2 9151 8676

Melbourne
Tony Di Paolo
+61 3 9675 7437
Aaron Lind
+61 3 9675 7256

* Also report into Corporate & Commercial Lending