

WHAT YOU NEED TO KNOW

Cap Advantage



Product Information Document*

Issue date: 12 June 2008

Issued by:

Commonwealth Bank of Australia ABN 48 123 123 124
AFSL 234945

You should read all sections of this Product Information Document and all other relevant documents before making a decision to acquire this financial product

* Please note that this product is not regulated under the Corporations Act 2001.

CommonwealthBank



Contents

GENERAL INFORMATION	2	Variations to rollover dates	7
Features at a glance	2	Early termination	7
Purpose of a Product Information Document (PID)	3	What are the costs involved in Cap transactions?	8
What is a Cap Advantage (Cap) transaction?	3	Fees and charges	8
Uses of Cap transactions	4	Are there any tax implications that you should be aware of?	8
Determining the agreement fee	4	What if you have a complaint?	8
Example of how a Cap transaction works	5	Customer information and privacy	8
What are the significant benefits of a Cap transaction?	5	DEFINITIONS	11
What are the significant disadvantages of a Cap transaction?	6		
What are the significant risks of a Cap transaction?	6		
Entering and settling Cap transactions	7		
Transaction characteristics	7		
Entering a Cap transaction	7		
Cap documentation	7		
Settling a Cap transaction	7		

General Information

Features at a glance

Significant benefits	Provides protection against adverse interest rate movements whilst also providing the potential to benefit from favourable interest rate movements.
Significant risks	There may be some operational risk, market risk and credit risk.
Minimum transaction amount	Australian dollars (AUD) 500,000.
Terms	30 days to 7 years. Longer terms may be available on request.
Costs	See Section “What are the costs involved in Cap transactions” on page 8.
Maturity date and rollover dates	<i>Maturity date and rollover dates</i> , once agreed, cannot be varied.
Early termination	You will be liable for any unpaid <i>agreement fee</i> and may be liable for any losses, costs and expenses which the Bank may incur as a result of termination.

This is a sophisticated financial product, which involves dealing in interest rates. The information in this Product Information Document (PID) does not take into account your personal objectives, financial situation and needs. Before transacting in this product you should be satisfied that this product is suitable for you in view of those objectives, and your financial situation and needs, and we recommend that you consult your investment adviser or obtain other independent advice. Unless you are familiar with interest rate dealings and products of this type, the product may not be suitable for you.

The information in this PID is subject to change from time to time and is up to date as at the date stated on the cover. Where the new information is materially adverse information, the Bank will either notify you or issue a new PID or a supplementary PID setting out the updated information. Where the new information is not materially adverse information, we will not issue a new PID or supplementary PID to you, but you will be able to find the updated information on our web site commbank.com.au or you can call **13 2221**. If you ask us to, we will send you a paper copy of the information.

Purpose of a Product Information Document (PID)

A PID aims to provide you with enough information to help you decide whether the product will meet your needs. It also helps you to compare the product with others you may be considering.

This PID provides information about a **Cap Advantage** (Cap). If you decide to enter a Cap transaction, you should keep this PID and all other documentation relating to your Cap transaction for future reference.

If you have any questions or wish to contact us, call **13 2221** between 8am and 8pm, Monday to Friday, visit our web site at **commbank.com.au**, call into any branch of Commonwealth Bank of Australia (the Bank) or contact your relationship manager.

To assist you in understanding this PID, the definitions of some words are provided in the “Definitions” section on page 10. When used in this PID, these words usually appear in italics.

What is a Cap Advantage (Cap) transaction?

A Cap transaction is an agreement between you and the Bank where, in exchange for the payment of an *agreement fee* by you to the Bank, the Bank will protect the applicable interest rate under your *variable rate bill facility* at a specified *maximum rate*.

A Cap transaction acts as an amendment to the terms and conditions of your *variable rate bill facility* that you conduct with the Bank. It simply establishes a *maximum rate* that will apply to a specified *face value of bills* on specified *rollover dates*. Your *variable rate bill facility* will continue to be governed by the terms and conditions set out in your facility agreement.

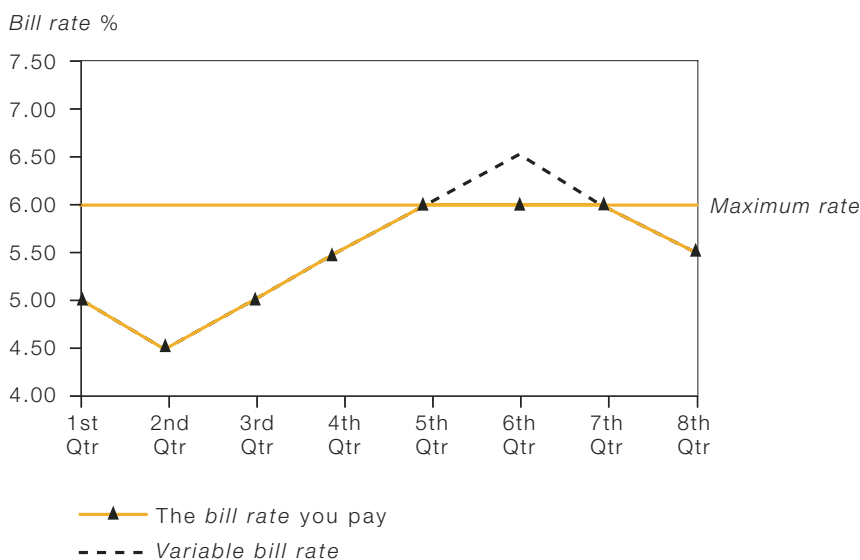
A Cap transaction allows you to specify:

- the *maximum rate* you require. This is your level of interest rate protection;
- the *rollover dates* and *maturity date* you require. These are the dates that *bills* will be drawn or *rolled over* under your *variable rate bill facility* (for example, you could draw/*roll bills* on a 30, 60 or 90 day basis); and
- the *face value of bills* that apply to each *rollover date*.

The *reference rate* to be used is also set at the beginning of the Cap transaction. An example is the *bill rate*. Other *reference rates* may be available on request. In this PID the *reference rate* will be the *bill rate*.

At each *rollover date* of a Cap transaction:

- if the *reference rate* is equal to or above the *maximum rate* you can draw or *rollover bills* under your *variable rate bill facility* at the *maximum rate*; or
- if the *reference rate* is below the *maximum rate* you can draw or *rollover bills* under your *variable rate bill facility* at the *reference rate*.



In exchange for receiving the Cap transaction, you must pay the Bank an *agreement fee*. The *agreement fee* is usually payable on the date you enter a Cap transaction. Subject to approval by the Bank, the *agreement fee* can also be paid over the term of the Cap transaction on agreed future dates; however, this will incur an extra cost to you. The full amount of the *agreement fee* is always payable even if the Cap transaction is terminated prior to its scheduled *maturity date*. No part of the *agreement fee* paid by you is refundable in any circumstances.

Details of current interest rates that apply to *variable rate bill facilities* as well as *agreement fees* are available on request from your relationship manager or any branch of the Bank.

Cap transactions are subject to the standard credit approval process employed by the Bank.

Uses of Cap transactions

Cap transactions may be useful for borrowers who are seeking protection against adverse interest rate movements but would like the potential to benefit from favourable interest rate movements.

Determining the agreement fee

You will specify to the Bank the *maximum rate* you require, being your level of interest rate protection, the *rollover dates*, the *face value of bills* and *maturity date* (see “Entering and settling Cap transactions” on page 7 of this PID).

The Bank will calculate the *agreement fee* by taking the following factors into account:

- the *maximum rate*;
- the *face value of bills*;
- the *rollover dates*;
- the *maturity date*;
- a *volatility factor*;
- the *fixed bill rate*;
- an allowance for the Bank’s costs, both fixed and variable; and
- the Bank’s profit margin.

Example of how a Cap transaction works

You are a borrower with a 3 year *variable rate bill facility* for \$1,000,000 with quarterly *rollover dates*.

The *variable bill rate* is 5.00% per annum. A rise in the *variable bill rate* would mean you would have to pay more interest on your borrowing so you are seeking protection against a rise in the *variable bill rate*. You would also like the potential to benefit if the *variable bill rate* falls.

You would like a *maximum rate* at 6.00% per annum to protect you against any rise in the *variable bill rate* above 6.00% per annum.

The *reference rate* will be the *bill rate*.

Assume the following

<i>Face value of bills</i>	\$1,000,000
<i>Maximum rate</i> (specified by you)	6.00% per annum
<i>Maturity date</i>	3 years from the <i>deal date</i>
<i>Rollover dates</i>	Quarterly
<i>Agreement fee</i> (calculated by the Bank)	\$6,510

Possible outcomes on each *rollover date*

Interest rate achieved* (excluding the *agreement fee*)

If the *bill rate* is higher than the *maximum rate*, you can *roll bills* under your *variable rate bill facility* to mature on the next *rollover date* or *maturity date* (in the case of the last rollover period), at the *maximum rate* of 6.00% per annum.

6.00% per annum

If the *bill rate* is equal to or lower than the *maximum rate*, you and the Bank will have no further obligations to each other in respect of this Cap transaction for that *rollover date* except for any *agreement fee* that is payable.

**Equal to or lower than
6.00% per annum**

The result will be that you can *roll bills* under your *variable rate bill facility*, to mature on the next *rollover date* or *maturity date* (in the case of the last rollover period) at a *bill rate* that is equal to or lower than the *maximum rate*.

For example, if the *bill rate* is trading at 5.00% per annum you can draw *bills* at 5.00% per annum.

*The example used is for illustrative purposes only and does not reflect current market prices, values or outcomes.

Issues to consider

In setting your *maximum rate* there are various issues you need to consider. Using this example, these can be summarised as follows:

- a lower *maximum rate* means your exposure to a rising *variable bill rate* is reduced, however, it also means that the *agreement fee* will be higher; and
- a higher *maximum rate* means your exposure to a rising *variable bill rate* is increased, however, it also means the *agreement fee* will be lower.

What are the significant benefits of a Cap transaction?

Benefits include:

- provides interest rate protection via a *maximum rate*;
- provides you with the potential to benefit from favourable interest rate movements;
- allows you to choose the *maximum rate* you require;
- the term can be equal to or less than the term of your *variable rate bill facility*; and
- provides the flexibility for you to make additional payments under your *variable rate bill facility*.

What are the significant disadvantages of a Cap transaction?

Disadvantages include:

- you must pay the *agreement fee* to the Bank on the *deal date* or by instalments on agreed future dates subject to approval by the Bank;
- the *agreement fee* is not refundable in any circumstances;
- a Cap transaction may be of no value to you on a particular *rollover date*, if the *reference rate* is more favourable to you than the *maximum rate*, resulting in the *agreement fee* being an additional cost to you;
- you will be exposed to interest rate movements if the term of the Cap transaction is less than the term of your *variable rate bill facility*;
- to maintain protection via the *maximum rate*, the *rollover dates* for your *variable rate bill facility* and Cap transaction must be the same; and
- you may incur a cost if the Cap transaction is terminated early (prior to the *maturity date*).

What are the significant risks of a Cap transaction?

Risks derive from factors that are beyond your control. Starting from the time at which you enter into a Cap transaction with the Bank, risk factors may lead to changes in the financial outcomes that are unfavourable to you. Monitoring any risks associated with this product is your responsibility (subject to the responsibility of the Bank for its own operational processes, see “Operational Risk” on this page).

Market risk

In Cap transactions, the key market risk to you is that you do not receive any benefit (apart from the protection of the *maximum rate*) after you enter into a Cap transaction with the Bank. This will occur if the Cap transaction is of no value to you on a particular *rollover date* because the *reference rate* is more favourable to you than the *maximum rate*.

Early termination of a Cap transaction may result in you paying more than the *maximum rate*. Additionally, you may also risk paying more than you would have if no agreement had been entered into at all.

Credit risk

Credit risk is common to all financial markets products that you may hold with the Bank. In all cases, you are reliant on the ability of the Bank to meet its obligations to you under the terms of each Cap transaction. This risk is sometimes described as “counterparty risk”.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events.

You are reliant on the ability of the Bank to price and settle your transaction in a timely and accurate manner. The Bank in turn is dependent on the reliability of its own operational processes that include communications, computers and computer networks. Disruptions in the Bank's processes may lead to delays in the execution, settlement or determination of the price of your Cap transaction. If for any reason the *bill rate* cannot be determined, the relevant price will be determined by the Bank acting in good faith. Such disruptions may result in outcomes that are less favourable to you.

However, once you have entered into the Cap transaction, the management of risks associated with its own operational processes is the responsibility of the Bank.

The risks described here may not include all risk considerations that may be relevant to you when entering into a Cap transaction. Please also refer to the Section “What are the significant disadvantages of a Cap transaction?” on this page. Before transacting in this product you should be satisfied that this product is suitable for you. We recommend that you consult your investment adviser or obtain other independent advice.

Legal risk

Australia, as a member state of the United Nations, is obliged to implement United Nations Security Council sanctions. Australia also may be required to implement other international sanctions and sometimes imposes unilateral sanctions. Sanctions can cover various subject matters including financial restrictions. Consequently, the Bank may be prohibited from dealing with certain persons or entities.

This means that if the Bank is aware that you are a proscribed person or entity, then the Bank may be required to suspend, cancel or refuse you services or close or terminate any account, facility, transaction, arrangement or agreement with you. We may also be required to freeze your assets. You could incur significant costs as a result of these actions.

Entering and settling Cap transactions

Transaction characteristics

The minimum transaction amount of a Cap transaction is Australian dollars (AUD) 500,000 and terms from 30 days to 7 years are available. Longer terms may be available on request.

Entering a Cap transaction

Following credit approval by the Bank and your executing a *variable rate bill facility* with the Bank, you may enter into a Cap transaction.

The next steps are:

1. You contact the Bank and ask for a Cap transaction quote for specified *face value of bills*, *rollover dates* and *maturity date*. You will specify to the Bank the *maximum rate* you require before the Bank can offer you a Cap transaction.
2. The Bank will calculate the *agreement fee*. If the Bank offers you a Cap transaction, and if you accept the offer (which can be done verbally), a Cap transaction is entered into between you and the Bank. All telephone conversations between you and the Bank may be recorded.
3. The Bank will send you a Cap Advantage Agreement setting out the details of your Cap transaction. You must sign and return this agreement to the Bank. Please note that the Cap transaction is enforceable from the time of your verbal acceptance of the offer.

Cap documentation

The Cap documentation comprises a Cap Advantage Agreement that sets out in full the amendments to your *variable rate bill facility*. Samples of the agreement can be obtained from your relationship manager or any branch of the Bank on request.

It is important that you check the Cap Advantage Agreement to make sure that it accurately sets out the amendments to your *variable rate bill facility*. In the event of a discrepancy, you must contact your relationship manager or any branch of the Bank within 3 *business days*.

Settling a Cap transaction

Subject to the amendments set out in the Cap Advantage Agreement, the actual rate the Bank will apply to its purchase of *bills* subject to the Cap Advantage Agreement will be the lower of the *maximum rate* or the *reference rate*.

Variations to rollover dates

Variations to *rollover dates* are not available. However, you may elect to drawdown or *rollover bills* under your *variable rate bill facility* having terms commencing or maturing on dates other than those shown in the *Drawdown/Rollover Schedule*. The Cap transaction and the *maximum rate* will not apply to such *bills*: they will be drawn or *rolled over* at the *reference rate*. If, on *rollover* of any such *bills*, compliance with the *Drawdown/Rollover Schedule* is re-established, the Cap transaction will be applicable in its terms. Any unpaid *agreement fee*, however, is payable by you on each *agreement fee payment date* regardless of whether or not you elect to drawdown or *rollover bills* on those dates.

Early termination

A Cap transaction may be terminated prior to the *maturity date* either:

- by agreement between you and the Bank; or
- as set out in the Cap Advantage Agreement.

At termination the Bank will calculate the amount, if any, required to compensate the Bank for any losses, costs (including, without limitation, cost of funding) and expenses (including, without limitation, any reasonable out of pocket expenses) which the Bank may incur as a result of termination. You must pay such amount to the Bank. The Bank will notify you as soon as practicable after making this calculation.

All unpaid *agreement fees*, including those occurring after the date of termination, will be immediately due and payable by you. No part of any *agreement fee* paid by you is refundable in any circumstances.

What are the costs involved in Cap transactions?

Fees and charges

There are no fees and charges for entering into a Cap transaction except for the *agreement fee*. "Determining the agreement fee" on page 4 sets out the factors the Bank takes into account in order to calculate the *agreement fee*.

The Cap transaction does not take into account any fees and margins payable in respect of your underlying *variable rate bill facility*.

There may be a cost if the Cap transaction is terminated early. (See "Early termination" on page 7 of this PID.)

Your Cap transaction may also be subject to government taxes and duties (if any). These may vary from State to State.

Are there any tax implications that you should be aware of?

Cap transactions may have tax implications. These can be complex and are invariably specific to your circumstances. Therefore, you should discuss any taxation issues with an independent tax adviser before entering into a Cap transaction.

What if you have a complaint?

Please contact your relationship manager or the manager of the department that handled the matter and explain the problem.

Our staff will review the situation and, if possible, resolve it immediately. If the matter has not been resolved to your satisfaction, please contact our Customer Relations team via:

- our web site at:
commbank.com.au/contactus/comment.asp;
- telephone **1800 805 605**;
- facsimile **1800 028 542**; or
- writing to:
Customer Relations
Commonwealth Bank
Reply Paid 41
Sydney NSW 2001

If after giving us the opportunity to resolve your complaint, you feel we have not resolved it satisfactorily, you may also lodge a written complaint with the Banking and Financial Services Ombudsman at:

GPO Box 3
Melbourne Victoria 3001

telephone **03 9613 7333**;

toll free **1300 780 808**;

facsimile **03 9613 7345**;

web site **www.bfso.org.au**.

Customer information and privacy

Collection and verification of customer information

"Customer information" is information about a customer. It includes personal information.

The law requires us to identify our customers. We do this by collecting and verifying information about you. We may also collect and verify information about persons who act on your behalf. The collection and verification of information helps to protect against identity theft, money-laundering and other illegal activities.

We use your customer information to manage our relationship with you, provide you with the products and services you request and also tell you about the products and services offered by the Commonwealth Bank Group ("Group"), affiliated providers and external providers for whom we act as agent. If you have given us your electronic contact details, we may provide marketing information to you electronically.

The collection and verification of customer information may be carried out in different ways and we will advise you of the most acceptable methods of doing this. We may disclose your customer information in carrying out verification – e.g. we may refer to public records to verify information and documentation, or we may verify with an employer that the information you have given us is accurate.

Depending on whether you are an individual or an organisation, the information we collect will vary. For instance, if you are an individual, the type of information we may collect and verify includes your full name, date of birth and residential address. If you are commonly known by 2 or more different names, you must give us full details of your other name or names.

For instance, if you are a company, we may collect and verify information, including company incorporation and registration details, as well as details of the company's officers and its major shareholders.

If you are acting as a trustee, we may ask you for, amongst other things, information on the beneficiaries of the trust and evidence of the existence of the trust.

If you are a partnership, we may require information including evidence of the fact that the partnership exists, as well as the full name of the partnership, the names of the partners and any business name owned by the partnership.

For other organisations, the kind of information we collect and verify will depend on the type of organisation you are.

In addition, during your relationship with us, we may also ask for and collect further information about you and about your dealings with us.

You must provide us with accurate and complete information. If you do not, you may be in breach of the law and also we may not be able to provide you with products and services that best suit your needs.

Protecting customer information

We comply with the National Privacy Principles as incorporated into the *Privacy Act 1988* (Cth).

We disclose customer information to other members of the Group (including overseas members), so that the Group may have an integrated view of its customers and to facilitate the integrated treatment of its customers. It also enables other members of the Group to provide you with information on their products and services.

Other disclosures

At common law, banks are permitted to disclose customer information in the following circumstances:-

- (a) where disclosure is compelled by law; or
- (b) where there is a duty to the public to disclose; or
- (c) where our interests require disclosure; or
- (d) where disclosure is made with your express or implied consent.

So that we can manage our relationships, customer information may be disclosed to:

- brokers and agents who refer your business to us;
- any person acting on your behalf, including your financial adviser, solicitor, settlement agent, accountant, executor, administrator, trustee, guardian or attorney;
- financial institutions who request information from us if you seek credit from them;
- if you have borrowed from the Bank to purchase property: valuers and insurers (so that the Bank can obtain a valuation of your property, and confirm that it is insured);
- if you have insurance: medical practitioners (to verify or clarify, if necessary, any health information you may provide), claims investigators and reinsurers (so that any claim you make can be assessed and managed), insurance reference agencies (where the Bank is considering whether to accept a proposal of insurance from you and, if so, on what terms); and
- organisations to whom we may outsource certain functions.

In all circumstances where our contractors, agents and outsourced service providers become aware of customer information, confidentiality arrangements apply. Customer information may only be used by our agents, contractors and outsourced service providers for our purposes.

We may be required to disclose customer information by law, e.g. under Court Orders or Statutory Notices pursuant to taxation or social security laws or under laws relating to sanctions, anti-money laundering or counter terrorism financing.

We may send customer information overseas if:

- that is necessary to complete a transaction, or
- we outsource certain functions overseas.

We may also be permitted, as distinct from required, to disclose information in other circumstances. For more information, please refer to our Privacy Policy.



Access to your personal information

The law allows you (subject to permitted exceptions) to access your personal information. You can do this by contacting:

Customer Relations
Commonwealth Bank
Reply Paid 41
Sydney NSW 2001

We may charge you for providing access.

Further information

For further information on our privacy and information handling practices, please refer to the Group's Privacy Policy, which is available at commbank.com.au or upon request from any branch of the Bank.

Definitions

“agreement fee”

The amount payable by you to the Bank in consideration for entering a Cap transaction with the Bank.

“agreement fee payment date”

A date where an *agreement fee* is payable by you to the Bank.

“AUD”

Australian dollars.

the “Bank”

Commonwealth Bank of Australia
ABN 48 123 123 124.

“bill”

A bill of exchange (other than a cheque) for the purposes of the Bills of Exchange Act 1909.

“bill facility”

A facility which the Bank makes available to you to raise money by having *bills* discounted.

“bill rate”

The rate of discount expressed as a percentage yield to maturity per annum at which the Bank is prepared to purchase *bills* accepted or endorsed by itself.

“business day”

A day on which the Bank is open for the transaction of business in relation to a Cap transaction in Sydney, New South Wales, Australia.

“deal date”

The date on which a Cap transaction is entered into by the *parties to the agreement*.

“Drawdown/Rollover Schedule”

A summary of *rollover dates*.

“face value of bills”

The amount of each *bill* on each *rollover date*.

“fixed bill rate”

The *bill rate* which is fixed to apply for a *fixed rate period*.

“fixed rate period”

The term during which the *fixed bill rate* applies.

“maturity date”

The last date of your Cap transaction.

“maximum rate”

The agreed maximum *bill rate* subject to the Cap transaction.

“parties to the agreement”

The parties to a Cap transaction are you and the Bank.

“reference rate”

The interest rate that will be used to determine the outcome of your Cap transaction.

“roll bills”, “rollover bills”

The drawing of new *bills* to replace those *bills* maturing on a *rollover date*.

“rollover date”

A date on which a *bill* is due for rollover.

“termination date”

A date on which you or the Bank terminate the Cap transaction.

“variable bill rate”

An interest rate that varies according to a particular indicator, such as the *bill rate*.

“variable rate bill facility”

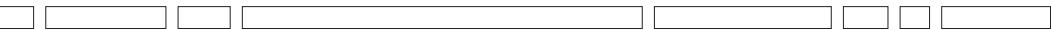
A *bill facility* that is conducted with the Bank at a *variable bill rate*.

“volatility factor”

The expected degree of fluctuation in interest rates during the transaction period as calculated by the Bank.

“you”, “your”

The customer who is one of the *parties to the agreement*.



This page has been left blank intentionally.



