Commonwealth Bank of Australia

Fixed Income Investing

Benefits and Risks:
A Guide for Wholesale Clients



Commonwealth Bank of Australia ABN 48 123 123 124

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Features at a glance.

Types of bonds available

- Government bonds
- Semi-government bonds
- Corporate bonds
- Capital indexed bonds

Minimum amounts

- $500,000 for wholesale investors

Terms available

- Short terms of up to one year
- Medium terms of one to three years
- Long terms of more than three years

Interest rates

- **Fixed rate** – the interest rate stays the same for the life of the bond.
- **Floating rate** – the interest rate is reset each quarter in line with a benchmark interest rate such as the 3-Month Bank Bill Swap Rate (BBSW). A fixed margin is added to the benchmark interest rate to obtain the floating rate for the following quarter.

Coupon payments

- Fixed rate bonds usually pay interest semi-annually
- Floating rate notes usually pay interest quarterly

Risks

- **Credit risk –** the risk that the issuer may not be able to make coupon payments to you, or pay back your principal at the bond's maturity.
- **Interest rate risk –** the risk that the market value of the bonds will go up and down as interest rates fluctuate. For example, if interest rates go up, the market value of bonds will generally go down, meaning you will receive less money for your bonds than you initially paid for them if you sell them prior to maturity.
- **Liquidity risk –** the risk that you won't be able to sell your bonds when you want to at the price you want to because there aren't many interested buyers in the market.
- **Inflation risk –** the risk that the cash flows from your bonds won't be worth as much in the future because a high inflation rate has reduced the Australian dollar's purchasing power. A bond usually pays back a fixed number of dollars but the true purchasing power of those dollars is not guaranteed. Capital indexed bonds are structured to remove inflation risk.
- **Reinvestment risk –** the risk that the proceeds from principal and coupon payments might have to be reinvested at a lower rate than the original investment. If yields fall while

a bond is owned, the coupons may not be reinvested at the same rate as the original investment. As such, the total return may be lower than the originally quoted yield.

Security of the various bond types

- **Semi-government bonds –** the relevant state government guarantees relevant issuer principal repayments and coupon payments.
- **Government bonds –** the Australian Government guarantees principal repayments and coupon payments.
- **Corporate bonds –** not guaranteed by any government (unless expressly stated). These bonds typically offer higher returns than government bonds, but coupon payments and principal repayments at maturity depend on the corporate issuer's ability to meet its financial obligations when they fall due and are not guaranteed (unless expressly stated).
- **Capital indexed bonds –** depends on the issuer's financial performance; government issuers are safer than corporate issuers but typically have lower returns in exchange for lower risk.
- **Covered bonds –** a corporate bond which can be issued by an onshore or offshore Authorised Deposit Taking Institution (such as Commonwealth Bank in Australia) that provides legal recourse to a pool of assets that 'covers' the bond if the issuer becomes insolvent. The issuer must keep the debt and the underlying asset pool on their balance sheet, and ensure that the asset pool consistently secures the covered bond. In the event of default, the investor has recourse to the issuer and the pool of assets to cover the bond.
- **Retail bonds –** depends on the issuer's ability to meet its financial obligations when they fall due and are not guaranteed.
- **Hybrid securities –** depends on the issuer's ability to meet its financial obligations when they fall due and are not guaranteed. Hybrid securities usually have some form of conditional transformation into equity at a future point. Because of their equity-like features, hybrid securities are considered riskier than a pure fixed income investment.

Ranking of corporate bonds

- The holder of an unsecured and subordinated corporate bond is ranked higher than the holder of shares in a company, but lower than a secured creditor.
- This means if the issuer becomes insolvent and its assets are liquidated, investors may only get back their money (or part of their money) after all the secured creditors have been paid first.
- Each issue is different, you should refer to the relevant transaction documents for the bond.

Fees and charges

- There are no fees and charges

Safe custody

- Once you own bonds, they will need to be safely stored. The Commonwealth Bank can hold your bonds in safe custody on your behalf if you're an Australian wholesale client or can arrange to transfer your holdings to another market custodian on your instruction.

What are fixed income investments?

Fixed income investments provide investors with periodic coupon payments and have a set maturity date. As a general rule, fixed income investments are less volatile than equities and provide investors with lower risk, regular returns.

Fixed income investments involve an investor lending money to a borrower for a specific time period in exchange for agreed, periodic coupon payments. These payments are called coupons. On the maturity date, the original investment will be returned.

The most common form of these loans is a bond. The Australian Government, State Governments and many of Australia's largest companies – including Telstra, GPT and Wesfarmers – borrow money by selling bonds.

Fixed income investments offer more certainty about their returns and less risk about their future value than higher risk investments such as equities. On the other hand, fixed income returns are generally lower in comparison to equity investments over the long term.

By including fixed income investments in their portfolio, investors may be able to protect the value of their overall investments during turbulent times.

Investors who want to protect the capital value of their savings may consider fixed income investments. For example, retirees who have saved a significant sum might consider investing in fixed income to provide a predictable income stream.

Investments in Fixed income are generally classified as defensive but are not completely risk free. You can lose money if you leave a bond investment before the maturity date. You also need to consider the borrower's creditworthiness and its ability to meet its future financial obligations.

Australian governments guarantee their government bond payments.

However, corporate bonds are not guaranteed by any government (unless expressly stated). Corporate bonds typically offer higher returns than government bonds, but coupon payments and principal repayments at maturity depend on the corporate issuer's ability to meet its financial obligations when they fall due and are not guaranteed (unless expressly stated). In the event of the corporate issuer's insolvency, the issuer will repay debts before equity holders.

Overall, bond investments provide relatively lower risk, predictable returns for medium-term to long term investors.

For Example

If you buy a government bond with a face value of $500,000, a semi-annual coupon of 3% per year and a five-year maturity term, you would receive $7,500 every six months for the next five years, and get your principal of $500,000 back after five years.

Comparing bonds with other investments

Term deposits provide a fixed return on a deposit and are usually held for short time periods (often three or six months).
A bond also has a fixed return (subject to the risks mentioned earlier), but is usually held for a longer period (often three years and occasionally 10 years or longer). Because the investment period is longer, you normally get a higher return on a bond than you would on a term deposit invested with the same issuer.

Differences between bonds and term deposits.

Term deposits are always a loan to a bank. Bonds can be a loan to a bank, a government or a company.

If you withdraw a term deposit early, a penalty is likely to apply, although you usually only forfeit some or all of the interest. The value of

a bond fluctuates in line with interest rates. If you sell a bond prior to maturity this may incur a capital loss, a capital gain or be completed at face value. The value of the bond would depend on the creditworthiness of the issuer and the market conditions at that point in time.

Australian Dollar term deposits invested with incorporated Authorised Deposit-taking Institutions are guaranteed by the Australian Government's Financial Claims Scheme (FCS). The Government will reimburse depositors if the bank becomes insolvent (up to a given limit) which is dictated by the government of the day. Bonds are not guaranteed by anyone other than the issuer (unless specifically stated) so there is a chance you could lose your investment if the issuer experiences financial difficulties and is unable to fulfil its obligations under the terms of the bond. For further information on the FCS, visit the Financial Claims Scheme's website at www.fcs.gov.au

A bond is very different to a share

If you buy shares in a company, you own a small piece of the company. If you buy bonds, you are lending money to the company issuing the bonds. Shares have the potential to significantly rise – or fall – in price. A bond has less potential to rise in price, but provides a defined return (subject to the bond issuer meeting its financial obligations as and when they fall due).

As a bond holder, you are considered a 'creditor' and rank ahead of shareholders if the issuer becomes insolvent. This means bondholders are paid out ahead of shareholders.

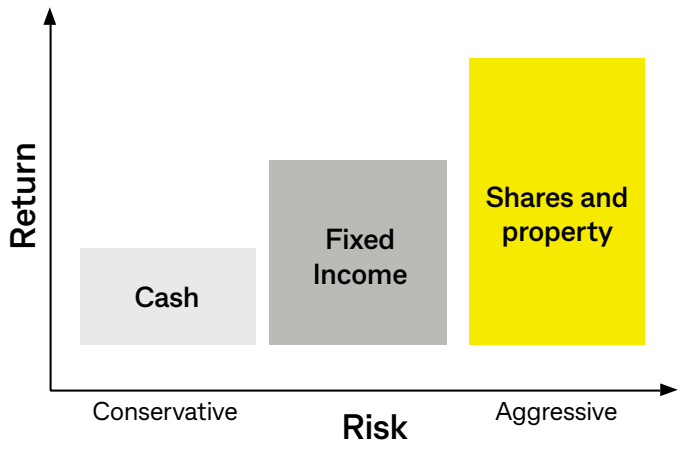
Where bonds sit compared to other investment options

When investing, the two main performance measures are risk and return. Return is how much money you can expect to make on average, while risk is how likely it is that you will lose money in any given year. For most investments, higher returns usually mean higher risk.

Fixed income investments are typically skewed towards the lower end of risk and return spectrum. Fixed income investments offer moderate returns, but are lower risk than shares or property. Compared to cash, fixed income investments generally offer better returns but may carry more risk depending on the type of investment and rating (refer page 20).

Figure 1 shows the various types of investments and where they sit on the risk and return spectrum.

Figure 1: Risk and return of various investment types



Why invest in fixed income?

Fixed income investments provide investors with three primary benefits

Deliver regular income over long periods

Offer regular returns with lower volatility

Protect savings by diversifying investment portfolios

Many bonds are issued at a fixed rate, so investors will receive the same fixed coupon payment throughout the life of the bond, as well as their principal at maturity. The fixed returns make cash flows predictable. This is important for investors who want a regular income without drawing down their accumulated savings.

Fixed income investments also provide regular returns and diversification within a portfolio. While returns from fixed income investments are unlikely to match equities during a boom period, the overall value of a fixed income investment may be more regular over time than an equity investment.

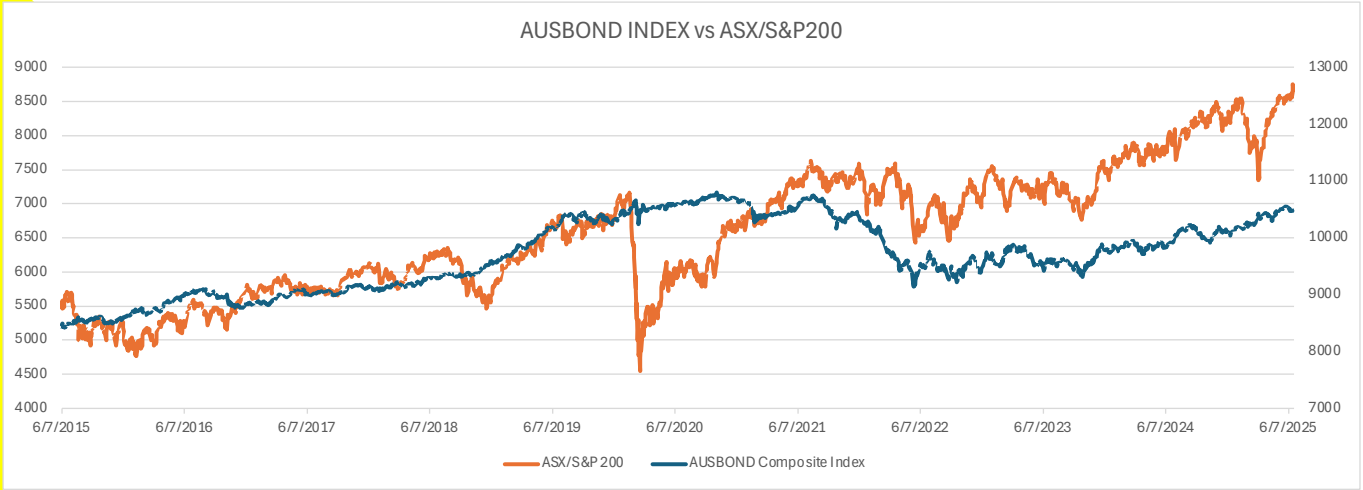
Fixed income investments tend to perform better when equity markets are not performing well and vice versa (this is referred to as 'negative correlation').

The ability of fixed income to deliver positive returns when other assets are faltering makes these investments a valuable addition to the diversity of a portfolio.

A fast growing market

The AUD fixed income market is worth around $2.5 trillion, around 96% of the market capitalisation of the ASX200 (as at 31 December 2024). Government and semi-government bonds make up $1.5 trillion of issuance and in FY 2025, it is expected that the AOFM and Semi-government combined will issue $265bn of new bonds. It is anticipated the Semi-Government programs will continue to expand as government costs continue to rise as seen in recent years by QTC, NSWTC and TCV.

Figure 2: Risk and return of various investment types



Types of fixed income investments?

There are a number of fixed income investments available in Australia, including government bonds, semi-government bonds, corporate bonds, capital indexed bonds, covered bonds, floating rate notes and retail bonds.

Fixed income investments can be divided into different categories based on the type of institution that issued the bond, or the features of the bonds. As a general rule, the higher the credit risk of a borrower, the greater the expected return investors can receive for lending them money. The features of the bond generally affect the type of coupon received.

Please refer to 'The issuer's creditworthiness' on page 19 for an explanation of credit ratings, and where bonds rank versus the issuer's other creditors and shareholders.

For Example

If you buy a government bond with a face value of $500,000, a coupon of 3% and a five-year maturity term, you would receive $15,000 per annum for the next five years, and get your principal of $500,000 back after five years. Coupon payments are usually made every six months and are half the annual interest rate per payment. In this example, you would receive $7,500 twice per annum.

Government bonds

Government bonds (also known as Commonwealth Government securities) are issued by the Australian Government. The Government uses the funds for general financing needs – including day-to-day operations – and longer-term investments such as building infrastructure.
The Government guarantees coupon payments and the return of principal at maturity. Government bonds are often referred to as 'risk free' due to the issuer's credit standing and the near certainty that the principal will be returned to investors at maturity. Australian Government bonds currently have a AAA long-term credit rating from Standard & Poor's (S&P), indicating the issuer's extremely strong capacity to meet its financial commitments.

The coupon rate is fixed when the bonds are issued, and is expressed as a percentage per annum of the principal. The coupon rate stays the same for the life of the bond.

Semi-government bonds

Semi-government bonds are issued by state and territory treasury corporations and other eligible public entities. Their return is usually higher than government bonds because they are higher-risk investments, as they are issued by a state government rather than the Australian Government. Although they are riskier than Australian Government bonds, semi-government bonds still offer very low credit risk. Australian semi-government bonds currently have long-term credit ratings of AAA to AA from S&P, reflecting the issuer's extremely strong (AAA) to very strong (AA) capacity to meet its financial commitments. The coupon rate on a fixed rate bond or the margin over a nominated benchmark on a Floating Rate Note (FRN) is fixed when the bonds are issued, and is expressed as a percentage per annum of the principal. The coupon rate on a fixed rate bond or the margin over a nominated benchmark on a FRN stays the same for the life of the bond.

For Example

If you buy a semi-government bond with a face value of $500,000, a coupon of 3.25% and a five-year maturity term, you would receive a total of $16,250 per annum for the next five years, and your principal of $500,000 back after five years. Coupon payments are usually made every six months.

The semi-government bond issuers and their current S&P long-term credit ratings are as follows*:

New South Wales Treasury Corporation (S&P rating AA+)



Queensland Treasury Corporation (S&P rating AA+)



Tasmanian Public Finance Corporation (S&P rating AA)



South Australia Financing Authority (S&P rating AA+)



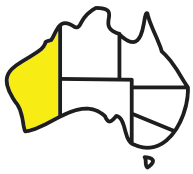
Treasury Corporation of Victoria (S&P rating AA)



Northern Territory Treasury Corporation (Moody's Aa3)



Western Australian Treasury Corporation (S&P rating AAA)



Australian Capital Territory Treasury (S&P rating AA+)



As at 23 July 2025

Refer to page 19 for explanation of credit ratings.

S&P credit ratings are subject to change and may not reflect the most current rating at the time of reading this investment document. Readers are advised to verify the latest ratings directly from official sources before making any investment decisions.

Corporate bonds

Corporate bonds are issued by large companies to borrow money from the public for funding requirements. The Australian Government does not guarantee corporate bonds (unless expressly stated). Corporate bonds offer higher coupons than government or semi-government bonds because the coupon payments and the principal repayment at maturity depend on the issuer's ability to meet its financial obligations when they fall due. Generally speaking, Australian corporate bonds are only issued by large, stable companies and have limited credit risk (although they are riskier than government or semi-government bonds), and have long- term credit ratings of AA- to BBB- from S&P.

Corporate bonds can pay coupons at a fixed rate or a floating interest rate. When a bond is issued with a floating interest rate, it is often referred to as a floating rate note (see below).

The majority of Australian Corporate bonds are investment grade and below is a sample list of the main issuers:

Commonwealth Bank
(S&P rating AA-)



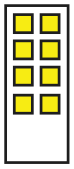
Westpac Banking Corporation
(S&P rating AA-)



Wesfarmers
(S&P rating A-)



Lendlease
(Moody's Baa3)



National Australia Bank
(S&P rating AA-)



Australian and New Zealand Banking Group Limited
(S&P rating AA-)



Telstra
(S&P rating A-)



As at 23 July 2025

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Fixed rate bonds

Corporate fixed rate bonds behave like government bonds, but usually have higher coupon rates to reflect their increased risk. Unless the bond issuer defaults, investors in fixed rate bonds receive a fixed coupon rate. The coupon rate is set when the bonds are issued and is expressed as a percentage per annum of the principal. The fixed coupon rate stays the same for the life of the bond.

For Example

If you buy a Telstra bond with a face value of $500,000, a coupon of 4% and a five-year maturity term, you would receive a total of $20,000 per annum for the next five years, and your principal of $500,000 back after five years. Coupon payments are usually made every six months.

Floating rate notes

Coupon payments from floating rate notes (FRNs) fluctuate in line with the level of interest rates in the Australian economy. The interest rate on an FRN will be tied to a particular interest rate benchmark. The most common benchmark to use is the three-month, wholesale borrowing cost for Australian banks. This interest rate benchmark is known as the Bank Bill Swap Rate (BBSW) and is administered by ASX Benchmarks Pty Ltd. The BBSW is calculated independently of the banking system. Most FRNs will pay a coupon every quarter at a fixed margin (percentage rate) above the BBSW reference rate.

As with all investments, there is some risk associated with FRNs. However, FRNs tend to have more stable prices because there is limited interest rate risk (refer page 16-17). If you own an FRN and interest rates rise, you will receive higher coupon payments (unlike a normal fixed rate bond). However, if interest rates fall, so will coupon payments. Like fixed rate bonds, FRNs will return your initial investment at maturity depending on the issuer's ability to meet its financial obligations when they fall due.

For Example

A Wesfarmers FRN offers a three-month BBSW coupon, plus 1.20% (known as the issue margin). If the three-month BBSW interest rate is 4.00% and the fixed issue margin is 1.20%, the floating rate will be 5.20% for that quarter.

The floating coupon rate is reset every 90 days, so each coupon payment will vary. You will get higher returns if the BBSW rate increases, and lower returns if the BBSW rate falls. Coupon payments are made every three months.

Note that some FRNs are issued with a call feature, whereby the issuer has the option to call (terminate) the FRN on the call date or extend it to the legal maturity date Such FRNs are usually priced to the call date, but investors should be aware that there is a possibility that the FRN could be extended to the legal maturity date at the issuer's discretion.

Capital indexed bonds

Capital indexed bonds are bonds where the coupons and final principal payment are adjusted for inflation. The Australian Government issues and guarantees capital indexed bonds in Australia. The NSW, ACT and Queensland Governments have also issued capital indexed bonds which are guaranteed by them. Corporates such as Sydney Airport Finance also issue capital indexed bonds but these are not government guaranteed (unless expressly stated) and payment of the coupon and principal amount depend on the issuer's ability to meet its financial obligations when they fall due.

Capital indexed bonds have the characteristics of normal bonds, including periodic coupons and principal repayment at maturity. However, the principal is adjusted each quarter using a formula based on the Consumer Price Index (CPI). The index used is the Weighted Average of Eight Capital Cities: All Groups Index, which is maintained and published quarterly by the Australian Bureau of Statistics. Coupons are paid as a fixed percentage of the indexed principal value, so the dollar value of the coupons will change over time in line with the changes in the principal's value. Coupons on capital indexed bonds are paid quarterly.

Please note that the capital indexation can also be negative if the measured inflation rate is negative.

The effect of the coupon payments and principal changing over time is to provide a real rate of return compared to inflation. Owners of capital indexed bonds are protected from inflation eroding the purchasing power of their investment.

For Example

On a $1,000,000 capital indexed bond, if the coupon rate is 4% and the inflation indexation rate for the quarter is 1%, the principal is adjusted to $1,010,000 ($1,000,000 + ($1,000,000 x 1%)).

The investor will then receive a quarterly coupon payment of $10,100 ($1,010,000 x 4% p.a. / 4), based on the new principal.

If inflation rises to 2% for the next quarter, the principal is adjusted to $1,030,200 ($1,010,000 + ($1,010,000 x 2%)). The investor receives an coupon payment of $10,302 in the second quarter ($1,030,200 x 4% p.a. / 4).

Assuming similar inflation of 3% p.a. over 10 years, the principal will have risen to $1,348,349 at the end of 10 years.

Deflation Risk:

Note that the capital indexation can also be negative if the measured inflation rate is negative. This has been a rare occurrence in Australia and should be considered when considering this type of investment.

If there is deflation (a decline in the CPI) the size of coupon payment and indexed principal amount payable at the time of maturity can decline. There is a limit to the exposure to deflation due to the floor on coupon payment as the indexed principal amount payable at maturity cannot be less than the Face Value amount of the Inflation Indexed Bond.

Covered bonds

The Australian Parliament passed the Banking Amendment (Covered Bonds) Bill in October 2011. A covered bond is a corporate bond issued by an Australian Authorised Deposit Taking Institution (such as Commonwealth Bank) with one important enhancement: it provides recourse to a pool of assets that secures or 'covers' the bond if the issuer becomes insolvent. The pool of assets comprises mainly Australian mortgages, but can also include government bonds, bank bills, negotiable certificates of deposit, cash and derivatives. The legislation provides legal certainty for the segregation of the asset pool in the event of bankruptcy. A special purpose vehicle enables the asset pool to be segregated.

The asset pool provides extra security for the covered bond. The issuer must keep the debt and the underlying asset pool on their balance sheet, and ensure that the pool consistently secures the covered bond. In the event of default, investors have recourse to the issuer and the pool of assets used to cover the bond. Covered bonds in Australia usually have a long-term credit rating of AAA from S&P. Covered bondholder's claims to the segregated asset pool rank above the issuer's deposit holders, creditors, and shareholders.

Retail bonds

A retail bond is a bond that can be sold to a retail investor via a prospectus or product disclosure statement, either through a financial intermediary or financial adviser. Retail bonds can be purchased in smaller minimum sizes than corporate bonds.

Retail bonds generally have a minimum investment amount of $5,000, which enables retail investors to participate in this bond market. In contrast, all non-retail or wholesale bonds are usually subject to a minimum investment of $500,000, which can prevent retail investors from participating. Some retail bonds trade on the Australian Securities Exchange (ASX) after the issue date.

The structure of retail bonds closely resembles corporate bonds. The most common retail bond issuers are Australian companies. The Australian Government does issue retail-sized government bonds via the ASX.

Hybrid securities

A hybrid security combines fixed income and equity elements. These securities usually have some form of conditional transformation into equity at a future point. Because of their equity-like features, hybrid securities are considered significantly riskier than a pure fixed income investment. The features of a hybrid security can vary significantly depending on the specifics of the security under consideration. Before investing in a hybrid security, investors should carefully read the security's prospectus. For further information on the risks and benefits of hybrid securities consult your financial adviser.

Primary and Secondary Markets

Wholesale clients can buy bonds from the Commonwealth Bank through either the primary market for new issuances or the secondary market, where you purchase securities from other investors rather than from the issuers themselves.

A primary issuance is the first time a new bond is made available for investment. A secondary market is a subsequent transaction in an existing bond. After the primary issuance, investors can trade the bond amongst themselves without the original issuer's involvement.

Bond prices in the secondary market may be either higher or lower than the original price of the bond depending on a number of factors such as the market conditions at the time. For example a change in credit rating, issuer performance, liquidity risk, global and domestic economic conditions.

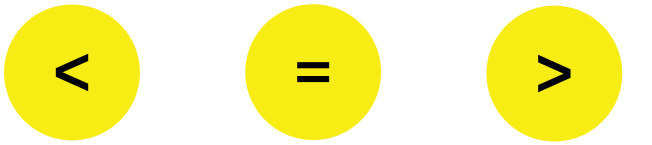
Primary and Secondary Markets

Secondary market terms

Premium and discount

The face value of a bond is the amount owed back to the investor on the final maturity day. The original price paid for the bond at primary issuance is either the same as the face value (for a floating rate note and some fixed rate bonds) or just below the bond's face value for most fixed rate bonds. However, the price of a bond can vary after it is issued. Investors in the secondary market may pay more (or less) than the bond's face value. The market convention is to quote the price of a bond in dollars per $100 of the original face value.

When the terms 'premium' and 'discount' are used in reference to bonds, they mean the purchase price of the bond is either above (premium) or below (discount) its par value (face value). Bonds trade at a premium or discount based on the interest rate demanded by the markets for that specific maturity, and credit quality versus the rate demanded at the time of issue.



100 is called Discount | **100 is Par** | **100 is Premium**

Yield

The yield is the return you receive from all the coupon payments, plus any gain (if you purchased at a discount) or loss (if you purchased at a premium). The yield is calculated based on the assumption that you were able to reinvest your coupon payments at the same yield as when you purchased the bond.

The yield figure shows the return you get on a bond. Generally, investors look at the yield to maturity which is the effective interest rate if the bond is held to maturity and assumes all coupons are reinvested at the same rate. It shows the total return you will receive if you hold the bond to maturity. On the original issuance day, the yield is normally very near the coupon rate. However, as the price changes over time, the yield will change too.

For Example

A bond with a face value of $100 is selling at a premium when it can be bought for more than $100. It is selling at a discount when it can be bought for less than $100.

Consider an Australian Government bond with a maturity date of 21 April 2029, which has a coupon of 2.75%. At issuance, you could have bought this bond for $100 and received $2.75 every year in interest. However, if interest rates are higher than they were when the bond was issued, investors can buy the bond for $100 yielding 3.35% for this maturity/credit quality. Therefore, to receive a rate of return of 3.35% on this bond, you will pay less than $100 for it. By receiving a coupon of $2.75 per year on this bond and paying less than $100 for it, you are making a return of 3.35%.

The reverse is true for bonds trading at a premium. If the interest rate has fallen to 2.20%, you would have to pay more than $100 as the bond will always pay interest based on a coupon rate of 2.75%.

Price

The price of a bond is how much it would cost to buy (or sell) the bond today. The price can be higher or lower than the original issuance price.

The relationship between yield and price

When price goes up, yield goes down, and vice versa. Since the future coupons on a bond are fixed, the only way for the yield to change is for the upfront price to change.

If you are a bond buyer, you want to pay as little as possible for the fixed return. Paying a lower amount raises the return you get on your investment (because the future coupons are fixed).

On the other hand, if you already own a bond, you've locked in your coupon rate, so you hope the yield on the bond goes down. If yields fall, other investors will pay more than the original price of the bond if you decide to sell.

Fixed rate bonds

A fixed rate bond's price fluctuates every day in response to a number of variables. However, the main influence on the price of a fixed rate bond is the level of interest rates.

- When interest rates rise, the prices of bonds in the market falls. The falling price raises the yield received by a new investor up to the current interest rate, and lowers the return on a new investment in the bond.
- When interest rates fall, the prices of bonds in the market rises. The rising price reduces the yield received by a new investor down to the current interest rate, and lowers the return on a new investment in the bond.

Note that if you hold the bond until maturity, you will simply get your principal back and fluctuating secondary yields (or price) will not affect your investment.

Example 1

Let's say you bought the following bond for $500,000 at primary issue, with a five -year maturity term.

Issuer	Commonwealth Bank of Australia
Issue date	12 July 2025
Maturity	12 July 2030
Coupon	3.00%
Yield	3.00%
Face value	$500,000
Consideration	$500,000

Selling at a profit

On 17 August 2025, assume interest rates were lower and the yield on the bond was 2.35%, you sold it for a capital price of $510,165 and made a gain of $10,165.

Issuer	Commonwealth Bank of Australia
Issue date	12 July 2025
Maturity	12 July 2030
Coupon	3.00%
Current yield	2.35%
Face value	$500,000
Capital price	$510,165
Accrued interest	$1,575
Consideration	$511,740

Fixed Income

The subsequent holder of this bond will be buying it from you at a premium to face value, by having to pay the capital price of $510,165 plus or minus any accrued interest which equals the total consideration amount for it today and only receiving the face value of $500,000 at maturity. However, they will receive coupon payments at a rate of 3.00% per annum based on the face value. The net effect is a current yield of 2.35% per annum, which is what the new holder will receive if they hold the bond until maturity.

Example 2 – Selling at par

If you sold this bond when the yield was 3.00%, you would have received approximately $500,000 for it.

Example 3 – Selling at a loss

If you sold this bond when the yield was 3.35%, you would have sold it for a capital price (excluding accrued interest) of $491,845 and made a capital loss of $8,155

The subsequent holder of this bond will be buying it from you at a discount to face value, by only paying the capital price of $491,845 plus or minus any accrued interest for it today and receiving the face value of $500,000 at maturity. However, they will receive coupon payments at a rate of 3.00% per annum based on the face value. The net effect is a current yield of 3.35% per annum, which is what the new holder will receive if they hold the bond until maturity.

Floating rate notes

An FRN's price fluctuates every day of its life in response to changes in the issuer's credit quality.

- If the issuer's credit quality falls, new investors will demand a higher return commensurate with the perceived higher risk, so the trading margin (spread) will rise and the price of the FRN will fall.
- If the issuer's credit quality improves, new investors will receive a lower return commensurate with the perceived lower risk, so the trading margin (spread) will fall and the price of the FRN will rise.

The changing value of the trading margin will not affect the yield on your FRN, but it will affect the price at which you can sell the FRN prior to maturity.

Note that if you hold the FRN until maturity, you will simply get your principal back and fluctuating yields will not affect your capital investment but will affect your coupon payments as BBSW changes over time.

Example 1

Let's say you bought the following FRN for $500,000 at primary issue, with a five-year maturity term.

Issuer	Commonwealth Bank of Australia
Issue date	12 July 2025
Maturity	12 July 2030
Issue margin	3 Month BBSW + 1.21%
Face value	$500,000
Consideration	$500,000

Selling at a profit

On 17 August 2025, assume the trading margin has fallen to 3 Month BBSW + 0.80%, you sold it for a capital price of $507,555 and made a gain of $7,555.

Issuer	Commonwealth Bank of Australia
Issue date	12 July 2025
Maturity	12 July 2030
Issue margin	3 Month BBSW + 1.21%
Face value	$507,555
Capital price	$500,000
Accrued interest	$31,595
Consideration	$509,150

The subsequent holder of the FRN will be buying it from you at a premium to face value, by paying the capital price $507,555 for it today and only receiving the face value of $500,000 at maturity. But they will receive coupon payments at a rate of 3 Month BBSW + 1.21% based on the face value. The net effect is a current yield of 3 Month BBSW + 0.80%, which is what the new holder will receive if they hold the FRN until maturity.

Example 2 – Selling at par

If you sold this FRN when the trading margin was 3 Month BBSW + 1.21%, you would have received approximately $500,000 for it.

Example 3 – Selling at a loss

If you sold this FRN when the trading margin had risen to 3 Month BBSW + 1.50%, you would have sold it for a capital price of $494,795 and made a loss of $5,205.

The subsequent holder of this bond will be buying it from you at a discount to face value, by only paying $494,795 for it today and receiving the face value of $500,000 at maturity. However, they will receive coupon payments at a rate of 3 Month BBSW + 1.21% based on the face value. The net effect is a current yield of 3 Month BBSW + 1.50%, which is what the new holder will receive if they hold the FRN until maturity.

Capital price, interest accrued and total price

The capital price of a bond reflects its current market value, and does not include any interest accrued since the date of the last coupon payment.

A bond will accrue interest on a daily basis during a coupon period, and then pay the interest (the coupon) on the last day of the interest period. If an existing investor sells a bond halfway through a coupon period, the new investor will pay the seller the accrued interest up until the date of the sale as part of the bond purchase consideration set out in the confirmation. The new investor receives the full coupon at the next coupon date if they are the registered holder at that time.

However, if a bond is traded in the EX interest period, the seller would receive the coupon and the buyer would pay less for the bond given they are not entitled to the coupon for that period. The EX interest period, also called the ex-dividend period, refers to the timeframe when a bond trades without the upcoming interest payment included in its price.

The total price (or consideration) is the sum of the capital price and the interest accrued.

Confirmations

Once you have agreed to buy or sell bonds with us – either in the primary or secondary market – we will send you a confirmation that sets out the agreed commercial terms of the bond transaction for settlement. You should review this confirmation to ensure it reflects your understanding of the transaction. If it does not, you should contact us immediately.

In addition, bonds bought in either the Primary or Secondary market may also have the following documentation made available:

- Information Memorandum
- Pricing Supplement
- Annual Report
- Ratings Report
- Indicative Term Sheet
- Final Term Sheet

Note: The above additional documents may not always be readily available or restrictions may apply to some of the material i.e. ratings reports. When a bond has been purchased in the Secondary market there may be a delay in acquiring these documents prior to committing to any trade. Consult with your CBA contact sales person to discuss further.

Settlement date

In the secondary market, the settlement date for bonds is two business days (as per current market convention) after the date you agreed to buy or sell bonds with us. In the primary market settlement will be longer than two days from the issue date. Longer or shorter settlement dates can be considered on a case by case basis but must be discussed prior to finalising the transaction. If you are purchasing bonds, we will deliver the bonds to you against your payment in clear funds. If you are selling bonds, you are required to deliver the bonds to us, and we will make a payment to your nominated account.

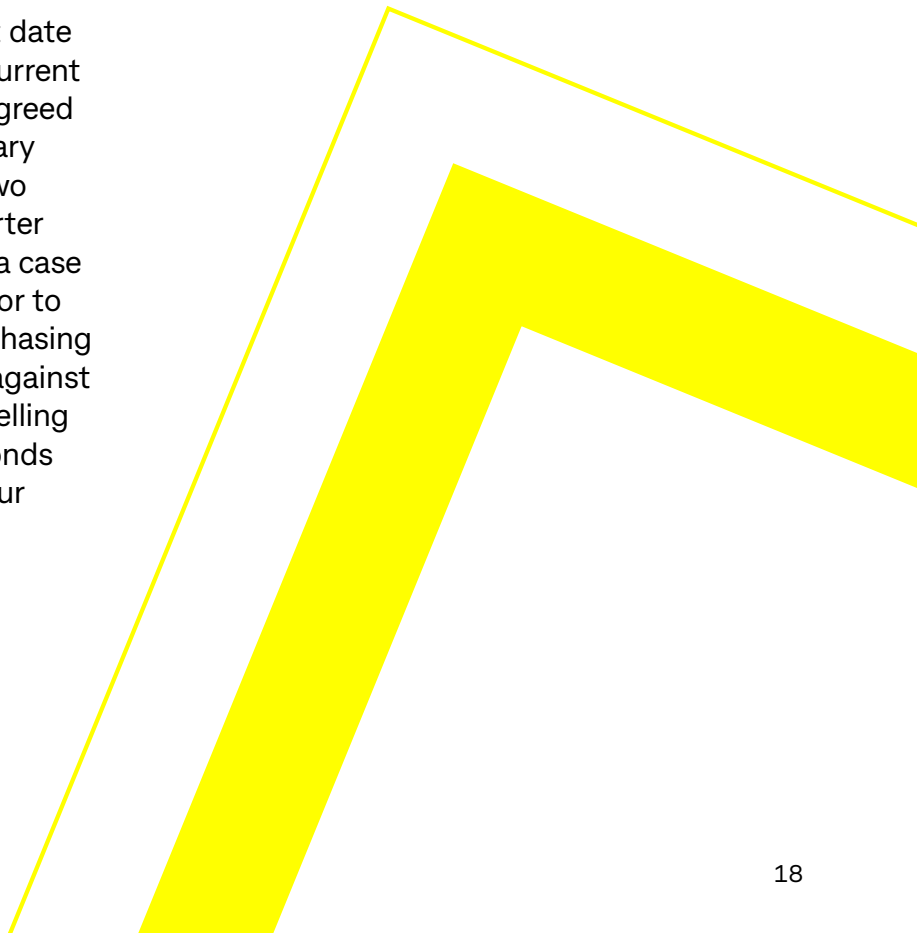
Safe custody

Once you own bonds, they will need to be safely stored. The Bank can hold your bond on a safe custody basis if you're an Australian wholesale client. We do not charge fees for investing in bonds. Subsequently, we can also move the bonds to your nominated custodian on your instructions should you not wish the Bank to hold these bonds on your behalf.

Minimum amounts per investor type

With the exception of retail bonds and hybrid securities, bonds are usually issued with a minimum trading parcel size of $500,000 to wholesale investors. Wholesale investors are defined in chapter 7 of the Corporations Act 2001. (https://www.legislation.gov.au/C2004A00818/latest/text/4)

However, some Bonds trade in minimum trading parcels of $100,000 are available to sophisticated and professional investors. Sophisticated investors are defined under part 6.2D of the Corporations Act 2001, and professional investors are defined in section 9 of the Corporations Act 2001 (https://www.legislation.gov.au/C2004A00818/latest/text/4).



The issuer's creditworthiness

When you buy a bond, you are lending your money for a certain period of time to the issuer, so you should be aware of the likelihood that you will get your money back at maturity.

If the issuer becomes insolvent, it is important to understand where you rank compared to other creditors and shareholders.

For investments in a bank, the typical order of payment is:*

1. Covered bonds (secured creditors: claims backed by specific collateral are paid first from those secured assets).
2. Depositors - often protected up to certain limits by deposit Government Guarantee.
3. Senior debt holders - including senior bondholders.
4. Subordinated debt holders - including junior/subordinated bondholders.
5. Preferred shareholders.
6. Common shareholders - paid last, often receiving little or nothing.

Non-bank issuers may not include all of these graduations, but the order is likely to remain the same. Most non-bank issuers would start at level 3, known as senior debt.

*This assumes a common debt structure and instruments for banks. The actual order of payment will depend on the actual debt structure and instruments and their terms and conditions.

Credit Ratings

The yield is the return you receive from all the coupon payments. Credit ratings provide an insight into an issuer from an independent expert, and allow you to quickly identify the approximate level of risk involved in buying a particular bond. An issuer's credit rating is determined by a ratings agency, such as Standard & Poor's or Moody's. The credit rating represents the rating agency's judgement about the issuer's ability to repay the principal of the investment at maturity, and affects the interest rate or fixed margin applied to the bond being issued. A rating may be used as an indication of credit quality, but you should consider a variety of factors when making the decision to invest in a bond, including your own analysis.

Standard & Poor's provides opinions regarding the creditworthiness of issuers or capital markets and obligations. The agency's credit ratings are widely accepted by investors as convenient tools for differentiating credit quality.

Credit Ratings remain the opinion of the individual ratings agency and their assessment of the creditworthiness of the issuer at that point in time. The Bank has not verified or assessed the ratings applied to individual bond issuers or issuances for correctness. You should be aware that ratings, although they are the subject of ongoing surveillance, may not be an accurate description of the creditworthiness and any change in rating may be delayed or not assessed until the next surveillance period.

What are the risks?

Investing is not a risk-free strategy and there is always a chance you could lose money or not make as much as you expected.

Some of the risks associated with fixed income investments are set out below. You should make sure you understand what these risks are and whether you can afford to take them with your money.

Credit risk

The risk that the bond issuer may not be able to make coupon payments to you, or pay back your principal at maturity.

Interest rate risk

The risk that a bond's market value will fluctuate as interest rates move up or down.

For example, if interest rates go up, a bond's market value will generally decrease, meaning you will receive less money for your bonds than you initially paid for them if you sell them prior to maturity. If you hold them to maturity, you will receive your full principal regardless of the interest rate (provided the issuer can repay the principal).

Liquidity risk

The risk that you can't sell your bonds when you want to, at the price you want to, because there aren't enough interested buyers in the market at the time or at that price

Inflation risk

The risk that the cash flows from your bonds won't be worth as much in the future because a high inflation rate has reduced the Australian dollar's purchasing power. A bond usually pays back a fixed number of dollars but the true purchasing power of those dollars is not guaranteed. Capital indexed bonds are structured to remove inflation risk.

Reinvestment risk

The risk that the proceeds from principal and coupon payments might have to be reinvested at a lower rate than the original investment. If yields fall while a bond is owned, the coupons may not be reinvested at the same rate as the original investment. As such, the total return may be lower than the originally quoted yield. Changes in credit rating, issuer performance, and liquidity risk, global and domestic economic conditions can affect the outcome of your investment.

Fixed income investments provide regular, predictable income for a range of purposes.



Example 1: A dependable income stream for retirees

We're in retirement and rely on our investments to generate income to cover our living expenses. We have limited time to recoup losses if markets experience a downturn. We decided to sell down our shareholdings and have a large amount of cash in the bank earning interest at a reasonably attractive rate. We are thinking about investing some of our cash in a mix of highly rated government and corporate bonds with a range of different maturities that pay regular, predictable income. The stable income stream is great and the high ratings lower the risk of our investment.



Example 2: Lower overall portfolio volatility

We have a self-managed super fund with investments consisting mostly of shares. We're at the stage where growth and capital preservation are both important. Over the last few years, the value of our share portfolio went up and down more than we would have liked. By diversifying with fixed income investments, we have lowered our overall portfolio volatility while achieving a return suitable for us.



Example 3: Capital Preservation and returns for investment portfolios

We are a not-for-profit organisation and capital preservation is very important to us. We use our income-producing activities for charitable purposes and to help the community. We show total respect for the funds under our care so we only invest in cash, term deposits and highly rated fixed income investments.

Taxation implications

The taxation implications of an investment in a fixed income security can be complex and are invariably specific to your circumstances and the security's circumstances. As such, you should consider the tax implications and discuss any issues with an independent tax adviser.

The summary below is intended to provide general information only and does not take into account your individual objectives, financial situation or needs. Tax considerations are general, based on present taxation laws, and may be subject to change. You should seek independent, professional tax advice before making any decision based on this information. Commonwealth Bank is not a registered tax (financial) adviser under the Tax Agent Services Act 2009 and you should seek tax advice from a registered tax agent or registered tax (financial) adviser if you intend to rely on this information to satisfy the liabilities or obligations or claim entitlements that arise, or could arise, under a taxation law.

The summary below is not intended to be, nor should it be construed as being tax advice to any particular investor. The following discussion only relates to the potential Australian tax implications of your investment in a fixed income security issued by an Australian entity.

Some securities are issued pursuant to an offer document or prospectus, which may provide useful information in relation to the security's tax implications.

Interest and other income

If you are an Australian tax resident, coupon payments derived during the year on your fixed income investment should generally be included as part of your assessable income. The timing of the assessment of the interest income (e.g. a cash receipts or accruals basis) will depend on your individual circumstances. Similarly, distributions derived during the year from hybrid securities containing an equity element should also be included as part of your assessable income. If the distribution is franked, your assessable income should also include the franking credit, but you may be entitled to a franking tax offset.

Withholding tax

If you are a non-Australian tax resident (not investing through an Australian permanent establishment) or if you are an Australian tax resident carrying on a business at or through a permanent establishment outside Australia, Australian interest withholding tax could prima facie apply at a rate of 10% on the interest you derive from your fixed income investment. Various exemptions are available from interest withholding tax, including the 'public offer' exemption under Section 128F of the Income Tax Assessment Act 1936. If you are a non-Australian tax resident, Australian withholding tax of 30% could prima facie apply to unfranked distributions from hybrid securities (if you are tax resident in a country which has a double taxation agreement with Australia, you may be entitled to a reduction in the rate of withholding tax). You or your adviser should check the terms of the security to determine whether tax will be withheld from your interest payments or distributions.

Taxation on disposal or redemption

The implications when you dispose or redeem a fixed income security will be determined by your tax circumstances and the specific terms of the security.

For Australian tax residents, certain fixed income securities and/or some investors may be subject to tax under the Taxation of Financial Arrangements (TOFA) provisions. If TOFA applies, an assessable gain or deductible loss may be recognised on disposal or redemption. For some securities, a gain or loss may be returned for tax purposes over the life of the security. Where the TOFA provisions do

not apply, and you are an Australian resident, you will be required to include any gain on disposal or redemption of the fixed income security in your assessable income. Conversely, any loss may generally be an allowable deduction when calculating your taxable income in the year in which the disposal or redemption occurs.

For non-Australian tax residents (not investing through an Australian permanent establishment or Australian residents carrying on a business at or through a permanent establishment outside Australia), any gain or loss does not generally give rise to Australian tax implications, unless the terms of the security effectively treat the issue discount as interest that is subject to withholding tax. Where it does, withholding tax may apply.

The capital gains tax (CGT) rules (including the CGT discount and the ability to offset capital losses) do not generally apply to your gain or loss on disposal or redemption of the fixed income security. However, they may apply to hybrid securities and therefore you should check the security and your personal circumstances in this respect.

You should obtain your own independent tax advice in relation to the implications of any gain or loss on disposal or redemption of your fixed income or hybrid security.

Provision of TFN and/or ABN

Tax at the highest marginal rate (plus the Medicare Levy) may be deducted from payments to you if you do not provide the issuer with a Tax File Number (TFN) or an Australian Business Number (ABN) (where applicable), or proof of a relevant exemption.

If you are a non-Australian tax resident with a registered address outside of Australia, the TFN/ABN withholding rules should not apply to you. You or your adviser should check that all necessary information has been provided regarding TFN/ABN or a current foreign address if you are not an Australian tax resident.

Things you should know:

The information contained in this summary is made available for persons who are sophisticated investors or professional investors (as those terms are defined by section 708(8) or section 9 of the Corporations Act 2001 (Cth)).

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Telephone conversations with the Commonwealth Bank Group may be recorded to ensure our service standards are met or exceeded, and to allow records of the instructions taken to be kept.



Commonwealth Bank of Australia

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