CBA Covered Bond Trust

ABN 63 954 593 219

Annual Report

for the year ended 30 June 2019

CommonwealthBank

Contents

The Directors of Securitisation Advisory Services Pty Limited ("the Manager") submit their report together with the General Purpose Financial Statements ("the Financial Statements") of CBA Covered Bond Trust ("the Trust"), for the financial year ended 30 June 2019.

Trust manager and Trustee

The Manager of the Trust for the reporting year was Securitisation Advisory Services Pty Limited.
The Trustee of the Trust for the reporting year was Perpetual Corporate Trust Limited.

Directors

The names of the Directors of the Manager holding office during the financial year and up to the date of this report are as follows:

J Ferguson (appointed 27 August 2018)
C McBride (appointed 28 September 2018)
T Harvey (resigned 21 December 2018)
K Robb (appointed 3 July 2019)
S R D Maidment (resigned 3 July 2019)
J Olivier (resigned 27 August 2018)
P Katerdjian (resigned 14 September 2018)

Secretaries

The names of the Secretaries of the Manager holding office during the financial year and up to the date of this report are as follows:

R Di Cristoforo (appointed 3 August 2018)
A Clarke (resigned 3 August 2018)

Principal activities

The Trust's principal activities during the financial year were the holding of loan receivables from the Commonwealth Bank of Australia ("the Bank") and provision of guarantees and security over the issue of any covered bonds by the Bank. The Trust has a pool of economic assets available in providing these guarantees and security, including mortgage loan rights, and cash and cash equivalents.

There was no significant change in the nature of these activities during the financial year.

Review of operations

The Trust recorded a loss for the financial year of $65,902,000 (2018: $118,648,000). The main driver for the loss of $65,902,000 (2018: $118,648,000) for the year was due to provision of impairment losses, change in the fair value of financial instruments and fair value hedge ineffectiveness. There was an increase in interest income of $98,074,000 and an increase in finance costs of $97,157,000, which were due to the higher average balances of the cover pool and intra-group loan respectively.

Review of operations (continued)

The requirement to fair value derivative financial instruments through profit or loss as required by AASB 9 *Financial Instruments* will give rise to ongoing volatility in the Statement of Comprehensive Income of the Trust. The volatility due to the fair value movement in financial instruments does not affect the ability of the Trust to meet its debts as and when they fall due, the amount of any payment due to any investors or the timing of such payments.

Distribution

Distribution paid and payable to the income unitholder, the Bank, in accordance with the Trust Deed, was $nil for the financial year (2018: $nil).

Significant changes in the state of affairs

There have been no significant changes in the state of affairs during the financial year.

Likely developments and expected results of operations

Information as to likely developments in the operations of the Trust and the expected results of those operations in subsequent financial years have not been included in this report because, in the opinion of the Directors, it would prejudice the interests of the Trust.

Environmental regulation

The Trust's operations are not subject to any particular or significant environmental regulations under Australian Commonwealth, State or Territory law.

Interests in units of the Trust

As at the date of this report, no Director has any interests in the units of the Trust.

Events subsequent to the balance sheet date

The Manager is not aware of any matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations, the results of those operations or the state of affairs of the Trust in subsequent years.

Rounding of amounts

The amounts contained in this report and in the Financial Statements have been rounded to the nearest thousand dollars (where rounding is applicable).

Signed for and on behalf of Securitisation Advisory Services Pty Limited as Manager of the CBA Covered Bond Trust.

Director

Sydney
15 October 2019

	Notes	**2019 $'000**	2018 $'000
Revenue from continuing operations	2	**962,918**	865,137
Finance costs	3	**(952,844)**	(855,687)
Impairment on loans and other receivables	4	**(4,148)**	-
Operating expenses	5	**(88,738)**	(8,867)
(Loss)/profit before income tax		**(82,812)**	583
Income tax expense		**-**	-
(Loss)/profit for the year		**(82,812)**	583
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	14	16,910	(119,231)
Other comprehensive income/(loss), net of tax		**16,910**	(119,231)
Total comprehensive loss attributable to unitholders of the Trust		**(65,902)**	(118,648)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

	Notes	**2019 $'000**	2018 $'000
Assets			
Cash and cash equivalents	18(a)	**887,546**	1,648,209
Loans and other receivables	7	**32,679,828**	29,996,476
Derivative assets	9	**3,990,868**	3,035,272
Other assets	8	**644,297**	618,416
Total assets		**38,202,539**	35,298,373
Liabilities			
Trade and other payables	10	**373,749**	329,438
Derivative liabilities	9	**530**	64,028
Interest bearing liabilities	11	**38,084,834**	35,072,315
Total liabilities		**38,459,113**	35,465,781
Net liabilities attributable to unitholders of the Trust		**(256,574)**	(167,408)
Trust capital			
Trust corpus*	13	**-**	-
Cash flow hedges reserve	14	**(151,588)**	(168,498)
Retained earnings		**(104,986)**	1,090
Total trust capital attributable to unitholders of the Trust		**(256,574)**	(167,408)

* Trust corpus of $200 has been rounded to $nil.

The above Balance Sheet should be read in conjunction with the accompanying notes.

	Trust corpus* $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2017	-	(49,267)	507	(48,760)
Profit for the year	-	-	583	583
Other comprehensive loss	-	(119,231)	-	(119,231)
Total comprehensive (loss)/income attributable to unitholders of the Trust	-	(119,231)	583	(118,648)
Balance at 30 June 2018	**-**	**(168,498)**	**1,090**	**(167,408)**
Balance at 1 July 2018	-	(168,498)	1,090	(167,408)
Change on adoption of new accounting standards (note 1c)	-	-	(23,264)	(23,264)
Restated opening balance at 1 July 2018	**-**	**(168,498)**	**(22,174)**	**(190,672)**
Loss for the year	-	-	(82,812)	(82,812)
Other comprehensive income	-	16,910	-	16,910
Total comprehensive income/(loss) attributable to unitholders of the Trust	**-**	**16,910**	**(82,812)**	**(65,902)**
Balance at 30 June 2019	**-**	**(151,588)**	**(104,986)**	**(256,574)**

* Trust corpus of $200 has been rounded to $nil.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

	Notes	**2019 $'000**	2018 $'000
Cash flows from operating activities			
Interest received from ultimate parent entity		**960,353**	849,472
Fee income received		**7,032**	6,427
Finance costs paid		**(956,938)**	(848,695)
Manager fees paid to related party		**(7,575)**	(6,620)
Trustee fees paid		**(256)**	(256)
Other expenses paid		**(2,372)**	(2,231)
Net cash inflow/(outflow) from operating activities	18(b)	**244**	(1,903)
Cash flows from investing activities			
Payment for acquisition of securitised mortgages		**(7,873,654)**	(8,986,313)
Receipts on loans to ultimate parent entity		**5,144,794**	5,964,213
Net cash outflow from investing activities		**(2,728,860)**	(3,022,100)
Cash flows from financing activities			
Proceeds from loans from ultimate parent entity	18(c)	**6,503,951**	5,525,338
Repayment of loans to ultimate parent entity	18(c)	**(4,535,998)**	(2,460,593)
Net cash inflow from financing activities		**1,967,953**	3,064,745
Net (decrease)/increase in cash and cash equivalents		**(760,663)**	40,742
Cash and cash equivalents at the beginning of the financial year		**1,648,209**	1,607,467
Cash and cash equivalents at the end of the financial year	18(a)	**887,546**	1,648,209

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

(a) General information

The General Purpose Financial Statements ("the Financial Statements") of CBA Covered Bond Trust ("the Trust") for the financial year ended 30 June 2019 were approved and authorised for issue by the Board of Directors of Securitisation Advisory Services Pty Limited ("the Manager") on 15 October 2019. The Directors of the Manager have the power to amend and reissue the Financial Statements.

The Trust was constituted and commenced operations in accordance with the Establishment Deed on 13 November 2011 ("the Programme Date") for the purpose of acquiring mortgage loan rights from the Commonwealth Bank of Australia ("the Bank") with monies borrowed from the Bank to fund such acquisitions, including the granting of guarantees and security in respect of any covered bonds issued by the Bank in connection with the covered bonds programme. The Trustee of the Trust is Perpetual Corporate Trust Limited.

The *Banking Act 1959* ("the Banking Act") allows Australian banks to issue covered bonds for funding purposes.

Covered bonds are unsecured, senior, soft or hard bullet securities that provide investors with recourse to both the issuing institution and an underlying, revolving collateral pool. Covered bond noteholders rank pari passu with other senior unsecured noteholders of the issuing bank.

The Trust will continue until, and will terminate on, the Vesting Date. The Vesting Date means the earliest of the following dates to occur:

(i) the date which is 80 years after the date of the constitution of the Trust;

(ii) the date on which the Trust terminates by operation of law or in accordance with the Establishment Deed;

(iii) following the occurrence of a Covered Bond Guarantor Event of Default, the date on which the Security Trustee has notified the Covered Bond Guarantor in writing that it has enforced the security and has distributed all of the amounts, which it is required to distribute under the Security Deed.

The Trust is domiciled in Australia. The address of its principal office is Ground Floor, Tower 1, 201 Sussex Street, Sydney NSW 2000, Australia.

The ultimate parent entity of the Manager and the Trust is the Commonwealth Bank of Australia ACN 123 123 124.

The principal accounting policies applied in the preparation of the Financial Statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated. The Financial Statements cover the Trust as an individual entity.

(b) Basis of preparation

The Financial Statements have been prepared in accordance with the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB"). The Trust is a for-profit entity for the purpose of preparing the Financial Statements.

The Financial Statements of the Trust also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

The amounts contained in the Financial Statements have been rounded to the nearest thousand dollars (where rounding is applicable).

The functional and presentation currency of the Trust has been determined to be Australian Dollars (AUD) as this currency best reflects the economic substance of the underlying events and circumstances relevant to the Trust.

As at 30 June 2019, the Trust was in a net deficit position as its total liabilities exceeded total assets by $256,574,000 (2018: $167,408,000) and has recognised a loss of $65,902,000 (2018: $118,648,000) which represents unrealised losses from fair value movement of financial instruments during the financial year and changes in the loan impairment provision due to the adoption of AASB 9 Financial Instruments ("AASB 9").

The Financial Statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

The adoption of AASB 9 as described in Note 1(c) has resulted in a transition adjustment to the opening retained earnings and a corresponding provision recognised in the Balance Sheet. Holders of covered bonds issued by the Bank and guaranteed by the Trust have dual recourse to the securitised home loans represented by the intra-group loans receivable by the Trust from the Bank, as well as to the Bank itself. The Bank is obliged to repay the Trust for any payments the Trust has to make under its guarantee to covered bond holders. Additionally, there is a committed over-collateralisation of approximately 107% collateral in the cover pool of securitised assets, represented by the Demand Loan from the Bank to the Trust. The intra-group loans are repaid from cash flows from the loans receivable, and if these collections are insufficient to fully repay the loans, then the losses are borne by the lender (the Bank) and not by the Trust. The gain from write-off of the loans can only be recognised on the winding down of the Trust. This results in a timing mismatch which causes a decrease in the net assets of the Trust. This timing mismatch will reverse when the Trust reaches its Termination Date, and has no impact on the Trust's operations.

Therefore the Manager has determined that it is appropriate to prepare the Financial Statements on a going concern basis.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Trust's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant are discussed further in Note 1 (o).

1 Summary of significant accounting policies (continued)

(c) New Accounting Standards and Future Accounting Developments

Adoption of new accounting standards

AASB 9 *Financial Instruments*

The Trust adopted AASB 9 Classification and Measurement, AASB 9 Impairment requirements and amendments in AASB 2017-6 related to prepayment features on 1 July 2018. The Trust has elected an accounting policy choice in AASB 9 to retain AASB 139 *Financial Instruments: Recognition and Measurement* ("AASB 139") hedge accounting requirements, in line with the Commonwealth Bank of Australia Group's ("the Group") election. The Trust can commence applying AASB 9 hedging at the beginning of any reporting period in the future.

AASB 9 Classification, Measurement and Impairment requirements have been applied on a retrospective basis. The Trust has adjusted the carrying amounts of financial instruments resulting from adoption of AASB 9 through opening retained earnings on 1 July 2018 as if it has always applied the new requirements. As permitted by AASB 9, the Trust has not restated the comparative period financial statements.

The key changes to the Trust's accounting policies and the impacts resulting from the adoption of AASB 9 are described below.

Impairment

AASB 9 introduced an expected credit loss ("ECL") impairment model which differs significantly from the incurred loss approach under AASB 139. The ECL model is prospective and does not require evidence of an actual loss event for impairment provisions to be recognised.

The implementation of AASB 9 has required management to make a number of judgements and assumptions and has had a significant impact on the Trust's impairment methodology. A description of the key components of the Trust's AASB 9 impairment methodology is provided below.

ECL model

The ECL model applies to all financial assets measured at amortised cost. The model uses a three stage approach to recognition of expected credit losses. Financial assets migrate through these stages based on changes in credit risk since origination:

- *Stage 1: 12 months ECL - performing financial assets*
  On recognition, an impairment provision equivalent to 12 months' ECL is recognised against financial assets, being the credit losses expected to arise from defaults occurring over the next 12 months.
- *Stage 2: Lifetime ECL - performing financial assets that have experienced a significant increase in credit risk ('SICR')*
  Financial assets that have experienced a SICR since origination are transferred to Stage 2 and recognise an impairment provision equivalent to lifetime ECL, being the credit losses expected to arise from defaults occurring over the remaining life of the financial assets. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure is reclassified to Stage 1, and the impairment provision reverts to 12 months ECL.

1 Summary of significant accounting policies (continued)

(c) New Accounting Standards and Future Accounting Developments (continued)

- *Stage 3 - Lifetime ECL - non-performing financial assets*
  Non-performing Loans Financial assets in default recognise a provision equivalent to lifetime ECL. This includes assets that are considered credit impaired as well as assets that are considered to be in default but are not credit impaired.

Credit losses for financial assets in Stage 1 and Stage 2 are assessed collectively, whilst in Stage 3 are subjected to either collective or individual assessment of credit loss.

Interest revenue is recognised on gross carrying amounts for financial assets in Stage 1 and Stage 2, and gross carrying value net of impairment provisions for financial assets in Stage 3.

Significant increase in credit risk (SICR)

SICR is assessed by comparing the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination. The Trust considers all available qualitative and quantitative information that is relevant to assessing SICR.

Definition of default, credit impaired assets and write-offs

The definition of default used in measuring ECL is aligned to the definition used by the Bank for internal credit risk management purposes across all portfolios. Default occurs when there are indicators that a debtor is unlikely to meet contractual credit obligations to the Trust in full, or the exposure is 90 days past due. Financial assets are written-off when there is no realistic probability of recovery.

The Bank, as ultimate parent entity of the Trust, has developed and tested AASB 9 models, which the Trust used to calculate impairment provisions. Models have been independently validated and approved by the Group's Loan Loss Provisioning Committee and the Board Audit Committee. The Trust assessed impairment using the above methodology for cash and cash equivalents, loans to ultimate parent entity, interest receivable and collections of principal, interest and fees receivable.

ECL measurement

ECL is a probability weighted expected credit loss estimated by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions. The Trust uses the following four alternative macro-economic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL:

- Central scenario: This scenario reflects the Trust's base case assumptions used in business planning and forecasting, i.e. the economy continues along the current trajectory where economic growth continues supported by stable exchange rates and interest rates remaining at current levels over the short-term;
- Upside scenario: This scenario reflects the strengthening of the economy from the current state where the economy returns to above average growth and the central bank increases interest rates in the next year;
- Downside scenario: This scenario represents a deterioration from current state where the economy observes moderate weakening across most metrics as well as decreases in official interest rates; and

1 Summary of significant accounting policies (continued)

(c) New Accounting Standards and Future Accounting Developments (continued)

- Severe downside scenario: This scenario has been included to account for a potentially severe impact of less likely extremely adverse macro-economic conditions which would lead to the highest impairment losses expected over a longer horizon, such as a 30 year economic cycle.

Weights are assigned to each scenario based on management's best estimate of the proportion of potential future loss events that each scenario represents. The same economic scenarios and probability weights apply across all portfolios. The Group's assessment of SICR also incorporates the impact of multiple probability-weighted future forecast economic scenarios on exposures' internal risk grades using the same four forecast macro-economic scenarios as described above.

Incorporation of experienced credit judgement

Management exercises credit judgement in assessing if an exposure has experienced SICR and in determining the amount of impairment provisions at each reporting date. Where applicable, model adjustments are made to incorporate reasonable and supportable information about known or expected risks that have not been considered in the modelling process. This includes but is not limited to information about emerging risks at an industry, geographical location or a particular portfolio segment level.

Classification and Measurement

Under AASB 9, the classification and subsequent measurement of financial assets depends on:

- the business model within which the financial assets are managed; and
- the contractual cash flow characteristics of the asset, that is, whether the cash flows represent 'solely payments of principal and interest' (SPPI)

The Trust is also required to differentiate between financial asset debt instruments and financial asset equity instruments.

Financial asset debt instruments

There are three classifications of financial asset debt instruments under AASB 9:

- *Amortised cost*: Financial assets with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to collect their cash flows are measured at amortised cost.
- *Fair value through other comprehensive income (FVOCI):* Financial assets with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to both collect their cash flows and sell them are measured at FVOCI.
- *Fair value through profit or loss (FVTPL):* Financial assets that do not meet the criteria for classification as amortised cost or FVOCI are measured at FVTPL.

Financial asset equity instruments

Similar to AASB 139, AASB 9 requires investments in financial asset equity instruments to be measured at FVTPL, but permits non-traded equity investments to be designated at FVOCI on an instrument by instrument basis. Should this election be made under AASB 9, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. These gains or losses however, may be reclassified within equity.

1 Summary of significant accounting policies (continued)

(c) New Accounting Standards and Future Accounting Developments (continued)

AASB 15 *Revenue from Contracts with Customers*

The Trust has adopted AASB 15 *Revenue from Contracts with Customers* ("AASB 15") from 1 July 2018, replacing the previous standard, AASB 118 *Revenue* ("AASB 118"). AASB 118 focused on revenue recognition upon the transfer of risks and rewards from the seller to the buyer. AASB 15 has introduced a single, principle-based five step recognition and measurement model for revenue recognition with a focus on when the performance obligations of the contract are satisfied.

Where there is variable consideration in calculating a transaction price, revenue will only be recognised if it is highly probable that a significant revenue reversal will not subsequently occur. AASB 15 applies to contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases.

Impacts of adopting AASB 9 and AASB 15

AASB 9 Financial Instruments

Impairment

The adoption of AASB 9 Impairment requirements has resulted in a $23,264,000 increase in provisions for loan impairment and a corresponding $23,264,000 decrease in retained earnings as at 1 July 2018.

The increase in impairment provisions was mostly driven by the AASB 9 requirement to hold provisions equivalent to 12 months expected losses for performing loans and lifetime expected losses for loans that have experienced a significant increase in credit risk since origination as well as the impact of forward looking factors on expected credit losses estimates.

The following tables provide a reconciliation between provisions for impairment under AASB 139 as at 30 June 2018 and provisions for impairment determined in accordance with AASB 9 on 1 July for the Trust:

	Previous measurement category under AASB 139	Provision for impairment under AASB 139 $'000	Remeasure-ment $'000	Impairment provision under AASB 9 $'000
Financial assets under AASB 9				
Loans and other receivables	Amortised cost	-	**23,168**	**23,168**
Other assets		-	**96**	**96**
Total		-	**23,264**	**23,264**

Classification and Measurement

There is no impact to the Trust's classification and measurement of financial assets as a result of adopting the Classification and Measurement requirements.

AASB 15 Revenue from Contracts with Customers

The Trust's main source of revenue is interest income which is outside the scope of AASB 15. Fee income continues to be recognised over time on an accrual basis. Therefore, the adoption of AASB 15 did not result in any impact on the Trust.

1 Summary of significant accounting policies (continued)

(c) New Accounting Standards and Future Accounting Developments (continued)

Future Accounting Developments

AASB 16 *Leases*

On 1 July 2019, the Trust adopted AASB 16 *Leases* ("AASB 16") replacing AASB 117 *Leases* ("AASB 117"). AASB 16 amends the accounting for leases. Lessees are required to bring both operating and finance leases onto the Balance Sheet as a right of use asset along with the associated lease liability. Interest expense will be recognised in profit or loss using the effective interest rate method, and the right of use asset will be depreciated. Lessor accounting remains largely unchanged. There will be no impact from the adoption of AASB 16 on the basis that the Trust has not entered into any leases of any kind.

Other accounting developments

Other amendments to existing standards that are not yet effective are not expected to result in significant changes to accounting policies.

(d) Offsetting

Income and expenses are only offset in the Statement of Comprehensive Income if permitted under the relevant accounting standard. Financial assets and liabilities are offset and the net amount is presented in the Balance Sheet if, and only if, there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(e) Revenue and expense recognition

Revenue is measured based on the consideration to which the Trust expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

The Trust recognises revenue when a performance obligation to a customer is satisfied. The Trust recognises revenue from the following major sources:

(i) Interest income

Interest income is recognised on an accrual basis using the effective interest method and includes fees integral to the establishment of financial instruments. Fee income and direct costs relating to loan origination are deferred and amortised to interest earned on loans and other receivables over the life of the loan using the effective interest method.

Interest income is recognised on gross carrying amounts for financial assets in Stage 1 and Stage 2, and gross carrying amounts net of impairment provisions for financial assets in Stage 3.

(ii) Fee income

Fee income is recognised over time on an accrual basis.

(iii) Finance Costs

Finance costs relating to the loan from ultimate parent entity are recognised on an accrual basis using the effective interest method.

1 Summary of significant accounting policies (continued)

(e) Revenue and expense recognition (continued)

(iv) Other expenses

Other expenses are recognised on an accrual basis.

(f) Foreign currency translations

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the date of each transaction. Amounts receivable or payable in foreign currencies at balance date are translated at the rates of exchange on that date.

Monetary assets and liabilities denominated in foreign currencies are translated using the spot rate as at the reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

With the exception of the revaluations classified in equity, exchange differences relating to amounts measured at fair value in foreign currencies are recognised as exchange gains or losses in profit or loss in the Statement of Comprehensive Income.

(g) Income tax

Under current income tax legislation, the Trust is not liable for income tax provided its taxable income is fully distributed to the income unitholder.

(h) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Balance Sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of any amount of GST recoverable from, or payable to, the taxation authority.

1 Summary of significant accounting policies (continued)

(i) Cash and cash equivalents

Cash and cash equivalents presented in the Financial Statements comprise cash at bank and money at short call with an original maturity of three months or less. They are measured at the face value or the gross value of the outstanding balance. Cash at bank earns interest at a floating rate based on daily deposit rates.

Guaranteed Investment Contract account (GIC)

The Guaranteed Investment Contract account ("GIC account") is a deposit account established to provide a guaranteed return of 1 month BBSW on deposits made into the GIC account in accordance with the CBA Covered Bond Trust Account Bank Agreement.

Authorised Investment Account

The Authorised Investment account is a deposit account established to hold cash for the purposes of purchasing substitution assets from the Bank in order to increase the size of the cover pool. This is in accordance with the CBA Covered Bond Trust Account Bank Agreement.

Over Collateralisation account

The Over Collateralisation account ("OC account") is a deposit account established to provide a guaranteed return of 1 month BBSW on deposits made into the OC account in accordance with the CBA Covered Bond Trust Account Bank Agreement.

Swap Collateral Cash account

The Swap Collateral Cash account is a deposit account established into which cash is deposited by a swap provider as collateral to secure the performance by such swap provider of its obligations under the relevant swap agreement.

(j) Financial assets and liabilities

The Trust categorises its financial assets and liabilities in the following categories:

- Loans and other receivables
- Other receivables, excluding prepaid expenses
- Trade and other payables
- Liabilities at amortised cost - interest bearing liabilities
- Derivative financial instruments

(i) Loans and other receivables

Loans and other receivables are financial assets with fixed and determinable payments that are not quoted in an active market. They include loans to the ultimate parent entity. These financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The contractual cash flows on these financial assets comprise the payment of principal and interest only. These instruments are accordingly measured at amortised cost. Loans and other receivables are initially recognised at fair value including direct and incremental costs and are subsequently measured at amortised cost using the effective interest method and are presented net of provisions for impairment.

1 Summary of significant accounting policies (continued)

(j) Financial assets and liabilities (continued)

Under Australian Accounting Standards, securitised loans originated by the Bank and held by the Trust, are not permitted to be derecognised from the books of the Bank. Accordingly, transactions and balances have been classified as intra-group assets, liabilities, revenues and expenses. This applies to transactions which have taken place with either the Bank or entities within the Group.

On 1 July 2018, the Trust adopted the AASB 9 Impairment requirements, which resulted in the implementation of an expected credit loss impairment model. As a result, from 1 July 2018 provisions are recognised in accordance with the AASB 9 expected credit loss approach. The details of the Trust's accounting policies and critical accounting judgements and estimates involved in calculating AASB 9 impairment provisions for the year ended 30 June 2019 are provided in Note 1(c).

Mortgage loans rights are classified as amounts due from the ultimate parent entity.

Note 1(e) provides additional information with respect to revenue recognition.

(ii) Other receivables, excluding prepaid expenses

Other assets include collections of principal, interest and fees receivable from the ultimate parent entity as well as other unrealised income receivable and are recorded at the cash value to be realised when settled.

Interest bearing liabilities comprise of loans from the ultimate parent entity. For each bond issuance by the Bank there is a corresponding intra-group loan between the Trust and the Bank. The intra-group loans are denominated in Australian dollars and foreign currencies. The Trust also has a demand loan, which represents the over-collateralised amount of the cover pool. They are initially recognised at fair value, net of transaction costs incurred. Interest bearing liabilities qualifying for hedging are measured at fair value. All other notes are subsequently measured at amortised cost using the effective interest method.

Interest is recorded in the Statement of Comprehensive Income when incurred.

(iii) Trade and other payables

Interest payable is recognised at amortised cost using the effective interest method. All other trade and other payables are initially measured at fair value including direct and incremental costs and are subsequently carried at amortised cost. These payables represent liabilities for goods and services provided to the Trust prior to the end of the financial year and arise when the Trust becomes obliged to make future payments in respect to the purchase of these goods and services.

(iv) Liabilities at amortised cost - interest bearing liabilities

1 Summary of significant accounting policies (continued)

(j) Financial assets and liabilities (continued)

Interest bearing liabilities comprise of loans from the ultimate parent entity. For each bond issuance by the Bank there is a corresponding intra-group loan between the Trust and the Bank. The intra-group loans are denominated in Australian dollars and foreign currencies. The Trust also has a demand loan, which represents the over-collateralised amount of the cover pool. They are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest rate method. Interest bearing liabilities qualifying for hedging are measured at fair value. They are subsequently measured at amortised cost using the effective interest rate method.

(v) Derivative financial instruments

The Trust holds derivative financial instruments that comprise interest rate swaps and cross-currency swaps to manage exposures to interest rate and currency risks.

Derivative financial instruments are used to hedge certain assets and liabilities. They are initially measured at fair value. Subsequent to initial recognition, gains or losses on derivatives are recognised in the Statement of Comprehensive Income, unless they are entered into for hedging purposes and designated into a cash flow hedge. The valuation techniques include the use of discounted cash flow analysis and other market accepted valuation models. A positive revaluation amount of a contract is reported as an asset and a negative revaluation amount of a contract as a liability. Changes in fair value of the derivatives are reflected in profit or loss immediately as they occur unless a derivative is designated within a cash flow hedging relationship. Derivative assets and derivative liabilities are recognised at fair value and disclosed separately on the Balance Sheet.

Under Australian Accounting Standards, the securitised mortgage loans held by the Trust are not permitted to be derecognised from the financial statements of the originator. Derecognition is not permitted because the Bank provides interest rate swaps to the Trust and as a result retains exposure to substantially all the risks and rewards of the securitised loans. Under AASB 9, the Bank and the Trust should therefore not separately recognise the interest rate swaps in its entity-level Financial Statements.

Interest rate swaps and associated payments/receipts are therefore treated as part of imputed loans and intra-group interest, other than interest rate swaps that are designated to be in a hedging relationship.

These derivatives are held for risk management purposes and when transactions meet the criteria for hedge accounting they are classified into one of the two hedge accounting models: fair value hedge accounting or cash flow hedge accounting as appropriate.

Hedging strategy and hedge accounting

The Trust's Risk Management Strategy is to manage market risks within risk limits to minimise profit and capital volatility. The use of derivative and other hedging instruments for hedging purposes gives rise to potential volatility in the Income Statement because of mismatches in the accounting treatment between derivative and other hedging instruments and the underlying exposures being hedged. The Trust's objective is to reduce volatility in the Income Statement by applying hedge accounting.

1 Summary of significant accounting policies (continued)

(j) Financial assets and liabilities (continued)

Fair value hedges

Fair value hedges are used by the Trust to manage exposure to changes in the fair value of an asset, liability or unrecognised firm commitment, predominantly associated with loans to ultimate parent entity and interest bearing liabilities. Changes in fair values can arise from fluctuations in interest or foreign exchange rates. The Trust principally uses interest rate swaps and cross currency swaps to protect against such fluctuations.

Changes in the value of fair value hedges are recognised in the Statement of Comprehensive Income, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. All gains and losses associated with the ineffective portion of fair value hedge relationships are recognised immediately in the Statement of Comprehensive Income.

If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to the Statement of Comprehensive Income from the date of discontinuation over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the Statement of Comprehensive Income.

Cash flow hedges

Cash flow hedges are used by the Trust to manage exposure to variability in future cash flows which could affect profit or loss and may result from fluctuations in interest and exchange rates loans to ultimate parent entity and interest bearing liabilities. The Trust uses interest rate swaps and cross currency swaps to protect against such fluctuations.

Changes in fair value associated with the effective portion of a cash flow hedge are recognised through Other Comprehensive Income in the Cash Flow Hedge Reserve within equity. Ineffective portions are recognised immediately in the Statement of Comprehensive Income. Amounts deferred in equity are transferred to the Statement of Comprehensive Income in the period in which the hedged forecast transaction takes place.

When a hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified to profit or loss in the period in which the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recycled immediately to the Statement of Comprehensive Income. Where it is appropriate, non-derivative financial assets and liabilities are also designated as hedging instruments in cash flow hedge relationships.

Cash flow hedge reserve

The cash flow hedge reserve is used to record fair value gains or losses associated with the effective portion of designated cash flow hedging instruments. Amounts are reclassified to profit or loss when the hedged transaction impacts profit or loss.

1 Summary of significant accounting policies (continued)

(j) Financial assets and liabilities (continued)

Economic relationships and hedge effectiveness

The Trust performs both prospective and retrospective tests to determine the economic relationship between the hedged item and the hedging instrument, and to assess hedge effectiveness. At inception of the hedge relationship, prospective testing is performed on a matched terms basis. This test checks that the critical terms are matched between the hedging instrument and the hedged item. At the same time a hedging ratio is established by matching the notional of the derivatives with the principal of the portfolio or financial instruments being hedged, in most cases the ratio is 100%. Retrospective testing for each reporting period uses a regression model, which compares the change in the fair value of the hedged item and the change in the fair value of the hedging instrument. For a hedge to be deemed effective, the change in fair values should be within 80 to 125% of each other should the result fall outside this range the hedge would be deemed ineffective and recognised immediately through the Statement of Comprehensive Income in line with each hedge relationship policy above.

Sources of hedge ineffectiveness affecting hedge accounting are:

- Differences in discounting between the hedged item and the hedging instrument. Collateralised derivatives are discounted using Overnight Indexed Swaps (OIS) discount curves, which are not applied to the hedged item; and
- Change in the credit risk of the hedging instrument;

No other sources of hedge ineffectiveness have arisen during the year.

Derecognition of financial assets and liabilities

The derecognition of a financial asset takes place when the Trust no longer controls the contractual rights that comprise the financial asset, which is normally the case when it is sold, or all the cash flows attributable to the asset are passed through to an independent third party and the risks and rewards have substantially been transferred.

The derecognition of a financial liability takes place when, and only when, it is extinguished, which is when the obligation specified in the contract is discharged, cancelled or expires.

(k) Other assets

Accounting policies for collections of principal, interest and fees receivable from the ultimate parent entity and other unrealised income receivable are described in Note 1(j) above.

Prepaid expenses are recognised on the service performed basis and amortised over the period in which the economic benefits from these assets are received.

(l) Provisions

A provision is recognised in the Balance Sheet when the Trust has a present obligation (legal, equitable or constructive) as a result of a past event, and where it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured.

1 Summary of significant accounting policies (continued)

(m) Excess servicing fee payable to the income unitholder

Excess servicing fee payable to the income unitholder is accrued on a monthly basis as the excess income after all expenses have been accrued, except for unrealised gains or losses arising from fair value of financial instruments and impairment on loans and other receivables.

Excess servicing fee income represents the residual income of the Trust payable to the sole income unitholder, the Bank. Such income is offset with the interest income received on loans to the ultimate parent entity in the Financial Statements.

In accordance with the Trust Deed, the Trust distributes its distributable (taxable) income, and any other amounts determined by the Manager, to the income unitholder, the Bank.

(n) Trust capital

Trust corpus - the beneficial interest in the Trust is divided into two units: one capital unit and one income unit. The income unit is a separate class of unit to the capital unit.

Capital unit
The capital unitholder in the Trust is the Bank.

The beneficial interest in the Trust represented by the capital unit is in each asset of the Trust (other than the beneficial interests in the asset represented by the income unit).

Income unit
The income unitholder in the Trust is the Bank. The beneficial interest represented by the income unit is limited to due but unpaid excess distribution.

(o) Critical judgements and estimates

The application of the Trust's accounting policies requires the use of judgement, estimates and assumptions. The estimates and associated assumptions are based on historical experience and other factors, including expectations of future events, that are considered to be relevant, and are reviewed on an ongoing basis. Actual results may differ from these estimates, which could impact the Trust's net assets and profit. Critical accounting judgements and estimates involved in calculating AASB 9 provisions for impairment are provided in Note 1(c). The following critical accounting estimates and judgements were also made in preparing the Financial Statements:

(i) Derivative financial instruments

Derivative financial instruments at fair value through profit or loss are valued using inputs other than quoted prices which are observable for the asset or liability, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis and other market accepted valuation models.

The fair value of derivatives includes credit valuation adjustments (CVA) for derivative assets to reflect the credit worthiness of the counterparty. Fair value of uncollateralised derivative assets and uncollateralised derivative liabilities incorporate funding valuation adjustments (FVA) to reflect funding costs and benefits to the Trust. These adjustments are applied after considering any relevant collateral or master netting arrangements.

1 Summary of significant accounting policies (continued)

(p) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in these Financial Statements.

2 Revenue from continuing operations

	2019 $'000	2018 $'000
Interest income	**955,375**	857,301
Fee income	**7,332**	6,105
Net hedging ineffectiveness comprised of:		
Net gain on derivatives not qualifying as hedges	**-**	956
Amortisation of deferred startup costs	**37**	468
Exchange gain on foreign currency denominated interest bearing liabilities	**174**	307
Total revenue from continuing operations	**962,918**	865,137

3 Finance costs

	2019 $'000	2018 $'000
Interest expense on intra-group loan and demand loan - ultimate parent entity	**952,844**	855,687
Total finance costs	**952,844**	855,687

4 Provision for impairment losses

	2019 $'000	2018 $'000
Collective provision		
Opening balance	-	-
Change on adoption of AASB 9 (1)	**23,264**	-
Net collective provision funding	**4,148**	-
Closing balance	**27,412**	-
Total provisions for impairment losses	**27,412**	-

(1) The adoption of AASB 9 Impairment requirements on 1 July 2018 resulted in $23,264K increase in the Trust's collective provisions on loans and other receivables. As permitted by AASB 9, comparative information has not been restated. For details on the adoption of AASB 9 refer to Note 1 (c).

	2019 $'000	2018 $'000
Impairment on loan and other receivables		
Impairment expense	**4,148**	-
Total impairment expenses on loan and other receivables	**4,148**	-

Due to the substitution of non-performing or delinquent mortgage loans in the cover pool with performing loans, in order to meet the asset coverage test as described in Note 15(b), the majority of the credit exposures as at 30 June 2019 are classified in Stage 1 ($29,802,986,000) with the remaining amount ($2,904,171,000) in Stage 2. The provisions for impairment on these credit exposures are immaterial in aggregate and so corresponding movements in these provisions by ECL stage have not been presented.

5 Operating expenses

	2019 $'000	2018 $'000
Manager fees - related party	**7,591**	6,690
Trustee fees	**256**	256
Fair value hedge ineffectiveness	**78,664**	373
Other expenses	**2,227**	1,548
Total operating expenses	**88,738**	8,867

6 Remuneration of auditor

	2019	2018
	$	$
Audit fees	**31,404**	30,459

7 Loans and other receivables

	2019	2018
	$'000	$'000
Loans to ultimate parent entity	**32,707,157**	29,996,476
Less: Provision for impairment losses	**(27,329)**	-
Total loans and other receivables	**32,679,828**	29,996,476

8 Other assets

	2019	2018
	$'000	$'000
Deferred startup costs	**6,965**	6,754
Interest receivable on loans to ultimate parent entity	**44,199**	46,227
Collections of principal, interest and fees receivable - ultimate parent entity	**593,216**	565,435
Less: Provision for impairment losses	**(83)**	-
Total other assets	**644,297**	618,416

9 Derivative financial instruments

Hedging instruments

The following table provides details of the Trust's hedging instruments by the hedge relationship in which they are designated and the type of risk being hedged.

		2019		
Hedging Instruments	**Hedged Risk**	**Notional $'000**	**Fair Value Derivative Asset $'000**	**Fair Value Derivative Liability $'000**
Fair value hedges				
Interest rate swap	Interest rate	1,468,000	67,590	(43)
Cross currency swap	Interest rate and foreign exchange	22,301,645	3,873,570	-
Total fair value hedges		23,769,645	3,941,160	(43)
Cash flow hedges				
Interest rate swap	Interest rate	1,400,000	-	(487)
Cross currency swap	Foreign exchange	1,189,318	49,708	-
Total cash flow hedges		2,589,318	49,708	(487)
Total hedging instrument assets/(liabilities)		26,358,963	3,990,868	(530)

9 Derivative financial instruments (continued)

	2018		
	Notional amount	Fair value	
		Asset	Liability
	$'000	$'000	$'000
Derivative assets & liabilities			
Held for hedging	26,442,696	3,035,272	(64,028)
Total derivative assets/(liabilities)	26,442,696	3,035,272	(64,028)
Derivative held for hedging			
Fair value hedges			
Exchange rate related contracts:			
Cross currency swaps	11,224,873	3,037,076	(34,755)
Interest rate related contracts:			
Interest rate swaps	1,468,000	26,582	(12,868)
Total fair value hedges	**12,692,873**	**3,063,658**	**(47,623)**
Cash flow hedges			
Exchange rate related contracts:			
Cross currency swaps	12,349,823	(28,408)	(16,405)
Interest rate related contracts:			
Interest rate swaps	1,400,000	22	-
Total cash flow hedges	**13,749,823**	**(28,386)**	**(16,405)**
Total derivative assets/(liabilities) held for hedging	26,442,696	3,035,272	(64,028)
Derivatives held for economic hedging			
Interest rate related contracts:			
Total derivatives held for economic hedging	-	-	-
Total derivative assets/(liabilities) held for economic hedging	-	-	-

*The comparative amounts above have not been restated, as permitted under AASB7.

9 Derivative financial instruments (continued)

The table below provides maturity analysis of notional values of the Trust's hedging instruments by the type of hedge relationship in which they are designated and the type of risk being hedged.

		2019			
		Notional Amounts			
		Due within 1 year $'000	Due from 1 to 5 years $'000	Due beyond 5 years $'000	Total $'000
	Hedged Risk				
Fair value hedges	Interest rate	-	950,000	518,000	1,468,000
	Interest rate and foreign exchange	356,386	11,969,992	9,975,267	22,301,645
Cash flow hedges	Interest rate	-	1,400,000	-	1,400,000
	Foreign exchange	62,377	1,126,941	-	1,189,318

The weighted average receive fixed interest rate of interest rate swaps hedging interest rate risk is 3.27%. The major cross currency swaps designated in hedge relationships are receive EUR / pay AUD with weighted average foreign currency rate of AUD/EUR 0.68.

Hedged Items Cash Flow Hedges

The table below details the Trust's hedged items designated in cash flow by risk type being hedged.

		2019
Hedged Items	**Hedged Risk**	**Cash Flow Hedge Reserve[1] $'000**
Interest bearing liabilities	Interest rate	(2,763)
Interest bearing liabilities	Interest rate and foreign exchange	(148,825)
	Total	**(151,588)**

(1) Represents the accumulated effective amount of the hedging instrument deferred to cash flow hedge reserve. The cumulative amount that is related to ceased hedge relationships where the risk being hedged was interest rate risk is nil for the Trust.

9 Derivative financial instruments (continued)

Cash flow hedges - deferred gains and losses

The following table shows the net amount of deferred losses held in equity in relation to cash flow hedges.

	2019 $'000	2018 $'000
Exchange rate related contracts		
Within 6 months	**890**	752
6 months - 1 year	**-**	602
1-2 years	**-**	4,057
2-5 years	**83,262**	60,331
After 5 years	**67,436**	102,756
Net deferred losses	**151,588**	168,498

Hedged Items in Fair Value Hedges

The table below provides details of the Trust's hedged items designated in fair value hedge relationships by the type of risk being hedged.

		2019	
Hedged Items	**Hedged Risk**	**Carrying amount $'000**	**Fair Value Adjustment[1,2] $'000**
Interest bearing liabilities	Interest rate	**1,249,096**	**65,096**
Interest bearing liabilities	Interest rate and foreign exchange	**26,207,887**	**1,477,568**
	Total	**27,456,983**	**1,542,664**

(1) Represents the accumulated amount of the fair value adjustment included in the carrying amount. Positive amounts represent increases in the carrying amount of the asset or liability. The cumulative amount that is related to ceased hedge relationships where the risk being hedged was interest rate and foreign exchange risk is nil.

(2) Changes in fair value adjustment are used as a basis to determine effectiveness. The changes in fair value of the hedged items are recognised in fair value movement of financial instruments.

9 Derivative financial instruments (continued)

Hedge Effectiveness

The table below details effectiveness of the Trust's hedges by the type of hedge relationship and the type of risk being hedged.

	2019		
	Change in Value of Hedged Item[1] $'000	Change in Value of Hedging Instrument $'000	Hedge Ineffectiveness recognised in Income Statement[2] $'000
Fair value hedges			
Interest rate	(52,472)	52,406	(66)
Interest rate and Foreign exchange	(953,772)	875,175	(78,597)
Total fair value hedges	**(1,006,244)**	**927,581**	**(78,663)**
Cash flow hedges			
Interest rate	572	(572)	-
Foreign exchange	(17,484)	17,484	-
Total cash flow hedges	**16,912**	**(16,912)**	**-**

(1) Change in value of hedged item for fair value hedges impact to income statement in other banking income. Change in value of hedged Item for cash flow hedges is only used as basis for recognising the ineffectiveness and represents the lower of the hedged item and the hedging instrument. During the period the unrealised gains/ (losses) deferred to the cash flow hedge reserve were $17 million for Trust.

(2) Hedge ineffectiveness is recognised in fair value movement of financial instruments.

10 Trade and other payables

	2019 $'000	2018 $'000
Interest payable - ultimate parent entity	227,714	195,702
Excess servicing fees payable - ultimate parent entity	145,075	132,823
Manager fees payable - related party	662	645
Trustee fees payable	23	23
Other payables	275	245
Total trade and other payables	**373,749**	329,438

The majority of the amounts are due to be settled within twelve months of the Balance Sheet date.

11 Interest bearing liabilities

	2019 $'000	2018 $'000
Demand Loan	**7,983,117**	5,931,431
Intra-group loan by currency:		
AUD denominated	**2,637,330**	2,590,085
CHF denominated	**668,439**	630,628
EUR denominated	**19,162,257**	16,698,694
GBP denominated	**2,199,783**	2,119,738
HKD denominated	**1,114,033**	1,052,441
NOK denominated	**723,671**	731,601
NZD denominated	**316,361**	302,979
USD denominated	**3,279,843**	5,014,718
Total intra-group loan	**30,101,717**	29,140,884
Total interest bearing liabilities	**38,084,834**	35,072,315

The majority of the amounts are due to be settled more than twelve months after the Balance Sheet date.

12 Distribution

Distribution paid and payable to the income unitholder, the Bank, for the financial year was $nil (2018: $nil).

13 Trust corpus

Trust corpus as at 30 June 2019 was $200 (2018: $200), which is rounded to $nil.

Capital management

The Trust's capital management objectives are to ensure sufficient capital resource to support the Trust's business and operational requirements and comply with the Establishment Deed. Periodic reviews of the Trust's capital requirements are performed to ensure the Trust is meeting its objectives.

The Trust's capital is defined as "total assets" as shown in the Balance Sheet.

14 Reserves

	2019 $'000	2018 $'000
Cash flow hedge reserve		
Balance at 1 July	**(168,498)**	(49,267)
Changes in the fair value of derivatives	**16,910**	(119,231)
Balance at 30 June	**(151,588)**	(168,498)

15 Financial risk management

Financial risk management is the process of identifying, assessing, reporting and taking action to mitigate risks. The Trust's risks are managed under the Bank's overall risk management program which seeks to minimise the potential adverse effects of financial markets on the Bank and its subsidiaries.

The Trust has an exposure to market risk (including foreign exchange and interest rate), credit risk and liquidity risk. These risks are monitored and managed at a business unit level through the CBA Group's Risk Management Framework.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from the possibility that changes in currency exchange rates will affect the future cash flows of financial instruments.

The Trust has intra-group loans with the ultimate parent entity representing the bonds issued by the Bank. Intra-group loans denominated in foreign currencies (refer Note 11) give rise to foreign exchange risk as their carrying value in Australian dollars ("AUD") fluctuate due to changes in the exchange rates. The Trust mitigates foreign exchange rate risk by entering into cross-currency swaps with the Bank by transferring AUD cashflows on underlying mortgage assets and in exchange receives foreign currency cash flows to meet any payments on foreign currency liabilities to the Bank. The amount receivable on the cross currency swaps for each distribution period is calculated taking into account the commitments on each foreign currency intra-group loan. This effectively aligns the AUD cash flows receivable on the underlying mortgage assets and the foreign currency cash flows payable on the foreign currency liabilities from the Bank. Any volatility represents unrealised gains or losses due to the fair value movement in the derivative assets and liabilities.

(ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows of financial instruments.

15 Financial risk management (continued)

(a) Market risk (continued)

In relation to the Trust, interest rate risk arises due to the pricing on the underlying mortgage assets not matching the pricing of interest bearing liabilities. Interest rate risk is the current and prospective impact of changes in interest rates to which the Trust's earnings are exposed. The Trust mitigates interest rate risk by entering into a series of interest rate swaps with the Bank by transferring cash inflows from underlying mortgage assets and in return receives cash flows based on the Bank Bill Swap rate plus a margin sufficient to meet the interest commitments on the loans from the Bank, associated swaps and fees payable. The margin payable is calculated based on a weighted average margin of the liabilities to the Bank for each distribution period and also includes a margin for fees, including excess servicing fees payable to the Bank. This effectively aligns the cash flows receivable on the underlying mortgage assets and the cash flows payable on the liabilities from the Bank resulting in nil cash flow hedge ineffectiveness recorded in the Statement of Comprehensive Income. Any residual income after payment for fees is distributed to the Bank as an excess servicing fee. Any volatility represents unrealised gains or losses due to the fair value movement in the derivative assets and liabilities. This is a result of limited fair value hedge ineffectiveness recorded in the Statement of Comprehensive Income.

(b) Credit risk

Credit risk is the potential of loss arising from failure of a debtor or counterparty to meet their contractual obligations. The maximum exposure to credit risk at the end of the reporting period, excluding the value of any collateral or other security, in relation to recognised financial assets, is the carrying value of those assets as disclosed in the Balance Sheet and Notes to the Financial Statements.

In relation to the Trust, credit risk arises due to the potential of loss arising from mortgage holders failing to meet repayments on the underlying mortgage assets. The home loans are serviced by the Bank, including foreclosure of homes. All home loans are secured by fixed charges over borrowers' residential properties. Further, Lenders Mortgage Insurance (LMI) is taken out for most loans with a Loan to Value Ratio (LVR) higher than 80% at origination to cover 100% of the original principal plus interest.

The credit risk of the bonds issued by the Bank is reflective of the underlying mortgages in the covered bond pool. The risk in relation to the bonds issued by the Bank is considered to be low, as the bonds issued are AAA-rated. The Manager monitors the mortgages in the covered bond pool to ensure it meets an asset coverage test. Any mortgage assets that do not satisfy the asset coverage test, including non-performing or delinquent mortgages are repurchased by the Bank and substituted with performing mortgages. The difference between the operational date of repurchases and date of Investor Reports give rise to minimal timing differences. As a result, there are no impaired or past due receivables as at 30 June 2019 (2018: $nil).

(c) Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations as they fall due.

Liquidity risk may arise as the maturity profile of the covered assets does not match the bullet maturities of the covered bonds. This can create a need for liquidity, especially if the Bank defaults immediately prior to the maturity of a covered bond. In this case, the Trust may not have time to raise enough funding against the cover pool to repay the covered bonds on a timely basis. This is particularly true if the assets in the cover pool are not regularly traded, as is the case for Australian residential loans.

15 Financial risk management (continued)

(c) Liquidity risk (continued)

For this reason, covered bonds issued under the covered bonds programme will either be issued as soft-bullet covered bonds with a maturity extension period of up to one year or, otherwise, as hard-bullet covered bonds subject to a 12-month pre-maturity test. This allows the Trust up to 12 months to raise liquidity by selling all or part of the cover pool.

In the event a pre-maturity test is breached, the Trust can request a demand loan drawdown from the Bank, request the Bank to repurchase cover pool assets, or sell cover pool assets to an amount sufficient for the Trust to meet its obligations under the covered bond programme.

Where soft-bullet covered bonds are issued, in the event that the Bank fails to pay all amounts due on the scheduled maturity date the scheduled final maturity will automatically be extended by 12 months to the extended payment date. This allows the Trust up to 12 months to raise liquidity by selling all or part of the cover pool.

As required by the Banking Act, the Trust is required to maintain an over-collateralisation of at least 3% of the bonds issued. This over-collateralisation enables the Trust to collect greater interest and fee income from the underlying mortgages, which assists in mitigating any liquidity risk that it may face. There were no breaches of the Banking Act identified for the current financial year.

These features considerably minimise the risk of the Trust defaulting in the event of a default by the Bank.

Maturity analysis of financial liabilities

	0-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000
As at 30 June 2019					
Financial liabilities					
Excess servicing fees payables - ultimate parent entity	145,075	-	-	-	145,075
Manager fees payable - related party	662	-	-	-	662
Trustee fees payable	23	-	-	-	23
Other payables	98	177	-	-	275
Demand Loan Interest payable	15,726	-	-	-	15,726
Intra-group Loan Interest payable	147,899	387,128	1,438,316	1,213,438	3,186,781
Intra-group Loan Principal	537,612	85,174	15,668,859	13,810,072	30,101,717
Derivative liabilities	-	-	494	36	530
Demand Loan Principal	7,983,117	-	-	-	7,983,117
Total financial liabilities	**8,830,212**	**472,479**	**17,107,669**	**15,023,546**	**41,433,906**

15 Financial risk management (continued)

Maturity analysis of financial liabilities (continued)

	0-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000
As at 30 June 2018					
Financial liabilities					
Excess servicing fees payables - ultimate parent entity	132,823	-	-	-	132,823
Manager fees payable - related party	645	-	-	-	645
Trustee fees payable	23	-	-	-	23
Other payables	158	87	-	-	245
Demand Loan Interest payable	14,570	-	-	-	14,570
Intra-group Loan Interest payable	115,185	403,692	1,342,646	1,017,214	2,878,737
Intra-group Loan Principal	-	5,383,459	13,970,901	9,786,524	29,140,884
Derivative liabilities	-	-	42,902	21,126	64,028
Demand Loan Principal	5,931,431	-	-	-	5,931,431
Total financial liabilities	6,194,835	5,787,238	15,356,449	10,824,864	38,163,386

Fair Values

According to AASB 13 *Fair Value Measurement*, fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at measurement date.

The carrying value of financial assets and liabilities, excluding derivative financial instruments are assumed to approximate their fair value due to their short-term nature.

The Trust uses various methods in estimating fair value. The methods comprise:

Level 1 - the fair value is calculated using quoted prices unadjusted in active markets.

Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 - the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

Fair Value Hierarchy for Financial Assets and Liabilities measured at Fair Value

The classification in the fair value hierarchy of the Trust's financial assets and liabilities measured at fair value is presented in the table below. No transfers were made between levels during the year ended 30 June 2019:

15 Financial risk management (continued)

Fair Value Hierarchy for Financial Assets and Liabilities measured at Fair Value (continued)

Fair value as at 30 June 2019

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value on a recurring basis				
Derivative financial instruments	-	3,990,868	-	3,990,868
Total financial assets measured at fair value	-	3,990,868	-	3,990,868
Financial liabilities measured at fair value on a recurring basis				
Derivative financial instruments	-	(530)	-	(530)
Total financial liabilities measured at fair value	-	(530)	-	(530)

Fair Value as at 30 June 2018

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value on a recurring basis				
Derivative financial instruments	-	3,035,272	-	3,035,272
Total financial assets measured at fair value	-	3,035,272	-	3,035,272
Financial liabilities measured at fair value on a recurring basis				
Derivative financial instruments	-	(64,028)	-	(64,028)
Total financial liabilities measured at fair value	-	(64,028)	-	(64,028)

The carrying value of the Trust's financial assets and liabilities not disclosed in the table above are assumed to be approximate to their fair value.

16 Key management personnel

The Directors of the Manager have been determined to be key management personnel ("KMP") within the scope of AASB 124 *Related Party Disclosures*. The names of persons who were Directors of the Manager at any time during the financial year are as follows:

J Ferguson (appointed 27 August 2018)
C McBride (appointed 28 September 2018)
T Harvey (resigned 21 December 2018)
K Robb (appointed 3 July 2019)
S R D Maidment (resigned 3 July 2019)
J Olivier (resigned 27 August 2018)
P Katerdjian (resigned 14 September 2018)

Directors were in office for the full period unless otherwise stated.

None of the Directors hold any shares, options or other interests in the Trust.

Compensation of key management personnel

The Manager's KMP are employees of the ultimate parent entity, the Bank. The Manager receives management services from the Bank, which includes the provision of KMP. The Manager does not remunerate KMP or directly reimburse the Bank for this cost. No management fees are paid by the Trust to the Bank. It is also the practice of the Bank that its employees are not remunerated for director appointments as their role as KMP is incidental to their role as an employee of the Bank.

There were no other transactions between the Manager and KMP during the financial year (2018: $nil).

Loans and other transactions

Any loans to KMP or other related parties are made by the Bank, a provider of finance on terms and conditions that apply to similar transactions with other Directors or or employees of the Bank. There were no loans provided to any KMP or their related parties for the year ended 30 June 2019 (2018: $nil).

There were no other transactions with KMP during the financial year (2018: $nil).

17 Related party transactions

Ultimate parent entity

The ultimate parent entity is the Commonwealth Bank of Australia.

Transactions with related parties

Manager fees

The Trust pays management fees to the Manager, which is a wholly owned subsidiary of the Bank. The fee is calculated as 0.03% per annum applied to the average balance of the covered bonds issued by the Bank in the determination period. The determination period is the period between the first day of the month and the last day of the month, inclusive of both days.

17 Related party transactions (continued)

Transactions with related parties (continued)

Servicing fees

The Trust also pays servicing fees to the ultimate parent entity. The fee is calculated as 0.25% per annum applied to the average balance of the covered bonds issued by the Bank in the determination period. Servicing fees are disclosed within 'Interest income' under ultimate parent entity.

Loans

The Trust has intra-group loans with the ultimate parent entity. The intra-group loans correspond to the covered bonds issued by Bank, which are issued in Australian Dollars and foreign currencies (refer Note 11). Each covered bond issuance will have either a fixed interest rate or a floating rate based on the interbank rate (LIBOR, EURIBOR, HIBOR, BBSW), plus a margin. The intra-group loans' interest rate on each tranche mirrors the relevant covered bond issuance interest rate. The Trust is required to pay to the intra-group loan provider interest on the daily balance of the intra-group loans.

The Trust also has a demand loan with the ultimate parent entity. The demand loan corresponds to the over-collateralised portion of the cover pool. The Trust is required to pay to the demand loan provider, the ultimate parent entity, interest on the daily balance of the demand loan. The interest payable is calculated at 1M BBSW plus a margin of 1.10%. As at 30 June 2019 the balance of the demand loan is $7,983,117,083 (2018: $5,931,430,993).

	2019	2018
	$	$
The following transactions occurred with related parties:		
Revenue		
Ultimate parent entity:		
Interest income	**955,375,046**	857,300,977
Fee income	**7,332,344**	6,105,286
Net hedging ineffectiveness comprises of:		
Net gain on derivatives not qualifying as hedges	**-**	956,629
Amortisation of deferred startup costs	**37,091**	468,238
Exchange gain on foreign currency denominated interest bearing liabilities	**173,959**	307,144
Total revenue from continuing operations	**962,918,440**	865,138,274

17 Related party transactions (continued)

	2019 $	2018 $
Expenses		
Ultimate parent entity:		
Finance costs on intra-group loan and demand loan	**952,844,060**	855,687,371
Other expenses	**1,974,633**	1,249,237
Net hedging ineffectiveness comprises of:		
Net loss on financial instruments designated in a fair value hedge relationship	**612,463**	373,349
Manager:		
Manager fees	**7,591,387**	6,689,931
Total expenses	**963,022,543**	863,999,888

	2019 $	2018 $
Assets		
Ultimate parent entity:		
Cash and cash equivalents	**887,546,001**	1,648,208,858
Loans to ultimate parent entity	**32,679,828,375**	29,996,475,650
Derivative assets	**3,990,867,874**	3,035,272,334
Deferred startup costs	**6,964,986**	6,753,936
Interest receivable	**44,199,496**	46,227,068
Collections of principal, interest and fees receivable - ultimate parent entity	**593,132,618**	565,434,869
Total assets	**38,202,539,350**	35,298,372,715

	2019 $	2018 $
Liabilities		
Ultimate parent entity:		
Interest payable	**227,713,910**	195,701,810
Excess servicing fees payable	**145,075,103**	132,823,237
Derivative liabilities	**530,352**	64,028,451
Other payables	**97,691**	158,405
Loans from ultimate parent entity	**38,084,833,684**	35,072,314,686
Manager:		
Manager fees payable	**661,773**	645,009
Total liabilities	**38,458,912,513**	35,465,671,598

18 Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents includes cash at bank.

	2019 $'000	2018 $'000
Cash at bank	**887,546**	1,648,209
Cash and cash equivalents at the end of the year	**887,546**	1,648,209

(b) Reconciliation of (loss)/profit for the year to net cash inflow/(outflow) from operating activities

	2019 $'000	2018 $'000
(Loss)/profit for the year	**(82,812)**	583
Adjustment for non cash items:		
Fair value movement of derivatives through profit or loss	**78,664**	(583)
Hedge interest	**(36,280)**	(14,132)
Impairment on loans and other receivables	**4,148**	-
Change in operating assets and liabilities:		
Increase in other assets	**(7,785)**	(12,909)
Increase in interest payable	**32,012**	20,817
Increase in other payables	**12,297**	4,321
Net cash inflow/(outflow) from operating activities	**244**	(1,903)

18 Notes to the Statement of Cash Flows (continued)

(c) Reconciliation of liabilities arising from financing activities

	Interest bearing liabilities $'000	Total $'000
Balance at 1 July 2017	**30,912,714**	**30,912,714**
Changes from financing cash flows		
Repayment of loans to ultimate parent entity	(2,460,593)	(2,460,593)
Proceeds from loans from ultimate parent entity	5,525,338	5,525,338
Adjustment for non-cash items		
Fair value movements of fair value hedges on loans payable	8,596	8,596
Foreign exchange movements on loan payable and related hedges	1,157,849	1,157,849
Amortisation of upfront costs	(71,589)	(71,589)
Balance at 30 June 2018	**35,072,315**	**35,072,315**
Balance at 1 July 2018	**35,072,315**	**35,072,315**
Changes from financing cash flows		
Repayment of loans to ultimate parent entity	(4,535,998)	(4,535,998)
Proceeds from loans from ultimate parent entity	6,503,951	6,503,951
Adjustments for non-cash items		
Fair value movements of fair value hedges on loans payable	1,006,244	1,006,244
Foreign exchange movements on loan payable and related hedges	48,774	48,774
Amortisation of upfront costs	(10,452)	(10,452)
Balance at 30 June 2019	**38,084,834**	**38,084,834**

19 Contingent liabilities, contingent assets and commitments

There were no outstanding contingent liabilities, contingent assets or commitments as at 30 June 2019 (2018: $nil).

20 Events subsequent to the balance sheet date

The Manager is not aware of any matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Trust, the results of those operations or the state of affairs of the Trust in subsequent financial years.

In the opinion of the Manager:

(a) the Financial Statements and Notes thereto comply with Australian Accounting Standards and the Establishment Deed dated 13 November 2011;

(b) the Financial Statements and Notes thereto give a true and fair view of the Trust's financial position as at 30 June 2019 and of its performance for the financial year ended 30 June 2019;

(c) in compliance with the accounting standards, the Notes to the Financial Statements include an explicit and unreserved statement of compliance with International Financial Reporting Standards (see Note 1(b));

(d) the Trust operated during the year ended 30 June 2019 in accordance with the provisions of the Establishment Deed; and

(e) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of Securitisation Advisory Services Pty Limited as Manager of CBA Covered Bond Trust.

Director
Sydney
15 October 2019

The General Purpose Financial Statements for the financial year ended 30 June 2019 have been prepared by the Trust Manager, Securitisation Advisory Services Pty Limited as required by the Establishment Deed.

The Auditor of the Trust, PricewaterhouseCoopers, who has been appointed by us in accordance with the Establishment Deed, has conducted an audit of these Financial Statements.

A review of operations of the Trust and the results of those operations for the reporting period is contained in the Manager's report.

Based on our ongoing program of monitoring the Trust, the Trust Manager and our review of the Financial Statements, we believe that:

(i) the Trust has been conducted in accordance with the Establishment Deed; and

(ii) the Financial Statements have been appropriately prepared and contain all relevant and required disclosures.

We are not aware of any material matter or significant change in the state of affairs of the Trust occurring up to the date of this report that requires disclosure in the Financial Statements and the Notes thereto that has not already been disclosed.

Signed for and on behalf of Perpetual Corporate Trust Limited as Trustee of CBA Covered Bond Trust.

Sydney
15 October 2019

Independent auditor's report

To the unitholders of CBA Covered Bond Trust

Our opinion

In our opinion the accompanying financial report gives a true and fair view of the financial position of CBA Covered Bond Trust (the Trust) as at 30 June 2019 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2019
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the manager's statement.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Trust in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The Manager of the Trust is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Trust Manager for the financial report

The Manager of the Trust is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such internal control as the Manager of the Trust determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Manager of the Trust is responsible for assessing the ability of the Trust to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager of the Trust either intends to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Ashley Wood

A S Wood
Partner

Sydney
15 October 2019