

Target Market Determination – Fixed Rate Home Loan and Fixed Rate Investment Home Loan

This is the target market determination (**TMD**) for the purposes of section 994B of the *Corporations Act 2001* (Cth) (**Corporations Act**) for the Fixed Rate Home Loan and the Fixed Rate Investment Home Loan (each a **Product**).

The issuer of the Product is Bank of China (Australia) Limited (**Bank**). This TMD sets out certain information relevant to the Bank's compliance with the design and distribution (**DDO**) framework in the Corporations Act, including the:

- class of consumers that makes up the target market for the Product;
- conditions that will be imposed on the distribution of the Product;
- requirements for the Issuer to review the TMD; and
- requirements for distributors to report certain information to the Issuer.

This TMD does not provide a complete list of the features and terms and conditions of the Product. This TMD should be read in conjunction with the Fixed Rate Home Loan and Fixed Rate Investment Home Loan Product Sheets and other information available on the Bank's website in relation to the Product. A copy of these documents can be accessed on the Bank's website at www.bankofchina.com/au or from the Bank's retail branches in Australia during business hours (free of charge). If a home loan application is approved, the Home Loan Agreement issued following any approval will govern the specific terms and conditions that apply to that particular Product.

This TMD has been prepared without taking into account any person's individual needs, objectives, or financial situation. If you are considering a Fixed Rate Home Loan and/or Fixed Rate Investment Home Loan, we encourage you to understand how it may affect your personal circumstances and seek professional advice (such as, independent legal and financial advice).

Capitalised terms have the meaning given to them in the Home Loan General Terms, unless otherwise defined.

Product	<ul style="list-style-type: none"> • Fixed Rate Home Loan; and • Fixed Rate Investment Home Loan.
Issuer	Bank of China (Australia) Limited ABN 28 110 077 622 AFSL 287322 ACL 287322 (Bank)
Date of TMD	5 October 2021
Target Market	<p>Description of target market</p> <p>People who are looking to purchase or refinance a home (in the case of the Fixed Rate Home Loan) or investment property (in the case of the Fixed Rate Investment Home Loan) and want the certainty of a fixed interest rate and fixed repayments for periods of between 1 and 5 years (after which they elect to enter a further fixed interest period or revert to a variable rate loan).</p> <p>This Product comes with options that allow the borrower to either:</p>

- make interest only payments during an initial period of 1 to 5 years at the beginning of the loan (for which the target market is limited to persons who do not need to and do not wish to make repayments of principal during the fixed rate period); or
- make principal and interest repayments during the fixed rate period (for which the target market includes persons who either wish to or need to make repayments of the principal amount during the fixed rate).

Description of product, including key attributes

The Fixed Rate Home Loan and the Fixed Rate Investment Home Loan are loans that operate for maximum loan terms of up to 30 years but for which customers may:

- elect to fix their interest rate and repayments for available periods of between 1 and 5 years (after which if the loan is not repaid the customer may elect a new fixed rate period or revert to a variable rate loan); and
- elect to have interest only repayments at the beginning of the loan for periods of between 1 and 5 years (provided any interest only period ends no later than 5 years from commencement) after which if the loan is not repaid the customer makes principal and interest repayments for the remaining term).

Key attributes of each Product include:

- the loan is secured against the property being financed;
- the minimum loan amount is \$150,000;
- the maximum loan term is up to 30 years;
- the loan offers a fixed interest rate for periods of 1 to 5 years at the beginning of the loan;
- the loan has fixed repayment amounts during the fixed interest rate period;
- the repayment options include 'principal and interest' or 'interest only' for the periods of 1 to 5 years at the beginning of the loan;
- the repayment frequency is either monthly or fortnightly;
- additional repayments of up to \$10,000, without break costs, can be made in the 12 months before each settlement anniversary;
- the loan offers the ability to make limited redraws of additional repayments that have been made in addition to the required minimum repayments;
- the ability to switch from the 'principal and interest' option to the 'interest only' option (provided the 'interest only' option would end before the end of the 5th anniversary of the loan), and between the 'interest only' and the 'principal and interest' option, without break costs;
- an obligation for the customer to pay break costs if the loan is repaid before the end of the fixed interest period. Break costs are an amount that reflect the lender's loss because the lender will not be receiving interest at the agreed rate for the agreed period;
- other fees and costs payable in respect of the loan include an annual service fee, a rate lock in fee, an early repayment fee, discharge service

fees and certain third party fees (for example, for preparation of valuations); and

- for customers where the value of their loan exceeds 80% of the value of the property over which the loan is secured, a requirement for the customer to pay the costs of lender's mortgage insurance.

For those customers selecting the 'interest only' option available under the Product the following additional key attributes apply:

- a smaller payment obligation during the 'interest only' period; and
- no reduction of the principal amount during the interest only period with the result that the total amount of interest over the life of the loan will be higher when compared to a loan with repayments that include principal and interest.

Description of likely objectives, financial situation and needs of consumers in the target market

This Product is generally designed for customers whose:

- Likely objectives include:
 - seeking the certainty of a fixed interest rate;
 - seeking the certainty of fixed repayments,in each case over a period of between 1 and 5 years (with an ability to elect further fixed rate periods after that time);
- Likely financial situation include:
 - meeting the Bank's credit assessment and eligibility requirements including having a regular income for the term of the loan and:
 - in respect of the Fixed Rate Home Loan - being owner/occupiers; and
 - in respect of the Fixed Rate Investment Loan - being investors in a property that is used for residential purposes;
- Likely needs includes:
 - needing funds to purchase or refinance a home (in the case of the Fixed Rate Home Loan) or investment property (in the case of the Fixed Rate Investment Home Loan).

In addition, the 'interest only' option available under the Product is designed for customers whose:

- Likely objectives include:
 - not seeking to make repayments of principal during the interest only period (for example because they wish to maximise the amount of credit they can borrow or because they wish to minimise repayments during the interest only period so they can make capital improvements to their property, fund other expenses or accommodate a temporary period of reduced income);
 - in the case of the Fixed Rate Investment Home Loan, seeking to make interest only repayments that can be off-set against income for tax purposes;
- Likely financial situation include:

- meeting the Bank's credit assessment and eligibility requirements referred to above and do not need to make repayments of principal during the interest only period for example because:
 - the borrower will be able to repay the loan after the end of the interest only period by the end of the term by reverting to normal principal and interest repayments; or
 - in the case of the Fixed Rate Investment Home Loan, the property is an investment property and they will not have to sell their principal place of residence to repay the loan, even if the loan will not be repaid by the end of the loan term; or
- Likely needs include:
 - needing funds to purchase or refinance a home (in the case of the Fixed Rate Home Loan) or investment property (in the case of the Fixed Rate Investment Home Loan).

Classes of consumers for whom the product is clearly unsuitable

This Product is not suitable for customers who:

- do not meet the Bank's credit assessment and eligibility requirements;
- wish to use the loan to fund construction or renovations or otherwise wish to make progressive draws of the loan amount;
- seek additional features or flexibility on their home loan such as:
 - the ability to make extra repayments exceeding \$10,000 per annum or
 - the ability to link their loan to an offset account.

However this Product may be not be unsuitable where it is held by the customer in conjunction with another home loan (such as a variable rate loan) which gives the customer access to these features.

In addition, the selection of the 'interest only' option for an initial period of 1 to 5 years at the beginning of the loan under this Product is not suitable for customers:

- who wish to reduce the principal amount owing during the fixed rate period; or
- whose primary objective is to minimise the total amount of interest payable over the entire period of the loan.

Explanation of why the product is likely to be consistent with the likely objectives, financial situation and needs of consumers in the target market

The Bank considers that the Product is likely to be consistent with the likely objectives, financial situation and needs of customers in the target market because:

- as a home loan, the Product is specifically intended for the purpose of financing residential homes (either for owner/occupiers under the Fixed Rate Home Loan or for investors under the Fixed Rate Investor Home Loan);

	<ul style="list-style-type: none"> the fixing of interest during the elected period of between 1 and 5 years is consistent with the likely objectives of customers who are seeking certainty in the amount of the repayments because the underlying rate of interest does not change during the fixed rate period even if the prevailing rates of interest in the credit market change. This means that the repayment amounts do not change with changes in the prevailing interest rate. Although underlying fees and charges may result in minor changes to the total amounts to be paid by the customer, the total amounts payable during a fixed rate period are much more stable when compared with customers on a variable rate; the provision of different fixed rate periods allows customers to select an option that reflects their own objectives; and the Product is likely to reflect the financial circumstances of customers because the eligibility criteria include criteria relating to their financial circumstances. <p>In the case of the interest only option that feature is likely to be consistent with the likely objectives, financial situation and needs of customers in the target market for customer seeking that option because:</p> <ul style="list-style-type: none"> the provision of different interest only periods allows customers to select an option that reflects their own objectives; it allows those customers to minimise their repayment obligations during the nominated interest only period. This may allow them to maximise their loan amount, particularly for Fixed Rate Investor Home Loans, or to accommodate temporary periods of increased expenditure or reduced income particularly in the case of owner/occupiers.
Distribution Conditions	<p><i>Distribution conditions</i></p> <p>The Product can only be distributed by:</p> <ul style="list-style-type: none"> employees of the Bank and its related corporations, in branch (through one of the Bank's branches in Australia), who are supervised by responsible managers under the Bank's Australian Credit Licence and who are required to comply with the Bank's internal policies and procedures and training requirements for the origination of home loans; and the Bank's panel aggregators (and the accredited member brokers under these aggregators) and panel referrers who are required to comply with the requirements of law including the obligations imposed on them as the holder of an Australian Credit Licence or as representative of a relevant licensee (such as an aggregator), or in limited circumstances within the confines of a specific exemption that applies to them (for example referrers acting under the mere referral exemption can only assist in putting prospective customers in contact with the Bank and are not permitted to

	<p>provide recommendations or suggestions about the suitability of a particular credit contract or assist a prospective to apply for credit).</p> <p>Third party distributors are not agents of the Bank and are not authorised to independently approve an application for credit or represent to customers that credit will be approved (except where the Issuer has confirmed credit approval has been granted).</p> <p>The procedures applied to all of the Bank's distribution channels (direct and indirect) ensure that the Bank collects the necessary information in a loan application that will include information about the customer's needs, objectives and financial situation to ensure that the customers meet the eligibility requirements for the loan and fall within the target market.</p> <p><i>Why the distribution conditions and restrictions will make it more likely that the consumers who acquire the product are in the target market</i></p> <p>The Bank considers that the distribution conditions mean that it is likely that customers who acquire the Product will be in the target market because:</p> <ul style="list-style-type: none"> • all employees involved in the origination of fixed rate home loans will be required to follow the Bank's internal procedures for loan approvals and training in relation to home loan origination that together allow them to understand the classes of customer for whom a fixed rate loan is suitable or not suitable (including where relevant the types of customer for whom a fixed rate loan provided under an 'interest only' option is likely to be suitable); • third party distributors who are involved in the origination of fixed rates loans such as aggregators and their accredited broker groups as credit licensees or credit representatives: <ul style="list-style-type: none"> ○ in most cases are likely to be under separate obligations to undertake individualised preliminary loan unsuitable assessments under responsible lending laws that will help them identify whether the customer's needs, objectives and financial situation are consistent with that of the target market; and ○ in any event as a consequence of their involvement in regulated lending will be experienced and trained in understanding the types of customer for whom a fixed rate home loan (including an interest only loan) will be suitable; and • the Bank will have the opportunity to check all loan applications for new customers (irrespective of the origination channel) before they are approved for consistency with the Bank's eligibility criteria which include considerations relating to needs, objectives and the financial circumstances of customers.
<p>Review Triggers</p>	<p>The review triggers that would reasonably suggest that the TMD is no longer appropriate in relation to a Product include:</p>

	<ul style="list-style-type: none"> • there are significant changes to the key attributes of the Product as described in this document that make it reasonable to conclude that the Product of the options contained in it would no longer be consistent with the relevant TMD; • there are significant changes to the methods of distribution of the Product that make it reasonable to conclude that the TMD does not reflect the actual distribution methods used by the Bank; • there are unexpectedly high rates of default or unusually high numbers of hardship applications in relation to the Product (except where explainable by external factors unrelated to product attributes or distribution arrangements); • there are unexpectedly high rates of customers switching to other loan products offered by the Bank within a 12 month period or repaying their loan before the end of their selected fixed interest rate period (in either case except where explainable by external factors unrelated to product attributes or distribution arrangements); • the bank identifies a significant dealing of the Product outside of the target market that it is required to report to ASIC; • a significant number of complaints is received from customers in relation to their purchase or use of the product that reasonably suggests that the TMD for the product as whole (or any for any options within the product is no longer appropriate; and • ASIC has utilised its product intervention power in Part 7.9A of the Corporations Act to intervene in relation to this product. 						
Review Periods	<p>First review date: Within 1 year from 5 October 2021.</p> <p>Periodic reviews: Within 2 years after the initial review date and each subsequent review date after that.</p>						
Distribution Information Reporting Requirements	<p>The following information must be provided to Bank of China (Australia) Limited by distributors who engage in retail product distribution conduct in relation to this product. Unless otherwise specifically exempted by the bank this includes all persons who distribution activities fall within Excluded Conduct (such as financial advisors providing 'personal advice' under financial services law and mortgage brokers who are subject to the 'best interests duty' under credit law).</p> <table border="1" data-bbox="416 1899 1410 1998"> <thead> <tr> <th data-bbox="416 1899 783 1951">Type of information</th> <th data-bbox="783 1899 1098 1951">Description</th> <th data-bbox="1098 1899 1410 1951">Reporting period</th> </tr> </thead> <tbody> <tr> <td data-bbox="416 1951 783 1998">Complaints</td> <td data-bbox="783 1951 1098 1998">Number of complaints,</td> <td data-bbox="1098 1951 1410 1998">Every 6 months within</td> </tr> </tbody> </table>	Type of information	Description	Reporting period	Complaints	Number of complaints,	Every 6 months within
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		nature and substance of the complaint	10 business days from the end of the period
	Significant dealing(s) ¹	Date or date range of the significant dealing(s) and description of the significant dealing (e.g., why it is not consistent with the TMD)	As soon as practicable, and in any case within 10 business days after becoming aware
	Dealing outside the target market	Date or date range of any dealing outside the target market of which the distributor is aware, a description of the dealing and any reasons why there was a dealing outside the target market	Every 6 months within 10 business days from the end of the period.

¹ For example, a distributor may consider a dealing outside the TMD to be significant because (i) they represent a material proportion of the overall distribution conduct carried out by the distributor in relation to the product, or (ii) they constitute an individual transaction which has resulted in, or will or is likely to result in, significant detriment to the consumer (or class of consumer), or (iii) the issuer has reasonably identified this type of dealing as significant or a regulator, court or AFCA identifies this type of dealing as significant.