

Basel III Pillar 3

**Capital Adequacy and Risks
Disclosures as at 30 September 2017**



This page has been intentionally left blank

Table of Contents

| | | |
|----------|--|-----------|
| 1 | Introduction | 2 |
| 2 | Risk Weighted Assets | 3 |
| 3 | Credit Risk | 4 |
| | 3.1 Credit Risk Exposures | 4 |
| | 3.2 Past Due and Impaired Exposures, Provisions and Reserves | 6 |
| | 3.3 Securitisation | 8 |
| 4 | Leverage Ratio | 9 |
| 5 | Glossary | 10 |

For further information contact:

Investor Relations

Gregg Johnston

Phone: 02 9117 1297

Email: Gregg.Johnston@cba.com.au

1. Introduction

The Commonwealth Bank of Australia (the Group) is an Authorised Deposit-taking Institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA) under the authority of the Banking Act 1959.

This document is prepared in accordance with Board approved policy and quarterly reporting requirements set out in APRA's prudential standard APS 330 "Public Disclosure". It presents information on the Group's capital adequacy and Risk Weighted Asset (RWA) calculations for credit risk including securitisation, market risk, Interest Rate Risk in the Banking Book (IRRBB) and operational risk.

This document also presents information on the Group's leverage ratio in accordance with prescribed methodology.

The Group is required to report its assessment of capital adequacy on a Level 2 basis. Level 2 is defined as the consolidated banking group excluding the insurance and funds management businesses and entities through which securitisation of Group assets are conducted.

The Group is predominantly accredited to use the Advanced Internal Ratings Based (AIRB) approach for credit risk and Advanced Measurement Approach (AMA) for operational risk. The Group is also required to assess its traded market risk and IRRBB requirement under Pillar 1 of the Basel capital framework.

This document is unaudited, however, it has been prepared consistent with information that has been subject to review by an external auditor and published elsewhere or has been supplied to APRA.

The Group's capital adequacy and risk disclosures for the year ended 30 June 2017 are available on the Group's corporate website:

www.commbank.com.au/about-us/investors/shareholders

Group Capital Ratios

The Group's Basel III Common Equity Tier 1 (CET1) APRA ratio was 10.1% at 30 September 2017, in line with 30 June 2017.

Summary Group Capital Adequacy Ratios (Level 2)

| | 30 Sep 17 | 30 Jun 17 |
|---|-------------|-------------|
| | % | % |
| Common Equity Tier 1 | 10.1 | 10.1 |
| Tier 1 | 12.1 | 12.1 |
| Tier 2 | 2.0 | 2.1 |
| Total Capital (APRA) | 14.1 | 14.2 |
| Common Equity Tier 1 (Internationally Comparable) ⁽¹⁾ | 15.8 | 15.6 |

(1) Analysis aligns with the 13 July 2015 APRA study titled "International capital comparison study".

After allowing for the impact of the 2017 final dividend (which included the issuance of shares at a 1.5% discount under the Dividend Reinvestment Plan (DRP)), the CET1 (APRA) ratio increased 55 basis points in the quarter. This was driven by capital generated from earnings, and marginally lower risk weighted assets, offset by the maturity of a further \$350 million of Colonial debt. The final tranche of the Colonial debt is due to mature in the half year to June 2018 (\$315m, a decrease of approximately 7 basis points of CET1).

The Group's Basel III internationally comparable CET1 ratio as at 30 September 2017 was 15.8% compared to 15.6% at 30 June 2017. The internationally comparable basis aligns with the APRA study entitled "International capital comparison study" (13 July 2015).

In September 2017 the Group announced the sale of its Australia and New Zealand life insurance operations to AIA Group Limited. The transaction is expected to result in an uplift to CET1 (APRA and Internationally Comparable) of 70 and 50 basis points respectively.

Capital Initiatives

During the quarter the DRP in respect of the 2017 final dividend was satisfied by the allocation of approximately \$1,573 million of ordinary shares, representing a participation rate of 39.5%.

In October 2017, the Group issued a EUR1 billion subordinated note that is Basel III compliant Tier 2 capital. This will add an additional 34 basis points in Tier 2 capital over and above the 30 September 2017 reported level.

Leverage Ratio

The Group's Leverage Ratio, which is defined as Tier 1 Capital as a percentage of exposures, was 5.2% at 30 September 2017 (30 June 2017: 5.1%) on an APRA basis and 5.9% (30 June 2017: 5.8%) on an internationally comparable basis.

2. Risk Weighted Assets

Risk weighted assets are calculated using the AIRB approach for the majority of the Group's credit risk exposures.

Internal assessment and supervisory formula approaches are used where relevant for non-rated securitisation exposures and for rated exposures where APS 120 prohibits the Group

using the ratings-based approach. The ratings-based approach is used for securitisation exposures rated by External Credit Assessment Institutions (ECAI) where APS 120 allows or requires.

APS 330 Table 3a to 3e – Basel III capital requirements (RWA)

| Asset Category | Risk Weighted Assets | | Change in RWA for September 2017 quarter | |
|---|----------------------|----------------|--|--------------|
| | 30 Sep 17 | 30 Jun 17 | \$M | % |
| Credit Risk | | | | |
| Subject to AIRB approach ⁽¹⁾ | | | | |
| Corporate | 71,919 | 74,663 | (2,744) | (3.7) |
| SME corporate | 32,947 | 33,067 | (120) | (0.4) |
| SME retail | 4,728 | 4,838 | (110) | (2.3) |
| SME retail secured by residential mortgage | 2,655 | 2,766 | (111) | (4.0) |
| Sovereign | 2,136 | 2,154 | (18) | (0.8) |
| Bank | 11,802 | 12,598 | (796) | (6.3) |
| Residential mortgage | 135,797 | 134,969 | 828 | 0.6 |
| Qualifying revolving retail | 8,993 | 9,414 | (421) | (4.5) |
| Other retail | 14,758 | 15,101 | (343) | (2.3) |
| Total RWA subject to AIRB approach | 285,735 | 289,570 | (3,835) | (1.3) |
| Specialised lending | 56,533 | 58,752 | (2,219) | (3.8) |
| Subject to standardised approach | | | | |
| Corporate | 1,037 | 1,202 | (165) | (13.7) |
| SME corporate | 368 | 510 | (142) | (27.8) |
| SME retail | 5,969 | 6,172 | (203) | (3.3) |
| Sovereign | 238 | 271 | (33) | (12.2) |
| Bank | 102 | 136 | (34) | (25.0) |
| Residential mortgage | 5,168 | 5,017 | 151 | 3.0 |
| Other retail | 2,893 | 2,925 | (32) | (1.1) |
| Other assets | 5,531 | 5,291 | 240 | 4.5 |
| Total RWA subject to standardised approach | 21,306 | 21,524 | (218) | (1.0) |
| Securitisation | 1,531 | 1,584 | (53) | (3.3) |
| Credit valuation adjustment | 4,592 | 4,958 | (366) | (7.4) |
| Central counterparties | 830 | 871 | (41) | (4.7) |
| Total RWA for credit risk exposures | 370,527 | 377,259 | (6,732) | (1.8) |
| Traded market risk | 5,059 | 4,650 | 409 | 8.8 |
| Interest rate risk in the banking book | 27,013 | 21,404 | 5,609 | 26.2 |
| Operational risk | 33,750 | 33,750 | - | - |
| Total risk weighted assets | 436,349 | 437,063 | (714) | (0.2) |

(1) Pursuant to APRA requirements, RWA amounts derived from AIRB risk weight functions have been multiplied by a scaling factor of 1.06.

Risk Weighted Assets

Total Group RWA decreased by \$0.7 billion or 0.2% on the prior quarter to \$436.3 billion.

Credit Risk RWA

Credit risk RWA decreased \$6.7 billion or 1.8% on the prior quarter to \$370.5 billion. This was primarily due to:

- Improved credit quality across most portfolios;
- Reduction of exposure across corporate portfolios;
- Foreign currency movements; and
- Refresh of credit risk estimates across some non-retail portfolios.

These decreases were partly offset by an increase in risk weighted assets for Australian residential mortgages reflecting both growth in exposures and APRA's minimum capital requirements.

Traded Market Risk RWA

Traded market risk RWA increased by \$0.4 billion or 8.8% on the prior quarter to \$5.1 billion. This was mainly due to increases in the internal model measured interest rate exposures.

Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA increased \$5.6 billion or 26.2% on the prior quarter to \$27.0 billion. This was driven by interest rate risk management activity and higher interest rate levels, offset by model enhancements.

Operational Risk RWA

Operational risk RWA have remained unchanged during the quarter representing the regulatory minimum threshold.

Operational risk RWA are regularly assessed to consider material changes in the operational risk profile.

Credit Risk

3. Credit Risk

3.1 Credit Risk Exposures

The following tables detail credit risk exposures subject to AIRB and Standardised approaches.

APS 330 Table 4a – Credit risk exposures by portfolio type and modelling approach

| Portfolio Type | 30 September 2017 | | | | Average exposure for September 2017 quarter ⁽¹⁾ | Change in exposure for September 2017 quarter ⁽²⁾ | |
|--|-------------------|--------------------|----------------|------------------|--|--|---------------|
| | Off balance sheet | | | Total | | | |
| | On balance sheet | Non-market related | Market related | | | | |
| | \$M | \$M | \$M | \$M | \$M | \$M | % |
| Subject to AIRB approach | | | | | | | |
| Corporate | 73,621 | 48,639 | 6,752 | 129,012 | 129,777 | (1,530) | (1. 2) |
| SME corporate | 45,632 | 9,149 | 559 | 55,340 | 55,146 | 388 | 0. 7 |
| SME retail | 7,009 | 3,188 | - | 10,197 | 10,243 | (92) | (0. 9) |
| SME retail secured by residential mortgage | 4,327 | 1,427 | - | 5,754 | 5,804 | (100) | (1. 7) |
| Sovereign | 80,901 | 1,187 | 1,621 | 83,709 | 88,061 | (8,704) | (9. 4) |
| Bank | 32,149 | 2,228 | 8,494 | 42,871 | 42,978 | (213) | (0. 5) |
| Residential mortgage | 475,433 | 73,583 | - | 549,016 | 547,691 | 2,650 | 0. 5 |
| Qualifying revolving retail | 9,649 | 17,215 | - | 26,864 | 26,990 | (252) | (0. 9) |
| Other retail | 7,745 | 3,116 | - | 10,861 | 10,943 | (164) | (1. 5) |
| Total AIRB approach | 736,466 | 159,732 | 17,426 | 913,624 | 917,633 | (8,017) | (0. 9) |
| Specialised lending | 53,098 | 10,779 | 646 | 64,523 | 65,783 | (2,521) | (3. 8) |
| Subject to standardised approach | | | | | | | |
| Corporate | 854 | 190 | 17 | 1,061 | 1,364 | (606) | (36. 4) |
| SME corporate | 273 | 82 | 12 | 367 | 439 | (143) | (28. 0) |
| SME retail | 4,951 | 962 | 44 | 5,957 | 6,058 | (202) | (3. 3) |
| Sovereign | 431 | 61 | - | 492 | 508 | (33) | (6. 2) |
| Bank | 346 | 1 | - | 347 | 398 | (102) | (22. 6) |
| Residential mortgage | 10,375 | 1,680 | - | 12,055 | 11,854 | 402 | 3. 4 |
| Other retail | 2,788 | 102 | - | 2,890 | 2,906 | (32) | (1. 1) |
| Other assets | 9,776 | - | - | 9,776 | 9,635 | 282 | 3. 0 |
| Central counterparties | - | - | 5,612 | 5,612 | 5,649 | (74) | (1. 3) |
| Total standardised approach | 29,794 | 3,078 | 5,685 | 38,557 | 38,811 | (507) | (1. 3) |
| Total credit exposures ⁽³⁾ | 819,358 | 173,589 | 23,757 | 1,016,704 | 1,022,227 | (11,045) | (1. 1) |

(1) The simple average of exposures as at 30 September 2017 and 30 June 2017.

(2) The difference between exposures as at 30 September 2017 and 30 June 2017.

(3) Total credit risk exposures (calculated as EAD) do not include equities or securitisation exposures.

3.1 Credit Risk Exposures (continued)

APS 330 Table 4a – Credit risk exposures by portfolio type and modelling approach (continued)

| Portfolio Type | 30 June 2017 | | | | Average exposure for June 2017 quarter ⁽¹⁾ | Change in exposure for June 2017 quarter ⁽²⁾ | |
|--|-------------------|--------------------|----------------|------------------|---|---|--------------|
| | Off balance sheet | | | Total | | | |
| | On balance sheet | Non-market related | Market related | | | | |
| \$M | \$M | \$M | \$M | \$M | \$M | % | |
| Subject to AIRB approach | | | | | | | |
| Corporate | 72,930 | 50,677 | 6,935 | 130,542 | 128,141 | 4,803 | 3.8 |
| SME corporate | 45,380 | 8,991 | 581 | 54,952 | 55,072 | (241) | (0.4) |
| SME retail | 7,136 | 3,153 | - | 10,289 | 10,229 | 121 | 1.2 |
| SME retail secured by residential mortgage | 4,453 | 1,401 | - | 5,854 | 5,906 | (103) | (1.7) |
| Sovereign | 88,977 | 1,171 | 2,264 | 92,412 | 92,219 | 386 | 0.4 |
| Bank | 32,537 | 2,519 | 8,028 | 43,084 | 42,297 | 1,574 | 3.8 |
| Residential mortgage | 474,059 | 72,308 | - | 546,367 | 543,688 | 5,357 | 1.0 |
| Qualifying revolving retail | 9,906 | 17,210 | - | 27,116 | 27,186 | (141) | (0.5) |
| Other retail | 7,867 | 3,158 | - | 11,025 | 10,974 | 103 | 0.9 |
| Total AIRB approach | 743,245 | 160,588 | 17,808 | 921,641 | 915,712 | 11,859 | 1.3 |
| Specialised lending | 54,236 | 12,093 | 716 | 67,045 | 67,179 | (269) | (0.4) |
| Subject to standardised approach | | | | | | | |
| Corporate | 1,005 | 223 | 439 | 1,667 | 1,422 | 490 | 41.6 |
| SME corporate | 397 | 112 | 1 | 510 | 462 | 97 | 23.5 |
| SME retail | 5,143 | 951 | 65 | 6,159 | 6,057 | 203 | 3.4 |
| Sovereign | 499 | 26 | - | 525 | 511 | 29 | 5.8 |
| Bank | 448 | - | - | 448 | 498 | (99) | (18.1) |
| Residential mortgage | 10,015 | 1,639 | - | 11,654 | 11,533 | 241 | 2.1 |
| Other retail | 2,821 | 100 | - | 2,921 | 2,876 | 90 | 3.2 |
| Other assets | 9,494 | - | - | 9,494 | 9,437 | 114 | 1.2 |
| Central counterparties | - | - | 5,686 | 5,686 | 5,403 | 565 | 11.0 |
| Total standardised approach | 29,822 | 3,051 | 6,191 | 39,064 | 38,199 | 1,730 | 4.6 |
| Total credit exposures ⁽³⁾ | 827,303 | 175,732 | 24,715 | 1,027,750 | 1,021,090 | 13,320 | 1.3 |

(1) The simple average of exposures as at 30 June 2017 and 31 March 2017.

(2) The difference between exposures as at 30 June 2017 and 31 March 2017.

(3) Total credit risk exposures (calculated as EAD) do not include equities or securitisation exposures.

Credit Risk

3.2 Past Due and Impaired Exposures, Provisions and Reserves

All provisions for impairment assessed on an individual basis in accordance with the Australian Accounting Standards are classified as specific provisions in accordance with APS 220 "Credit Quality". Most of the collective provisions raised under the Australian Accounting Standards are included in the General Reserve for Credit Losses (GRCL), however, certain collective provisions not eligible for inclusion in the GRCL are classified as specific provisions. This includes, for example, collective provisions on unsecured retail products 90 days or more past due.

Reconciliation of Australian Accounting Standards, APS 220 based credit provisions and APS 330 Table 4c – General reserve for credit losses

| | 30 September 2017 | | |
|--|------------------------------|----------------|--------------|
| | General | Specific | Total |
| | reserve for | provision | provisions |
| | credit losses ⁽¹⁾ | ⁽¹⁾ | |
| | \$M | \$M | \$M |
| Collective provision ⁽²⁾ | 2,493 | 250 | 2,743 |
| Individual provisions ⁽²⁾ | - | 931 | 931 |
| Total provisions | 2,493 | 1,181 | 3,674 |
| Additional GRCL requirement ⁽³⁾ | 570 | - | 570 |
| Total regulatory provisions | 3,063 | 1,181 | 4,244 |

(1) Provisions classified according to APS 220 "Credit Quality".

(2) Provisions according to the Australian Accounting Standards.

(3) The Group has recognised a deduction from CET1 of \$570 million in order to maintain the required minimum GRCL.

| | 30 June 2017 | | |
|--|------------------------------|----------------|--------------|
| | General | Specific | Total |
| | reserve for | provision | provisions |
| | credit losses ⁽¹⁾ | ⁽¹⁾ | |
| | \$M | \$M | \$M |
| Collective provision ⁽²⁾ | 2,486 | 261 | 2,747 |
| Individual provisions ⁽²⁾ | - | 980 | 980 |
| Total provisions | 2,486 | 1,241 | 3,727 |
| Additional GRCL requirement ⁽³⁾ | 589 | - | 589 |
| Total regulatory provisions | 3,075 | 1,241 | 4,316 |

(1) Provisions classified according to APS 220 "Credit Quality".

(2) Provisions according to the Australian Accounting Standards.

(3) The Group has recognised a deduction from CET1 of \$589 million in order to maintain the required minimum GRCL.

3.2 Past Due and Impaired Exposures, Provisions and Reserves (continued)

The following tables provide a summary of the Group's financial losses by portfolio type.

APS 330 Table 4b – Impaired, past due, specific provisions and write-offs charged by portfolio

| Portfolio | As at 30 September 2017 | | | Quarter ended 30 September 2017 | |
|---|-------------------------|--------------------------------|---|---|---------------------------------|
| | Impaired assets | Past due loans ≥ 90 days | Specific provision balance ⁽¹⁾ | Net charges for individual provisions | Actual losses ⁽²⁾ |
| | \$M | \$M | \$M | \$M | \$M |
| Corporate including SME, specialised lending and central counterparties | 1,761 | 384 | 663 | (5) | 48 |
| Sovereign | - | - | - | - | - |
| Bank | 9 | - | 9 | - | - |
| Residential mortgage | 1,204 | 2,194 | 346 | 27 | 29 |
| Qualifying revolving retail | 120 | - | 61 | - | 63 |
| Other retail | 150 | 25 | 102 | 1 | 99 |
| Total | 3,244 | 2,603 | 1,181 | 23 | 239 |

(1) Specific provision balance includes certain Australian Accounting Standards collective provisions on some past due loans ≥ 90 days.

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the quarter ended 30 September 2017.

| Portfolio | As at 30 June 2017 | | | Quarter ended 30 June 2017 | |
|---|--------------------|--------------------------------|---|---|---------------------------------|
| | Impaired assets | Past due loans ≥ 90 days | Specific provision balance ⁽¹⁾ | Net charges for individual provisions | Actual losses ⁽²⁾ |
| | \$M | \$M | \$M | \$M | \$M |
| Corporate including SME, specialised lending and central counterparties | 1,677 | 401 | 711 | 94 | 122 |
| Sovereign | - | - | - | - | - |
| Bank | 9 | - | 9 | - | - |
| Residential mortgage | 1,204 | 2,243 | 343 | 44 | 32 |
| Qualifying revolving retail | 131 | - | 65 | - | 66 |
| Other retail | 166 | 25 | 113 | 1 | 105 |
| Total | 3,187 | 2,669 | 1,241 | 139 | 325 |

(1) Specific provision balance includes certain Australian Accounting Standards collective provisions on some past due loans ≥ 90 days.

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the quarter ended 30 June 2017.

Credit Risk

3.3 Securitisation

APS 330 Table 5a – Total securitisation activity for the reporting period

| Underlying Asset Type | For the 3 months to 30 September 2017 | |
|---------------------------------------|---------------------------------------|---------------------------------|
| | Total exposures securitised | Recognised gain or loss on sale |
| | \$M | \$M |
| Residential mortgage | 730 | - |
| Credit cards and other personal loans | 200 | - |
| Auto and equipment finance | 96 | - |
| Commercial loans | - | - |
| Other | - | - |
| Total | 1,026 | - |

| Underlying Asset Type | For the 3 months to 30 June 2017 | |
|---------------------------------------|----------------------------------|---------------------------------|
| | Total exposures securitised | Recognised gain or loss on sale |
| | \$M | \$M |
| Residential mortgage | 3,762 | - |
| Credit cards and other personal loans | - | - |
| Auto and equipment finance | 1,058 | - |
| Commercial loans | - | - |
| Other | - | - |
| Total | 4,820 | - |

APS 330 Table 5b – Summary of total securitisation exposures retained or purchased

| Securitisation Facility Type | As at 30 September 2017 | | |
|---------------------------------------|-------------------------|-------------------|-----------------|
| | On Balance Sheet | Off Balance Sheet | Total exposures |
| | \$M | \$M | \$M |
| Liquidity support facilities | - | 149 | 149 |
| Warehouse facilities | 3,814 | 3,302 | 7,116 |
| Derivative facilities | 51 | 13 | 64 |
| Holdings of securities | 7,661 | - | 7,661 |
| Other | - | - | - |
| Total securitisation exposures | 11,526 | 3,464 | 14,990 |

| Securitisation Facility Type | As at 30 June 2017 | | |
|---------------------------------------|--------------------|-------------------|-----------------|
| | On Balance Sheet | Off Balance Sheet | Total exposures |
| | \$M | \$M | \$M |
| Liquidity support facilities | - | 122 | 122 |
| Warehouse facilities | 4,161 | 2,904 | 7,065 |
| Derivative facilities | 62 | 14 | 76 |
| Holdings of securities | 7,535 | - | 7,535 |
| Other | - | - | - |
| Total securitisation exposures | 11,758 | 3,040 | 14,798 |

4. Leverage Ratio

The Group's leverage ratio, defined as Tier 1 Capital as a percentage of total exposures, was 5.2% at 30 September 2017 on an APRA basis and 5.9% on an internationally comparable basis.

The BCBS has advised that the leverage ratio will migrate to a Pillar 1 minimum capital requirement of 3% from 1 January 2018. The BCBS will confirm the final calibration in 2017.

| Summary Group Leverage Ratio | 30 Sep 17 | 30 Jun 17 | 31 Mar 17 | 31 Dec 16 |
|---|------------------|------------------|------------------|------------------|
| Tier 1 Capital (\$M) | 52,592 | 52,684 | 50,008 | 50,218 |
| Total Exposures (\$M) ⁽¹⁾ | 1,011,801 | 1,027,958 | 1,012,495 | 1,018,931 |
| Leverage Ratio (APRA) (%) | 5.2 | 5.1 | 4.9 | 4.9 |
| Leverage Ratio (Internationally Comparable) (%) ⁽²⁾ | 5.9 | 5.8 | 5.6 | 5.5 |

(1) Total exposures is the sum of on Balance Sheet exposures, derivatives, Securities Financing Transactions (SFTs), and off Balance Sheet exposures, net of any Tier 1 regulatory deductions, as outlined in APS 110 "Capital Adequacy".

(2) The Tier 1 Capital included in the calculation of the internationally comparable leverage ratio aligns with the 13 July 2015 APRA study titled "International capital comparison study", and includes Basel III non-compliant Tier 1 instruments that are currently subject to transitional rules.

Glossary

| Term | Definition |
|---|--|
| Additional Tier 1 Capital | Additional Tier 1 Capital is a Basel III defined concept and consists of high quality capital that essentially includes providing a permanent and unrestricted commitment of funds, is freely available to absorb losses, ranks behind the claims of depositors and other more senior creditors in the event of a wind-up, and provides for fully discretionary capital distributions. |
| Australian Accounting Standards | The Australian Accounting Standards as issued by the Australian Accounting Standards Board. |
| Authorised Deposit-taking Institution (ADI) | Includes banks, building societies and credit unions which are authorised by APRA to take deposits from customers. |
| Advanced Internal Ratings Based (AIRB) Approach | Used to measure credit risk in accordance with the Group's Basel III accreditation that allows the Group to use internal estimates of PD, LGD and EAD for the purposes of calculating regulatory capital. |
| Advanced Measurement Approach (AMA) | Used to measure operational risk in accordance with the Group's Basel III accreditation that allows the Group to use its own internal model for the purposes of calculating regulatory capital. |
| Australian Prudential Regulation Authority (APRA) | The regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia. |
| ADI Prudential Standards (APS) | APRA's ADI Prudential Standards. For more information, refer to the APRA web site. |
| ASB | ASB Bank Limited – a subsidiary of the Commonwealth Bank of Australia that is directly regulated by the Reserve Bank of New Zealand. |
| Bank | Basel asset class – includes claims on ADIs and overseas banks. |
| Basel II | Refers to the Basel Committee on Banking Supervision's Revised Framework for International Convergence of Capital Measurement and Capital Standards issued in June 2006 and as subsequently amended. |
| Basel III | Refers to the Basel Committee on Banking Supervision's framework for more resilient banks and banking systems issued December 2010 (revised June 2011) and Capital requirements for bank exposures to central counterparties (July 2012). |
| CBA | Commonwealth Bank of Australia – the head entity of the Group. |
| Central counterparty (CCP) | A clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, thereby ensuring the future performance of open contracts. |
| Common Equity Tier 1 (CET1) Capital | The highest quality of capital available to the Group reflecting the permanent and unrestricted commitment of funds that are freely available to absorb losses. It comprises ordinary share capital, retained earnings and reserves less prescribed deductions. |
| Collective Provision | All loans and receivables that do not have an individually assessed provision are assessed collectively for impairment. The collective provision is maintained to reduce the carrying value of the portfolio of loans to their estimated recoverable amounts. These provisions are as reported in the Group's Financial Statements in accordance with the Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement"). |
| Corporate | Basel asset class – includes commercial credit risk where annual revenues exceed \$50 million. |
| Credit Valuation Adjustment (CVA) Risk | The risk of mark-to-market losses related to deterioration in the credit quality of a derivative counterparty. |

| Term | Definition |
|--|---|
| Exposure at Default (EAD) | The extent to which a bank may be exposed upon default of an obligor. |
| External Credit Assessment Institution (ECAI) | For example Moody's Investor Services, S&P Global Ratings or Fitch Ratings. |
| Extended Licensed Entity (ELE) | APRA may deem an entity of an ADI to be part of the ADI itself for the purposes of measuring the ADIs exposures to related entities. |
| General Reserve for Credit Losses (GRCL) | APS 220 requires the Group to establish a reserve that covers credit losses prudently estimated, but not certain to arise, over the full life of all individual facilities making up the business of the ADI. Most of the Group's collective provisions are included in the General Reserve for Credit Losses. An excess of required General Reserve for Credit Losses over the Group's collective provisions is recognised as a deduction from CET1. |
| Impaired Assets | Facilities are classified as impaired where there is doubt as to whether the full amounts due, including interest and other payments due, will be achieved in a timely manner. |
| Individual Provisions | Provisions made against individual facilities in the credit-rated managed segment where there is objective evidence of impairment and full recovery of principal and interest is considered doubtful. These provisions are as reported in the Group's Financial Statements in accordance with the Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement"). Also known as individually assessed provisions or IAP. |
| Interest Rate Risk in the Banking Book (IRRBB) | The risk that the Bank's profit derived from Net Interest Income (interest earned less interest paid), in current and future periods, is adversely impacted from changes in interest rates. This is measured from two perspectives; firstly by quantifying the change in the net present value of the balance sheet's future earnings potential and secondly, as the anticipated change to the Net Interest Income earned over 12 months. The APS117 IRRBB regulatory capital requirement is calculated using the net present value approach. |
| Level 1 | Represents the ADI and each entity of the ADI that has been approved as an Extended Licensed Entity by APRA. |
| Level 2 | The level at which the Group reports its capital adequacy to APRA being the consolidated banking group comprising the ADI and all of its subsidiary entities other than the insurance and funds management entities and entities through which securitisation of Group assets is conducted. This is the basis on which this report has been produced. |
| Level 3 | The conglomerate group including the Group's insurance and wealth management business. |
| Leverage Ratio | Tier 1 Capital divided by Total Exposures, with this ratio expressed as a percentage. |
| Loss Given Default (LGD) | The fraction of EAD that is not expected to be recovered following default. |
| Other Assets | Basel asset class – primarily includes Cash, Investments in Related Entities, Fixed Assets and Margin Lending. |
| Other Retail | Basel asset class – primarily includes retail credit exposures not otherwise classed as a residential mortgage, SME retail or a qualifying revolving retail asset. |
| Past due | Facilities are past due when a contracted amount, including principal or interest, has not been met when due or it is otherwise outside contracted arrangements. |
| Probability of Default (PD) | The likelihood that a debtor fails to meet an obligation or contractual commitment. |
| Qualifying Revolving Retail (QRR) | Basel asset class – represents revolving exposures to individuals less than \$0.1m, unsecured and unconditionally cancellable by the Group. Only Australian retail credit cards qualify for this AIRB asset class. |
| Residential Mortgage | Basel asset class – retail exposures secured by residential mortgage property. |

Glossary

| Term | Definition |
|---|---|
| RBA | Reserve Bank of Australia. |
| RBNZ | Reserve Bank of New Zealand. |
| Risk Weighted Assets (RWA) | The value of the Group's On and Off Balance Sheet assets are adjusted by risk weights calculated according to various APRA prudential standards. For more information, refer to the APRA web site. |
| Scaling Factor | In order to broadly maintain the aggregate level of capital in the global financial system post implementation of Basel II, the Basel Committee on Banking Supervision applies a scaling factor to the risk weighted asset amounts for credit risk under the AIRB approach of 1.06. |
| Securitisation | Basel asset class – Group-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities. |
| SME Corporate | Basel asset class – Small and Medium Enterprise (SME) commercial credit risk where annual revenues are less than \$50 million and exposures are greater than \$1 million. |
| SME Retail | Basel asset class – Small and Medium Enterprise (SME) exposures up to \$1 million that are not secured by residential mortgage property. |
| SME Retail Secured by Residential Mortgage | Small and Medium Enterprise (SME) exposures up to \$1 million that are partly or fully secured by residential mortgage property. |
| Sovereign | Basel asset class – primarily includes claims on Australian and foreign governments, central banks (including Reserve Bank of Australia), international banking agencies and regional development banks. |
| Specialised Lending | Basel asset classes subject to the supervisory slotting approach and which include Income Producing Real Estate (IPRE), object finance, project finance and commodity finance. |
| Specific Provisions | APS 220 requires ADIs to report as specific provisions all provisions for impairment assessed by an ADI on an individual basis in accordance with the Australian Accounting Standards and that portion of provisions assessed on a collective basis which are deemed ineligible to be included in the General Reserve for Credit Losses (which are primarily collective provisions on some defaulted assets). |
| Stressed VaR | Stressed Value at Risk uses the same methodology as Value at Risk (VaR) except that the historical data used is taken from a one year observation period of significant market volatility as seen during the Global Financial Crisis. |
| Tier 1 Capital | Comprises CET1 and Additional Tier 1 Capital. |
| Tier 2 Capital | Capital items that fall short of the necessary conditions to qualify as Tier 1 Capital. |
| Total Exposures (as used in the Leverage Ratio) | The sum of On Balance Sheet items, derivatives, securities financing transactions (SFTs), and Off Balance Sheet items, net of any Tier 1 regulatory deductions that are already included in these items, as outlined in APS 110 "Capital Adequacy" (APS 110) Attachment D. |
