



Commonwealth
Bank

Basel III Pillar 3

Capital Adequacy and Risk Disclosures
as at 30 September 2020

For further information contact:

Investor Relations

Melanie Kirk

Phone: 02 9118 7113

Email : cbainvestorrelations@cba.com.au

Having been delegated authority by the Board, the release of this announcement was authorised by the Chief Executive Officer, Chief Financial Officer and Chief Risk Officer.

Commonwealth Bank of Australia | Media Release 253/2020 | ACN 123 123 124 | Ground Floor Tower 1, 201 Sussex Street, Sydney NSW 2000 | 11 November 2020

Contents

1	Introduction	2
2	Risk Weighted Assets	4
3	Credit Risk	6
	3.1 COVID-19 Customer Support Measures	6
	3.2 Credit Risk Exposures	7
	3.3 Past Due and Impaired Exposures, Provisions and Reserves	9
	3.4 Securitisation	11
4	Leverage Ratio	12
5	Liquidity Risk	13
	Glossary	14

Introduction

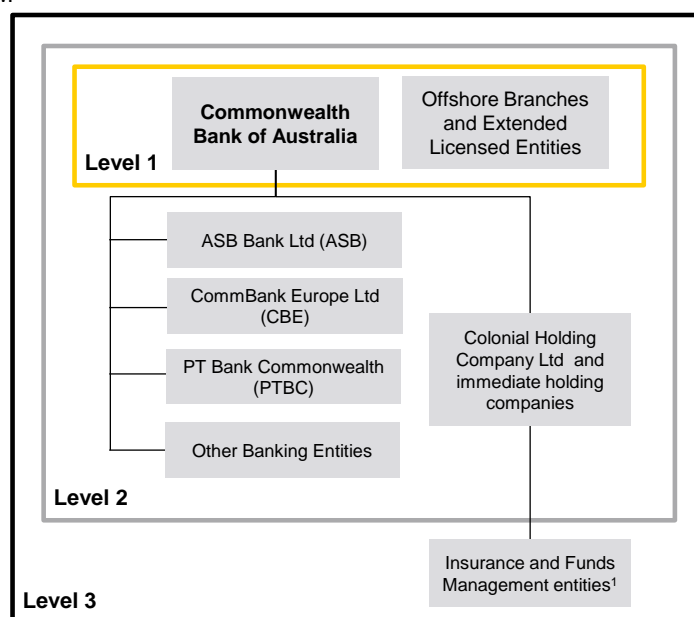
1 Introduction

The Commonwealth Bank of Australia (CBA) 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 for CBA and its subsidiaries (collectively, the Group) in accordance with Board approved policy and quarterly reporting requirements set out in APRA's prudential standard APS 330 "Public Disclosure" (APS 330). It presents information on the Group's capital adequacy and Risk Weighted Assets (RWA) calculations for credit risk including securitisation, traded market risk, Interest Rate Risk in the Banking Book (IRRBB) and operational risk.

This document also presents information on the Group's leverage and liquidity ratios in accordance with prescribed methodologies.

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 general insurance and funds management businesses and entities through which securitisation of Group assets is conducted, as illustrated below.



¹ The Group divested its life insurance businesses in the previous financial year.

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 supplied to APRA.

The Group's Pillar 3 documents are available on the Group's corporate website:

commbank.com.au/regulatorydisclosures

Group Capital Ratios

As at 30 September 2020, the Group's Basel III Common Equity Tier 1 (CET1), Tier 1 and Total Capital ratios as measured on an APRA basis were 11.8%, 14.2% and 18.3% respectively.

After allowing for the impact of the 2020 final dividend, net of shares issued under the Dividend Reinvestment Plan (DRP) (-32 basis points), the CET1 ratio increased by 52 basis points in the quarter. This was primarily driven by capital generated from earnings (+42 basis points) and the receipt of further sale proceeds from the divestment of CommInsure Life (+8 basis points) and a \$2.3 billion (+6 basis points) decrease in total RWA. Details on the movements in RWA are provided on page 5.

The Group's Basel III CET1 ratio was 17.8% on an internationally comparable basis as at 30 September 2020.

The CET1 ratio for Level 1 at 30 September 2020 is 12.1%, 30 basis points above Level 2.

	30 Sep 20 %	30 Jun 20 %
Summary Group Capital Adequacy Ratios (Level 2)		
Common Equity Tier 1	11.8	11.6
Tier 1	14.2	13.9
Tier 2	4.1	3.6
Total Capital (APRA)	18.3	17.5
Common Equity Tier 1 (Internationally Comparable) ¹	17.8	17.4

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

Introduction (continued)

Capital Initiatives

The following significant capital initiatives were undertaken during the quarter:

Common Equity Tier 1 Capital

- The DRP in respect of the 2020 final dividend was satisfied by the allocation of \$264 million of ordinary shares, representing a participation rate of 15.2%.

Tier 2 Capital

- In August 2020, the Group issued an AUD 205 million subordinated note and an AUD 200 million subordinated note that were both Basel III compliant Tier 2 capital.
- In September 2020, the Group issued an AUD 1,400 million subordinated note that was Basel III compliant Tier 2 capital.

APRA's COVID-19 Capital Announcements

APRA made several announcements in response to the economic environment resulting from COVID-19. In March and April 2020, APRA announced temporary changes to its expectations regarding bank capital ratios and issued guidance on capital management. APRA's most recent guidance on capital management was issued on 29 July 2020 in which it:

- confirmed that, as announced in March 2020, provided that banks are able to meet their minimum capital requirements, the capital buffers built up over recent years to meet the unquestionably strong benchmark of 10.5% CET1 capital ratio may be utilised to absorb the impacts of stress if needed; and
- noted that ADIs should continue to take a measured approach to capital distributions to maintain caution in the face of ongoing uncertainty and heightened economic risk. APRA reiterated that ADIs should use stress testing to inform decisions on dividends and other capital actions, as well as to assess their lending capacity under a range of different scenarios. For 2020, APRA expects that ADIs will retain at least half of their earnings, and actively use dividend reinvestment plans and/or other capital management initiatives to at least partially offset the diminution of capital from distributions.

In March 2020, APRA announced its regulatory approach to COVID-19 customer support measures being offered by banks in the current environment. Additional guidance was provided in July and September. This included capital relief in the form of ADIs being able to 'stop the clock' on arrears and relief for restructured loans. Further details are provided on page 6.

The Group has introduced a number of support measures for customers impacted by COVID-19, which include loan repayment deferral arrangements and the origination of loans under the Government's Small and Medium Enterprises (SME) Guarantee Scheme. Further details of these measures are provided on page 6.

Leverage Ratio

The Group's Leverage Ratio, which is defined as Tier 1 Capital as a percentage of total exposures, was 5.8% at 30 September 2020 on an APRA basis and 6.6% on an internationally comparable basis.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) requires Australian ADIs to hold sufficient liquid assets to meet 30 day Net Cash Outflows (NCOs) projected under an APRA prescribed stress scenario. The Group maintained an average LCR of 146% in the September 2020 quarter.

On 19 March 2020, the Reserve Bank of Australia announced the establishment of a three-year Term Funding Facility (TFF) offered to eligible ADIs to support lending to Australian businesses. As at 30 September 2020, the Group has drawn its entire \$19.1 billion Initial Allowance. As at 2 November 2020, the Group's undrawn allocation was \$21.8 billion.

Risk Weighted Assets

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 "Securitisation" (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	
	30 Sep 20	30 Jun 20	September 2020 quarter	
	\$M	\$M	\$M	%
Credit Risk				
Subject to AIRB approach ¹				
Corporate	70,312	69,577	735	1.1
SME corporate	30,975	30,890	85	0.3
SME retail	6,877	6,665	212	3.2
SME retail secured by residential mortgage	3,219	3,360	(141)	(4.2)
Sovereign	2,358	1,838	520	28.3
Bank	6,717	6,667	50	0.7
Residential mortgage	147,410	148,294	(884)	(0.6)
Qualifying revolving retail	5,952	6,697	(745)	(11.1)
Other retail	11,352	12,126	(774)	(6.4)
Total RWA subject to AIRB approach	285,172	286,114	(942)	(0.3)
Specialised lending	58,666	58,611	55	0.1
Subject to standardised approach				
Corporate	808	957	(149)	(15.6)
SME corporate	744	742	2	0.3
SME retail	2,553	2,929	(376)	(12.8)
Sovereign	301	267	34	12.7
Bank	95	68	27	39.7
Residential mortgage	6,528	6,635	(107)	(1.6)
Other retail	1,048	1,132	(84)	(7.4)
Other assets	9,329	10,281	(952)	(9.3)
Total RWA subject to standardised approach	21,406	23,011	(1,605)	(7.0)
Securitisation	2,998	3,015	(17)	(0.6)
Credit valuation adjustment	3,075	3,057	18	0.6
Central counterparties	491	386	105	27.2
Total RWA for credit risk exposures	371,808	374,194	(2,386)	(0.6)
Traded market risk	9,772	12,457	(2,685)	(21.6)
Interest rate risk in the banking book	14,900	11,085	3,815	34.4
Operational risk	56,201	57,212	(1,011)	(1.8)
Total risk weighted assets	452,681	454,948	(2,267)	(0.5)

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 (continued)

Risk Weighted Assets

Total RWA decreased by \$2.3 billion on the prior quarter driven by decreases in credit risk RWA, traded market risk RWA and operational risk RWA, partly offset by higher IRRBB RWA.

Credit Risk RWA

Credit risk RWA decreased by \$2.4 billion on the prior quarter to \$371.8 billion, primarily driven by:

- Volume growth across residential mortgages, commercial portfolios, bank and sovereign exposures, partly offset by a reduction in unsecured retail portfolios and exposures subject to standardised treatment (+\$4.6 billion); offset by
- Credit quality improvements, primarily across retail portfolios (-\$4.4 billion), driven by:
 - improved loan serviceability;
 - growth in offset balances; and
 - higher provision coverage on defaulted assets, reducing RWA;
- Foreign currency movements due to appreciation of the AUD against major currencies (-\$1.2 billion); and
- Data and methodology changes (-\$1.4 billion).

Traded Market Risk RWA

Traded market risk RWA decreased by \$2.7 billion or 22% on the prior quarter to \$9.8 billion. This was due to decreases in the Value-at-Risk (VaR) and the Stressed Value-at-Risk (SVaR) components, due to the unwind of market volatility experienced in the June quarter.

Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA increased by \$3.8 billion or 34% on the prior quarter to \$14.9 billion. This was due to increased holdings of High Quality Liquid Assets (HQLA) and interest rate risk management positions.

Operational Risk RWA

Operational risk RWA decreased by \$1.0 billion or 2% on the prior quarter to \$56.2 billion. The Group regularly reviews and updates its operational risk RWA to reflect material changes in its operational risk profile in accordance with the Operational Risk Management Framework and governance processes.

The operational risk RWA includes the \$12.5 billion add-on required by APRA following the Prudential Inquiry findings dated 30 April 2018.

Credit Risk

3 Credit Risk

3.1 COVID-19 Customer Support Measures

The Group has introduced a number of support measures for retail and business customers impacted by the COVID-19 pandemic, including loan repayment deferrals. To support ADIs in providing this assistance to customers, APRA provided temporary capital relief which had the effect that where a borrower was otherwise performing, and their loan was subject to repayment deferrals as part of a COVID-19 support package, the repayment deferrals would not be treated as a period of arrears and the loan would not be regarded as restructured. Additionally, to facilitate ADIs transitioning impacted borrowers to a regular repayment schedule, APRA will temporarily adjust the capital requirements so that a borrower's facilities can be restructured and immediately returned to a performing status provided the restructure occurs before 31 March 2021. The Reserve Bank of New Zealand (RBNZ) have provided similar concessions for repayment deferrals granted in response to COVID-19.

As at 30 September 2020, ~150,000 accounts (30 June 2020: ~240,000) with a total Exposure at Default (EAD) of \$45.2 billion (30 June 2020: \$73.5 billion) have been granted COVID-19 repayment deferrals. Of these, ~145,000 accounts (30 June 2020: ~234,000) with a total EAD of \$43.4 billion (30 June 2020: \$71.9 billion) qualify for APRA/RBNZ concessional treatment, shown in the table below.

Asset Category	30 September 2020		30 June 2020	
	Exposure at Default	Risk Weighted Assets	Exposure at Default	Risk Weighted Assets
	\$M	\$M	\$M	\$M
Corporate	71	69	813	714
SME corporate	1,292	1,018	8,305	4,799
SME retail	1,270	741	3,400	1,633
SME retail secured by residential mortgage	180	119	2,429	1,484
Residential mortgage	40,404	16,738	54,855	22,683
Qualifying revolving retail	3	3	27	21
Other retail	5	7	113	159
Specialised lending	222	244	1,949	2,080
Total	43,447	18,939	71,891	33,573

The Group has also participated in the Australian Government's SME Guarantee Scheme. APRA has confirmed that the SME Guarantee Scheme will be regarded as an eligible guarantee by the government for risk weighting purposes. ASB has participated in a similar scheme in New Zealand. The Group will continue to provision for these loans under relevant accounting standards.

Credit Risk (continued)

3.2 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 2020				Average exposure for Sep 2020 quarter ¹	Change in exposure for Sep 2020 quarter ²	
	On balance sheet	Off balance sheet	Non-market related	Market related	Total	\$M	%
	\$M	\$M	\$M	\$M	\$M		
Subject to AIRB approach							
Corporate	65,948	47,838	10,697	124,483	123,725	1,516	1. 2
SME corporate	42,518	9,657	819	52,994	52,425	1,138	2. 2
SME retail	7,503	4,495	–	11,998	11,792	413	3. 6
SME retail secured by residential mortgage	3,832	1,631	–	5,463	5,500	(74)	(1. 3)
Sovereign	125,728	1,189	2,398	129,315	118,719	21,191	19. 6
Bank	18,105	416	6,693	25,214	24,694	1,040	4. 3
Residential mortgage	533,437	76,739	–	610,176	604,844	10,663	1. 8
Qualifying revolving retail	7,663	17,265	–	24,928	25,119	(381)	(1. 5)
Other retail	6,156	3,131	–	9,287	9,571	(568)	(5. 8)
Total AIRB approach	810,890	162,361	20,607	993,858	976,389	34,938	3. 6
Specialised lending	54,921	9,510	2,467	66,898	66,665	465	0. 7
Subject to standardised approach							
Corporate	728	57	23	808	883	(149)	(15. 6)
SME corporate	572	162	9	743	742	2	0. 3
SME retail	1,918	617	12	2,547	2,733	(373)	(12. 8)
Sovereign	641	1	–	642	604	77	13. 6
Bank	471	–	–	471	398	147	45. 4
Residential mortgage	13,156	1,706	–	14,862	14,982	(240)	(1. 6)
Other retail	1,008	28	–	1,036	1,078	(84)	(7. 5)
Other assets	21,550	–	–	21,550	19,674	3,751	21. 1
Central counterparties	–	–	12,407	12,407	11,445	1,924	18. 4
Total standardised approach	40,044	2,571	12,451	55,066	52,539	5,055	10. 1
Total credit exposures³	905,855	174,442	35,525	1,115,822	1,095,593	40,458	3. 8

¹ The simple average of exposures as at 30 September 2020 and 30 June 2020.

² The difference between exposures as at 30 September 2020 and 30 June 2020.

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

Credit Risk (continued)

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

Portfolio Type	30 June 2020				Average exposure for Jun 2020 quarter ¹	Change in exposure for Jun 2020 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	66,476	45,826	10,665	122,967	128,014	(10,094)	(7. 6)
SME corporate	42,556	8,556	744	51,856	52,170	(629)	(1. 2)
SME retail	7,477	4,108	–	11,585	11,105	960	9. 0
SME retail secured by residential mortgage	4,035	1,502	–	5,537	5,542	(11)	(0. 2)
Sovereign	104,584	1,119	2,421	108,124	114,182	(12,115)	(10. 1)
Bank	16,119	404	7,651	24,174	26,597	(4,845)	(16. 7)
Residential mortgage	526,642	72,871	–	599,513	598,414	2,199	0. 4
Qualifying revolving retail	8,192	17,117	–	25,309	25,757	(896)	(3. 4)
Other retail	6,716	3,139	–	9,855	10,203	(696)	(6. 6)
Total AIRB approach	782,797	154,642	21,481	958,920	971,984	(26,127)	(2. 7)
Specialised lending	55,065	8,902	2,466	66,433	66,898	(931)	(1. 4)
Subject to standardised approach							
Corporate	794	139	24	957	1,299	(685)	(41. 7)
SME corporate	555	175	11	741	732	19	2. 6
SME retail	2,018	878	24	2,920	3,625	(1,411)	(32. 6)
Sovereign	564	1	–	565	516	99	21. 2
Bank	324	–	–	324	335	(21)	(6. 1)
Residential mortgage	13,433	1,669	–	15,102	14,602	1,000	7. 1
Other retail	1,095	25	–	1,120	1,175	(111)	(9. 0)
Other assets	17,799	–	–	17,799	16,813	1,972	12. 5
Central counterparties	–	–	10,483	10,483	10,306	354	3. 5
Total standardised approach	36,582	2,887	10,542	50,011	49,403	1,216	2. 5
Total credit exposures ³	874,444	166,431	34,489	1,075,364	1,088,285	(25,842)	(2. 3)

¹ The simple average of exposures as at 30 June 2020 and 31 March 2020.

² The difference between exposures as at 30 June 2020 and 31 March 2020.

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

Credit Risk (continued)

3.3 Past Due and Impaired Exposures, Provisions and Reserves

All provisions recognised in accordance with accounting standards that have been assessed on an individual basis are classified as specific provisions in accordance with APS 220 "Credit Quality" (APS 220). Most of the collective provisions raised under 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 retail products that are in default.

Total provisions increased to \$6.7 billion, primarily driven by updates to forward looking economic scenarios as well as customer and industry stress factors related to the COVID-19 pandemic.

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

	30 September 2020		
	General reserve for credit losses ¹	Specific provision ¹	Total provisions
	\$M	\$M	\$M
Collective provision ²	5,204	587	5,791
Individual provisions ²	–	932	932
Total provisions	5,204	1,519	6,723
Additional GRCL requirement ³	–	–	–
Total regulatory provisions	5,204	1,519	6,723

1 Provisions classified according to APS 220.

2 Provisions according to the Australian Accounting Standards.

3 Effective 31 December 2019 the Group's GRCL methodology results in an amount lower than the provision recognised for accounting purposes, resulting in no additional GRCL requirement.

	30 June 2020		
	General reserve for credit losses ¹	Specific provision ¹	Total provisions
	\$M	\$M	\$M
Collective provision ²	4,902	494	5,396
Individual provisions ²	–	967	967
Total provisions	4,902	1,461	6,363
Additional GRCL requirement ³	–	–	–
Total regulatory provisions	4,902	1,461	6,363

1 Provisions classified according to APS 220.

2 Provisions according to the Australian Accounting Standards.

3 Effective 31 December 2019 the Group's GRCL methodology results in an amount lower than the provision recognised for accounting purposes, resulting in no additional GRCL requirement.

Credit Risk (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 2020			Quarter ended 30 September 2020	
	Impaired assets	Past due loans ≥ 90 days ¹	Specific provision balance ²	Net charges for individual provisions	Actual losses ³
	\$M	\$M	\$M	\$M	\$M
Corporate including SME, specialised lending and central counterparties	1,499	720	738	27	55
Sovereign	—	—	—	—	—
Bank	—	—	—	—	—
Residential mortgage	1,543	2,399	498	6	24
Qualifying revolving retail	117	—	117	(1)	58
Other retail	123	21	166	1	57
Total	3,282	3,140	1,519	33	194

1 Represents loans ≥ 90 days past due but not impaired.

2 Specific provision balance includes certain accounting collective provisions on some defaulted loans.

3 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 2020.

Portfolio	As at 30 June 2020			Quarter ended 30 June 2020	
	Impaired assets	Past due loans ≥ 90 days ¹	Specific provision balance ²	Net charges for individual provisions	Actual losses ³
	\$M	\$M	\$M	\$M	\$M
Corporate including SME, specialised lending and central counterparties	1,596	606	759	169	167
Sovereign	—	—	—	—	—
Bank	—	—	—	2	—
Residential mortgage	1,673	2,710	424	13	27
Qualifying revolving retail	143	—	114	—	59
Other retail	136	45	164	3	77
Total	3,548	3,361	1,461	187	330

1 Represents loans ≥ 90 days past due but not impaired.

2 Specific provision balance includes certain accounting collective provisions on some defaulted loans.

3 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 2020.

Credit Risk (continued)

3.4 Securitisation

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

Underlying Asset Type	For the 3 months to 30 September 2020	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	148	–
Credit cards and other personal loans	–	–
Auto and equipment finance	–	–
Commercial loans	–	–
Other	–	–
Total	148	–

Underlying Asset Type	For the 3 months to 30 June 2020	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	285	–
Credit cards and other personal loans	–	–
Auto and equipment finance	–	–
Commercial loans	39	–
Other	–	–
Total	324	–

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

Securitisation Facility Type	As at 30 September 2020		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	–	290	290
Warehouse facilities	6,484	3,527	10,011
Derivative facilities	393	211	604
Holdings of securities	5,575	–	5,575
Other	–	10	10
Total securitisation exposures	12,452	4,038	16,490

Securitisation Facility Type	As at 30 June 2020		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	–	258	258
Warehouse facilities	6,840	2,846	9,686
Derivative facilities	405	216	621
Holdings of securities	6,050	–	6,050
Other	–	10	10
Total securitisation exposures	13,295	3,330	16,625

Leverage Ratio

4 Leverage Ratio

The Group's Leverage Ratio was 5.8% at 30 September 2020 on an APRA basis and 6.6% on an internationally comparable basis.

In November 2018, APRA released draft prudential reporting standards, including changes to the definition of exposures related to derivatives and off Balance Sheet items and advocating a minimum leverage ratio requirement of 3.5% for IRB banks.

On 30 March 2020, APRA announced it was deferring the scheduled implementation of the Basel III reforms in Australia by one year. As a result the new leverage ratio requirements will now be applicable from 1 January 2023.

Summary Group Leverage Ratio	30 Sep 20	30 Jun 20	31 Mar 20	31 Dec 19	30 Sep 19
Tier 1 Capital (\$M)	64,423	63,414	61,142	63,218	57,941
Total Exposures (\$M) ¹	1,105,321	1,073,131	1,102,574	1,040,423	1,051,716
Leverage Ratio (APRA) (%)	5.8	5.9	5.5	6.1	5.5
Leverage Ratio (Internationally Comparable) (%) ²	6.6	6.7	6.4	7.0	6.4

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.

Liquidity Risk

5 Liquidity Risk

Liquidity Coverage Ratio

The Group calculates its LCR position on a daily basis, ensuring a buffer is maintained over the minimum regulatory requirement of 100% and the Board's risk appetite. Over the September quarter, excess liquid assets averaged \$59 billion and the average LCR decreased by 9% from 155% to 146% due to a reduction in total liquid assets as well as higher NCOs.

The Group's mix of liquid assets consists of HQLA, being cash, deposits with central banks, Australian Semi-Government and Commonwealth Government securities. Liquid assets also includes repo eligible securities with the Reserve Bank of Australia under the Committed Liquidity Facility (CLF) and TFF and securities classified as liquid assets by the RBNZ. Liquid assets are distributed across the Group to support regulatory and internal requirements and are consistent with the distribution of liquidity needs by currency. Average HQLA decreased over the September quarter as surplus liquidity was used to reduce wholesale funding.

NCOs are modelled under an APRA prescribed 30 day severe liquidity stress scenario. The Group manages modelled NCOs by maintaining a large base of low LCR outflow customer deposits and actively managing its wholesale funding maturity profile as part of its overall liquidity management strategy. Average NCOs increased over the quarter due to large deposit inflows and changes in deposit mix.

APS 330 Table 20 - LCR disclosure template

	30 Sep 20		30 Jun 20	
	Total unweighted value (average) ¹ \$M	Total weighted value (average) ¹ \$M	Total unweighted value (average) ¹ \$M	Total weighted value (average) ¹ \$M
Liquid assets, of which:				
1 High-quality liquid assets (HQLA)		120,506		128,484
2 Alternative liquid assets (ALA)		63,436		61,797
3 Reserve Bank of New Zealand (RBNZ) securities		2,335		539
Cash outflows				
4 Retail deposits and deposits from small business customers, of which:	353,983	31,938	330,098	29,822
5 Stable deposits	188,781	9,439	180,437	9,022
6 Less stable deposits	165,202	22,499	149,661	20,800
7 Unsecured wholesale funding, of which:	157,327	75,731	148,162	74,524
8 Operational deposits (all counterparties) and deposits in networks for cooperative banks	57,180	14,053	49,270	12,114
9 Non-operational deposits (all counterparties)	88,648	50,179	88,305	51,823
10 Unsecured debt	11,499	11,499	10,587	10,587
11 Secured wholesale funding		1,064		1,282
12 Additional requirements, of which:	160,799	21,828	155,650	21,262
13 Outflows related to derivatives exposures and other collateral requirements	5,480	5,480	5,764	5,764
14 Outflows related to loss of funding on debt products	—	—	—	—
15 Credit and liquidity facilities	155,319	16,348	149,886	15,498
16 Other contractual funding obligations	35	—	21	3
17 Other contingent funding obligations	74,290	10,153	77,093	9,601
18 Total cash outflows		140,714		136,494
Cash inflows				
19 Secured lending	7,250	1,292	12,019	1,732
20 Inflows from fully performing exposures	8,938	5,789	8,922	6,050
21 Other cash inflows	6,154	6,154	5,149	5,149
22 Total cash inflows	22,342	13,235	26,090	12,931
23 Total liquid assets		186,277		190,820
24 Total net cash outflows		127,479		123,563
25 Liquidity Coverage Ratio (%)		146		155
Number of data points used (Business Days)		65		62

¹ The averages presented are calculated as simple averages of daily observations over the previous quarter.

Glossary

Term	Definition
Credit Valuation Adjustment (CVA) Risk	The risk of mark-to-market losses related to deterioration in the credit quality of a derivative counterparty.
Exposure at Default (EAD)	The extent to which a bank may be exposed upon default of an obligor.
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 ADI's exposures to related entities.
External Credit Assessment Institution (ECAI)	For example Moody's Investor Services, S&P Global Ratings or Fitch Ratings.
General Reserve for Credit Losses (GRCL)	APS 220 "Credit Quality" 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 GRCL. An excess of required GRCL over the Group's collective provisions is recognised as a deduction from CET1.
Group	Commonwealth Bank of Australia and its subsidiaries.
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 Standard AASB 9 "Financial Instruments". 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 APS 117 IRRBB regulatory capital requirement is calculated using the net present value approach.
Level 1	The Parent Bank (Commonwealth Bank of Australia) and offshore branches (the Bank) and APRA approved Extended Licensed Entities (ELE).
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 general insurance and funds management entities and entities through which securitisation of Group's 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 funds management businesses and entities through which securitisation of Group assets is conducted.
Leverage Ratio	Tier 1 Capital divided by Total Exposures, with this ratio expressed as a percentage.
Liquidity Coverage Ratio (LCR)	The LCR is a quantitative liquidity measure that is part of the Basel III reforms. It was implemented by APRA in Australia on 1 January 2015. It requires Australian ADIs to hold sufficient liquid assets to meet 30 day net cash outflows projected under an APRA-prescribed stress scenario.
Loss Given Default (LGD)	The fraction of EAD that is not expected to be recovered following default.
Net Cash Outflows (NCO)	Net cash outflows in the LCR are calculated by applying prescribed run-off factors on liabilities and various off Balance Sheet exposures that can generate a cash outflow in the next 30 days.
Other assets	Basel asset class – primarily includes Cash, 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.

Glossary (continued)

Term	Definition
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.
Prudential Capital Ratio (PCR)	The regulatory minimum CET1, Tier 1 and Total Capital ratios that the Group is required to maintain at all times.
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.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
Residential mortgage	Basel asset class – retail exposures secured by residential mortgage property.
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 website.
SA-CCR	The standardised approach for measuring counterparty credit risk exposures under APS 180 "Capital Adequacy: Counterparty Credit Risk".
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.
Securities Financing Transactions (SFT)	APRA defines SFTs as "transactions such as repurchase agreements, reverse repurchase agreements, and security lending and borrowing, and margin lending transactions, where the value of the transactions depends on the market valuation of securities and the transactions are typically subject to margin agreements."
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	Basel asset class – 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, including 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).
Standardised Approach	An alternate approach to the assessment of credit, operational and traded market risk whereby an ADI uses external ratings agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine RWA.
Stressed Value-at-Risk (SVaR)	Stressed Value-at-Risk (SVaR) 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.

Glossary (continued)

Term	Definition
Tier 2 Capital	Capital items that fall short of the necessary conditions to qualify as Tier 1 Capital.
Total Capital	Comprises CET 1, Additional Tier 1 Capital and Tier 2 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.
Trading Book	Exposures, including derivative products and other off Balance Sheet instruments that are held either with a trading intent or to hedge other elements of the trading book.
Value-at-Risk (VaR)	Value-at-Risk (VaR) is a measure of potential loss using historically observed market volatility and correlation between different markets.