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Commonwealth Bank of Australia

ACN 123 123 124

Basel II Pillar 3 - Capital Adequacy and Risk Disclosures

Quarterly update as at 30 September 2009

1. Scope of Application

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

This document has been prepared in accordance with Board approved policy and quarterly reporting requirements set out in APRA Prudential Standard APS 330 "Capital Adequacy: Public Disclosures of Prudential Information" (APS 330). It presents information on the Group's capital adequacy and risk weighted assets (RWA) calculations for credit risk including securitisation exposures and equities, traded market risk, Interest Rate Risk in the Banking Book (IRRBB) and operational risk.

The Group is accredited with advanced Basel II status to use the AIRB approach for credit risk and AMA approach for operational risk under the Basel II Pillar One minimum capital requirements. The Group is also required to assess its traded market risk and IRRBB requirement under Pillar One.

The Group is required to report its quarterly assessment of capital adequacy on a Level 2 basis. APS 330 defines Level 2 as the consolidated banking group excluding the insurance and wealth management businesses and the entities through which securitisation of Group assets are conducted.

These disclosures include the consolidation of Bankwest, which operates under the standardised Basel II methodology. The Group is working towards achieving advanced accreditation for Bankwest.

Detailed qualitative and quantitative disclosure of the Group's capital adequacy and risk disclosures for the year ended 30 June 2009 is available on the Group's corporate website www.commbank.com.au .

This document is unaudited however it has been prepared consistent with information supplied to APRA or otherwise published.

2. Group capital ratios

APS 330 Table 16e - Capital Ratios

	Pro forma [1] 30 Sep. 2009 %	30 Sep. 2009 %	30 Jun. 2009 %
Tier One	8.70	8.19	8.07
Tier Two	2.79	2.66	2.35
Total Capital	**11.49**	**10.85**	**10.42**

1 *Pro forma capital adequacy ratios after incorporating PERLS V securities issued post September 2009.*

The Group's Tier One and Total Capital ratios as at 30 September 2009 are 8.19% and 10.85% respectively.

Comparable Tier One and Total Capital ratios as at 30 September 2009 under the UK Financial Services Authority method of calculating regulatory capital are 10.8% and 13.4% respectively.

A number of capital initiatives have been undertaken since June 2009 including:

- Issue of $688 million ordinary shares in order to satisfy the Dividend Reinvestment Plan (DRP) in respect of the final dividend for the 2008/2009 financial year. The DRP participation rate increased from an anticipated 29% to 39% following DRP discount of 1.5% offered by the Group; and
- Issue of $1.7 billion (Euro 1 billion) subordinated Lower Tier Two debt in August 2009; offset by $615 million (US$500 million) of subordinated Lower Tier Two debt redeemed in August 2009.

The Group issued $2 billion of PERLS V securities (classified as Non-Innovative Tier One Capital instruments) in October 2009.

The Group is restricted in the amount of Residual Capital (Innovative and Non-innovative) that qualifies to be included in Tier One Capital (restricted to 25% of Tier One Capital). As at 30 September 2009, $1.6 billion of the PERLS V securities is eligible for inclusion in Tier One Capital. The remaining excess ($400 million) is eligible for inclusion in Upper Tier Two Capital.

The pro-forma Tier One and Total Capital ratios as at 30 September 2009 after incorporating the PERLS V securities issue are 8.70% and 11.49% respectively.

3. Risk weighted assets

In the three months to 30 September 2009, RWA increased by $6.4 billion or 2.2% to $295 billion. The following table details the Group's RWA by risk and portfolio type.

APS 330 Table 16a to 16d - Capital adequacy (risk weighted assets)

	30 Sept. 2009	30 June 2009	Change in RWA	
	$M	$M	$M	%
Credit Risk				
Subject to Advanced IRB approach				
Corporate	51,135	54,242	(3,107)	(5.7%)
SME corporate	26,018	31,222	(5,204)	(16.7%)
SME retail	4,781	4,925	(144)	(2.9%)
Sovereign	1,883	1,713	170	9.9%
Bank	7,967	8,040	(73)	(0.9%)
Residential Mortgage	55,307	54,841	466	0.8%
Qualifying Revolving Retail	5,696	5,698	(2)	(0.0%)
Other Retail	6,331	6,336	(5)	(0.1%)
Other Assets	-	-	-	n/a
Impact of the Basel II scaling factor [1]	9,547	10,021	(474)	(4.7%)
Total RWA subject to Advanced IRB	**168,665**	**177,038**	**(8,373)**	(4.7%)
Specialised Lending	**34,479**	**22,627**	**11,852**	52.4%
Subject to Standardised approach				
Corporate	10,561	11,094	(533)	(4.8%)
SME corporate	7,757	7,455	302	4.1%
SME retail	4,567	4,469	98	2.2%
Sovereign	221	282	(61)	(21.6%)
Bank	1,278	170	1,108	Large
Residential Mortgage	21,473	20,576	897	4.4%
Other Retail	2,394	2,398	(4)	(0.2%)
Other Assets	7,028	7,517	(489)	(6.5%)
Total RWA subject to standardised approach	**55,279**	**53,961**	**1,318**	2.4%
Securitisation Exposures	**2,707**	**2,724**	**(17)**	(0.6%)
Equity exposures	**2,183**	**2,103**	**80**	3.8%
Total RWA for credit risk exposures	**263,313**	**258,453**	**4,860**	1.9%
Traded Market Risk	**3,715**	**3,450**	**265**	7.7%
Interest Rate Risk in the Banking Book	**10,243**	**8,944**	**1,299**	14.5%
Operational Risk	**17,961**	**17,989**	**(28)**	(0.2%)
Total Risk Weighted Assets	**295,232**	**288,836**	**6,396**	2.2%

1 *APRA requires RWA that are derived from the IRB risk-weight functions to be multiplied by a scaling factor of 1.06 (refer glossary).*

Credit Risk RWA

Credit Risk RWA increased by $4.9 billion over the quarter.

To better align to regulator requirements and industry practice, commercial property exposures previously reported under AIRB Corporate and SME asset classes were reclassified as Specialised Lending (SL) exposures. This is reflected in the RWA movement across these asset classes. After exposures were reclassified, reported SL exposures were also realigned to the SL slotting approach. The net increase to total RWA from these changes was $3 billion.

Apart from these changes, a review of limits in certain industries and geographies, the appreciation of the Australian dollar and a slowing of the rate of downward ratings migration limited the growth in RWA across the Corporate, SME and SL portfolios.

The growth of standardised Bank RWA was driven by Bankwest increasing its liquidity holdings to third-party banks. Previously the holdings were to the parent and eliminated on consolidation. At a 20% risk-weighting, this added over a $1 billion in Bank RWAs.

Total Residential Mortgage RWA increased by $1.4 billion as a result of continued growth in the home loan portfolio.

IRRBB, Traded Market and Operational Risk RWA

There was an increase in IRRBB RWA assets by 15% to $10.2 billion. This was mainly driven by lower embedded gains partially compensated by lower yield curve and repricing risk.

Traded market risk RWA increased by $0.3 billion and operational risk RWA remained stable over the quarter.

4. Credit risk exposure

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

APS 330 Table 17a - Total credit exposure excluding equities and securitisation

	30 September 2009					
		Off Balance Sheet				
Total Credit Risk Exposure [1]	On Balance Sheet $M	Non- Market Related $M	Market Related $M	Total $M	Change in Exposure [2] %	Average Exposure for Sep. Quarter[3] $M
Subject to Advanced IRB approach						
Corporate	46,348	28,560	4,692	79,600	(9.5%)	83,756
SME Corporate	32,514	5,647	399	38,560	(20.2%)	43,444
SME Retail	7,197	1,561	9	8,767	(1.5%)	8,832
Sovereign	21,188	1,295	809	23,292	(1.5%)	23,464
Bank	24,134	2,228	10,192	36,554	10.6%	34,804
Residential Mortgage	260,000	53,004	-	313,004	2.4%	309,309
Qualifying Revolving Retail	7,705	4,174	-	11,879	2.6%	11,728
Other Retail	4,890	1,028	-	5,918	0.1%	5,915
Total Advanced IRB approach	**403,976**	**97,497**	**16,101**	**517,574**	(1.4%)	**521,250**
Specialised Lending	**30,517**	**5,248**	**991**	**36,756**	71.3%	**29,109**
Subject to Standardised approach						
Corporate	9,062	2,876	69	12,007	(4.8%)	12,313
SME Corporate	6,946	787	45	7,778	3.4%	7,650
SME Retail	3,964	1,429	-	5,393	1.9%	5,343
Sovereign	496	1	-	497	65.7%	399
Bank	5,991	180	66	6,237	Large	3,423
Residential Mortgage	43,949	976	23	44,948	4.9%	43,907
Other Retail	2,329	95	1	2,425	-	2,425
Other Assets	17,206	-	-	17,206	2.0%	17,034
Total Standardised approach	**89,943**	**6,344**	**204**	**96,491**	9.0%	**92,493**
Total exposures [1]	**524,436**	**109,089**	**17,296**	**650,821**	2.5%	**642,851**

1 Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
2 Percentage change, as at 30 September 2009, of exposures compared to balances at 30 June 2009.
3 The simple average of closing balances of each quarter.

	30 June 2009			
		Off Balance Sheet		
Total Credit Risk Exposure [1]	On Balance Sheet $M	Non- Market Related $M	Market Related $M	Total $M
Subject to Advanced IRB approach				
Corporate	55,362	27,763	4,786	87,911
SME Corporate	40,839	6,797	692	48,328
SME Retail	7,339	1,547	10	8,896
Sovereign	21,597	1,193	846	23,636
Bank	20,977	2,537	9,539	33,053
Residential Mortgage	252,921	52,692	-	305,613
Qualifying Revolving Retail	7,475	4,101	-	11,576
Other Retail	4,893	1,019	-	5,912
Total Advanced IRB approach	**411,403**	**97,649**	**15,873**	**524,925**
Specialised lending	**17,286**	**3,763**	**412**	**21,461**
Subject to Standardised approach				
Corporate	9,497	3,054	67	12,618
SME Corporate	6,624	836	62	7,522
SME Retail	3,893	1,400	-	5,293
Sovereign	299	1	-	300
Bank	475	45	89	609
Residential Mortgage	42,242	591	33	42,866
Other Retail	2,321	102	2	2,425
Other Assets	16,861	-	-	16,861
Total Standardised approach	**82,212**	**6,029**	**253**	**88,494**
Total exposures [1]	**510,901**	**107,441**	**16,538**	**634,880**

1 Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.

Credit risk exposure (continued)

During the September quarter, total credit Exposure at Default (EAD) increased by $15.9 billion (2.5%).

For the non-retail portfolios, an increase in Bank exposure was partially offset by a net reduction (assisted by Australian dollar appreciation and limit reviews) across Corporate, SME and SL asset classes. Within this, approximately $15 billion worth of commercial property exposure was reclassified from Corporate and SME Corporate to SL to better align to regulator and industry agreement on the types of property exposures that qualify as IPRE, one of the SL sub-classes.

Most of the increase in Bank exposure was from Bankwest diversifying its liquidity holdings into third-party banks. Previously this liquidity holding was to the parent and eliminated on consolidation.

For the retail portfolios, there was a $9.8 billion increase in exposure. Nearly all of this was due to growth in the Australian home loan portfolio.

5. Past due and impaired exposures, provisions and reserves

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

APS 330 Table 17b - Impaired, past due, specific provisions and write-offs charged

	As at 30 September 2009			Quarter ended 30 September 2009
	Impaired loans	Past due loans ≥ 90 days	Specific provision balance	Actual losses [1]
Exposure type	$M	$M	$M	$M
Corporate (including SME)	3,723	429	1,577	232
Sovereign	-	-	-	-
Bank	181	-	123	-
Residential mortgage	465	2,098	103	22
Qualifying revolving retail	14	90	14	64
Other retail	22	113	15	58
Total	4,405	2,730	1,832	376

1 Actual Losses equals write-offs from specific provisions plus write-offs direct from collective provisions less recoveries of amounts previously written off, for the three months ending 30 September 2009.

	As at 30 June 2009			Quarter ended 30 June 2009
	Impaired loans [1]	Past due loans ≥ 90 days	Specific provision balance	Actual losses [2]
Exposure type	$M	$M	$M	$M
Corporate (including SME)	3,510	551	1,539	427
Sovereign	-	-	-	-
Bank	194	-	75	26
Residential mortgage	477	1,820	92	34
Qualifying revolving retail	13	89	12	117
Other retail	16	149	11	70
Total	4,210	2,609	1,729	674

1 June disclosure of Impaired Loans (Bank and Corporate) restated to reflect reclassification of $52m exposure from Bank to Corporate.

2 Actual Losses equals write-offs from specific provisions plus write-offs direct from collective provisions less recoveries of amounts previously written off, for the three months ending 30 June 2009.

Past due and impaired exposures, provisions and reserves (continued)

APS 330 Table 17c - General reserve for credit losses

	General Reserve for Credit Losses as at:	
	30 Sep. 2009 $M	30 Jun. 2009 $M
Collective provisions	3,484	3,225
Tax effect	1,045	968
Total General Reserve for Credit Losses	**2,439**	**2,257**

A moderation in economic conditions has resulted in a slowing of impaired assets and 90 days past due growth. Australian home loans past due increased as the number of customers taking advantage of our Customer Assist programme increased.

Specific provisions have been raised appropriately for the impaired assets.

Collective provisions also increased during the quarter to continue strong coverage of non-impaired assets.

6. Glossary

Term	Definition
ADI	Authorised Deposit-taking Institution includes banks, building societies and credit unions which are authorised by the APRA to take deposits from customers.
AIRB	Advanced Internal Ratings Based approach used to measure credit risk in accordance with the Group's Basel II accreditation approval provided by APRA 10 December 2007 that allows the Group to use internal estimates of PD, LGD and EAD for the purposes of calculating regulatory capital.
AMA	Advanced Measurement Approach used to measure operational risk in accordance with the Group's Basel II accreditation approval provided by APRA 10 December 2007 that allows the Group to use internal estimates and operational model for the purposes of calculating regulatory capital.
APRA	Australian Prudential Regulation Authority. The regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia.
APS	APRA Prudential Standard. For more information, refer to the APRA web site www.apra.gov.au .
ASB	ASB Bank Limited. A subsidiary of the Commonwealth Bank of Australia that is directly regulated by the Reserve Bank of New Zealand.
Bank	Bank assets include claims on central banks, international banking agencies, regional development banks, ADI and overseas banks.
Basel II	Refers to the Basel Committee on Banking Supervision revised framework for International Convergence of Capital Measurement and Capital Standards issued in June 2006.
CBA	Commonwealth Bank of Australia. The chief entity for the Group.
Corporate	Corporate assets include commercial credit risk where annual revenues exceed $50 million, SME Corporate and SME Retail.
EAD	Exposure at Default - The extent to which a bank may be exposed to a counterparty in the event of default.
ELE	Extended Licensed Entity - APRA may deem a subsidiary of an ADI to be part of the ADI itself for the purposes of measuring the ADIs exposures to related entities.
IPRE	Income Producing Real Estate.
Level 1	The lowest level at which the Group reports its capital adequacy to APRA.
Level 2	The level at which the group reports its capital adequacy to APRA being the consolidated banking group comprising the ADI, its immediate locally incorporated non-operating holding company, if any, and all their subsidiary entities other than non-consolidated subsidiaries. This is the basis on which this report has been produced.
LGD	Loss Given Default - The fraction of exposure at default (EAD) that is not expected to be recovered following default.
Other Assets	Other Assets include Cash, Investments in Related Entities, Fixed Assets and Margin Lending.
Other Retail	Other Retail assets include all retail credit exposures not otherwise classed as a residential mortgage, SME retail or a qualifying revolving retail asset.
PD	Probability of Default - The likelihood that a debtor fails to meet an obligation or contractual commitment.

Glossary (continued)

Term	Definition
PERLS V	Perpetual Exchangeable Resaleable Listed Securities (listed on the Australian Securities Exchange) are stapled securities comprising an unsecured subordinated Note issued by the Bank's New Zealand branch and a Preference Share issued by the Commonwealth Bank of Australia.
Qualifying Revolving Retail	Qualifying revolving retail assets represents revolving exposures to individuals less than $0.1m, unsecured and unconditionally cancellable by the Bank. Only Australian retail credit cards qualify for this asset class.
Residential Mortgage	Residential Mortgages include retail and small and medium enterprise exposures up to $1 million that are secured by residential mortgage property.
RWA	Risk Weighted Assets.
Scaling factor	A key objective of the Basel Committee on Banking Supervision is to broadly maintain the aggregate level of capital in the global financial system post the implementation of Basel II. To attain the objective, the Committee applies a scaling factor to the risk-weighted asset amounts for credit risk under the IRB approach. The current scaling factor is 1.06. National authorities will continue to monitor capital requirements during the implementation period of the revised Framework. Moreover, the Committee will monitor national experiences with the revised Framework.
Securitisation	Securitisation includes Group-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities.
SME Corporate	SME Corporate assets include small and medium enterprise commercial credit risk where annual revenues are less than $50 million and exposures are greater than $1 million.
SME Retail	SME Retail assets include small and medium enterprise exposures up to $1 million that are not secured by residential mortgage property.
Sovereign	Sovereign assets include claims on the Reserve Bank of Australia and on Australian and foreign governments.
Specialised Lending	Specialised lending assets subject to the slotting approach include Income Producing Real Estate and Project Finance.

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