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Basel II Pillar 3

Capital Adequacy and Risk Disclosures

Quarterly Update as at 30 September 2010

CommonwealthBank

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Basel II Pillar 3 – Capital Adequacy and Risk Disclosures

Quarterly update as at 30 September 2010

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 and equity exposures, 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 advanced internal ratings based approach (AIRB) for credit risk and advanced measurement approach (AMA) 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.

The disclosures for Bank of Western Australia Limited (Bankwest), CommBank Europe Limited and PT Bank Commonwealth use the Standardised Basel II methodology.

Detailed qualitative and quantitative disclosure of the Group's capital adequacy and risk disclosures for the year ended 30 June 2010 are 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

The Group's Tier One and Total Capital ratios as at 30 September 2010 were 9.6% and 11.8% respectively.

The increase in the capital ratios during the September 2010 quarter was attributable to the continued generation of organic capital combined with reductions in Credit RWA due primarily to credit rating upgrades and measurement improvements.

Comparable Tier One and Total Capital ratios as at 30 September 2010 under the UK Financial Services Authority method of calculating regulatory capital are 12.8% and 14.8% respectively.

Capital Initiatives

The following significant capital initiatives have been undertaken since 30 June 2010.

The Dividend Reinvestment Plan (DRP) for the 2010 final dividend was satisfied in full by an on-market purchase of shares. As such there is no impact on the Group's capital ratios. The DRP participation rate was 25.8% and follows the removal of the 1.5% discount.

There were no material Tier Two Capital initiatives undertaken during the quarter.

APS 330 Table 16e – Capital ratios

	As at	
	30/09/10	30/06/10
	%	%
Tier 1	**9.62**	9.15
Tier 2	**2.19**	2.34
Total Capital	**11.81**	11.49

3. Risk Weighted Assets

The following table details the Group's RWA by risk and portfolio type.

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

Asset Category	As at 30/09/10 $M	As at 30/06/10 $M	Change in RWA $M	Change in RWA %
Credit risk				
Subject to AIRB approach				
Corporate	**39,493**	44,252	(4,759)	(10. 8)
SME corporate	**22,354**	26,216	(3,862)	(14. 7)
SME retail	**4,730**	5,170	(440)	(8. 5)
Sovereign	**2,665**	2,800	(135)	(4. 8)
Bank	**6,626**	7,492	(866)	(11. 6)
Residential mortgage	**54,139**	55,882	(1,743)	(3. 1)
Qualifying revolving retail	**6,632**	6,772	(140)	(2. 1)
Other retail	**6,247**	6,322	(75)	(1. 2)
Impact of the Basel II scaling factor (1)	**8,573**	9,294	(721)	(7. 8)
Total RWA subject to AIRB approach	**151,459**	164,200	(12,741)	(7. 8)
Specialised lending	**33,947**	35,483	(1,536)	(4. 3)
Subject to standardised approach				
Corporate	**8,536**	8,872	(336)	(3. 8)
SME corporate	**7,821**	7,746	75	1. 0
SME retail	**4,465**	4,684	(219)	(4. 7)
Sovereign	**189**	215	(26)	(12. 1)
Bank	**1,417**	1,136	281	24. 7
Residential mortgage	**22,554**	22,436	118	0. 5
Other retail	**2,475**	2,530	(55)	(2. 2)
Other assets	**4,995**	5,472	(477)	(8. 7)
Total RWA subject to standardised approach	**52,452**	53,091	(639)	(1. 2)
Securitisation	**1,843**	1,569	274	17. 5
Equity exposures	**2,326**	2,420	(94)	(3. 9)
Total RWA for credit exposures	**242,027**	256,763	(14,736)	(5. 7)
Traded market risk	**3,515**	3,503	12	0. 3
Interest rate risk in the banking book	**13,592**	10,272	3,320	32. 3
Operational risk	**19,963**	20,283	(320)	(1. 6)
Total RWA	**279,097**	290,821	(11,724)	(4. 0)

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

Total RWA decreased by $11.7 billion or 4.0% on the prior quarter to $279.1 billion, driven by a decrease in credit RWA offset by an increase in IRRBB RWA.

Credit Risk RWA

Credit Risk RWA decreased over the quarter by $14.7 billion or 5.7% to $242.0 billion. The decrease was driven by:

- A change in the mix of the portfolio, with a net increase in exposure including a shift from higher to lower risk asset classes. This was aided by the appreciation of the Australian dollar during the quarter;
- Rebalancing of portfolio credit quality particularly in the retail area where there was a reduction in arrears; and
- The implementation of revised downturn Loss Given Default (LGD) estimates for the non-retail portfolios after APRA approved a new LGD modelling approach for our risk-rated portfolios.

The above decreases were partially offset by an increase in RWA following a change in portfolio treatments, including the use of a Standardised approach for reverse mortgages to align to APRA's recently announced requirement for the industry.

Traded Market, IRRBB and Operational Risk RWA

Traded Market Risk and Operational Risk RWA remained largely unchanged.

IRRBB RWA increased by $3.3 billion or 32.3% to $13.6 billion.

This is due to the maturity transformation within assets and liabilities that occurs in the normal course of business, and is the result of the combination of management actions and customer product selection. This resulted in the duration gap becoming more positive in September 2010.

4. Credit Risk Exposure

The following tables detail credit risk exposures subject to Advanced and Standardised Internal Ratings Based approaches.

APS 330 Table 17a – Total credit exposure (excluding equities and securitisation) by portfolio type and modelling approach

	30 September 2010				Average	Change in	
		Off Balance Sheet			Exposure for	Exposure for	
	On Balance Sheet	Non-Market Related	Market Related	Total	September Quarter (2)	September Quarter (3)	
PortfolioType	$M	$M	$M	$M	$M	$M	%
Subject to AIRB approach							
Corporate	37,411	23,120	5,427	**65,958**	66,419	(922)	(1. 4)
SME corporate	32,779	5,572	466	**38,817**	39,134	(633)	(1. 6)
SME retail	7,369	1,684	14	**9,067**	9,097	(61)	(0. 7)
Sovereign	28,127	1,507	2,953	**32,587**	31,238	2,699	9. 0
Bank	16,392	2,235	11,030	**29,657**	29,994	(673)	(2. 2)
Residential mortgage	280,838	52,803	-	**333,641**	333,285	713	0. 2
Qualifying revolving retail	8,341	4,464	-	**12,805**	12,749	112	0. 9
Other retail	4,920	972	-	**5,892**	5,943	(101)	(1. 7)
Total AIRB approach	**416,177**	**92,357**	**19,890**	**528,424**	**527,857**	**1,134**	0. 2
Specialised lending	**30,641**	**7,073**	**916**	**38,630**	**39,002**	**(743)**	(1. 9)
Subject to standardised approach							
Corporate	7,763	848	33	**8,644**	8,810	(331)	(3. 7)
SME corporate	7,129	867	35	**8,031**	7,993	76	1. 0
SME retail	3,912	1,356	-	**5,268**	5,371	(205)	(3. 7)
Sovereign	785	1	-	**786**	1,018	(464)	(37. 1)
Bank	7,057	51	37	**7,145**	6,524	1,242	21. 0
Residential mortgage	47,622	708	15	**48,345**	47,904	883	1. 9
Other retail	2,421	91	-	**2,512**	2,544	(64)	(2. 5)
Other assets	15,195	-	-	**15,195**	14,746	898	6. 3
Total standardised approach	**91,884**	**3,922**	**120**	**95,926**	**94,909**	**2,035**	2. 2
Total credit exposures (1)	**538,702**	**103,352**	**20,926**	**662,980**	**661,767**	**2,426**	0. 4

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

(2) The simple average of balances as at 30 September 2010 and 30 June 2010.

(3) Change, as at 30 September 2010, of exposures compared to balances at 30 June 2010.

4. Credit Risk Exposure (continued)

APS 330 Table 17a – Total credit exposure excluding equities and securitisation (continued)

	30 June 2010						
		Off Balance Sheet			Average Exposure for June Quarter [(2)]	Change in Exposure for June Quarter [(3)]	
	On Balance Sheet	Non-Market Related	Market Related	Total			
Portfolio Type	$M	$M	$M	$M	$M	$M	%
Subject to AIRB approach							
Corporate	37,592	23,621	5,667	**66,880**	66,797	166	0. 2
SME corporate	33,340	5,445	665	**39,450**	38,948	1,005	2. 6
SME retail	7,466	1,651	11	**9,128**	9,071	113	1. 3
Sovereign	26,253	1,587	2,048	**29,888**	29,113	1,550	5. 5
Bank	15,759	2,192	12,379	**30,330**	29,450	1,761	6. 2
Residential mortgage	280,928	52,000	-	**332,928**	329,656	6,544	2. 0
Qualifying revolving retail	8,306	4,387	-	**12,693**	12,625	136	1. 1
Other retail	4,976	1,017	-	**5,993**	5,955	77	1. 3
Total AIRB approach	**414,620**	**91,900**	**20,770**	**527,290**	**521,614**	**11,352**	**2. 2**
Specialised lending	**31,561**	**6,961**	**851**	**39,373**	**40,187**	**(1,628)**	**(4. 0)**
Subject to standardised approach							
Corporate	8,026	905	44	**8,975**	9,137	(324)	(3. 5)
SME corporate	7,054	857	44	**7,955**	7,842	227	2. 9
SME retail	4,098	1,375	-	**5,473**	5,378	191	3. 6
Sovereign	1,249	1	-	**1,250**	908	684	Large
Bank	5,799	51	53	**5,903**	6,082	(358)	(5. 7)
Residential mortgage	46,957	485	20	**47,462**	46,803	1,318	2. 9
Other retail	2,475	100	1	**2,576**	2,534	84	3. 4
Other assets	14,297	-	-	**14,297**	15,026	(1,457)	(9. 2)
Total standardised approach	**89,955**	**3,774**	**162**	**93,891**	**93,709**	**365**	**0. 4**
Total credit exposures [(1)]	**536,136**	**102,635**	**21,783**	**660,554**	**655,510**	**10,089**	**1. 6**

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

(2) The simple average of closing balances as at 30 June 2010 and 31 March 2010.

(3) Change, as at 30 June 2010, of exposures compared to balances at 31 March 2010.

5. Past Due and Impaired Exposures, Provisions and Reserves

Reconciliation of AIFRS and APS220 based credit provisions, and APS 330 Table 17c - General reserve for credit losses

	30 September 2010		
	General Reserve for Credit Losses [2]	Specific Provision [2]	Total Provisions
	$M	$M	$M
Collective provision [1]	3,221	127	**3,348**
Individual provisions [1]	-	2,256	**2,256**
Total provisions	**3,221**	**2,383**	**5,604**
Additional GRCL requirement [3]	132	-	**132**
Total regulatory provisions [2]	**3,353**	**2,383**	**5,736**

(1) Provisions according to AIFRS.

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

(3) The Group has recognised an after tax deduction from Tier 1 Capital of $92 million in order to maintain the required minimum GRCL.

	30 June 2010		
	General Reserve for Credit Losses [2]	Specific Provision [2]	Total Provisions
	$M	$M	$M
Collective provision [1]	3,311	150	**3,461**
Individual provisions [1]	-	1,992	**1,992**
Total provisions	**3,311**	**2,142**	**5,453**
Additional GRCL requirement [3]	124	-	**124**
Total regulatory provisions [2]	**3,435**	**2,142**	**5,577**

(1) Provisions as reported in financial statements according to AIFRS.

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

(3) The Group recognised an after tax deduction from Tier 1 Capital of $90 million in order to maintain the required minimum GRCL.

5. Past Due and Impaired Exposures, Provisions and Reserves (continued)

The following tables summarise the Group's financial losses by portfolio type.

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

	As at 30 September 2010			Quarter Ended 30 September 2010	
	Impaired Assets	Past Due Loans ≥ 90 Days	Specific Provision Balance (1)	Net Charges for Individual Provisions	Actual Losses (2)
Portfolio	$M	$M	$M	$M	$M
Corporate including SME and specialised lending	**4,555**	**446**	**2,010**	**280**	**71**
Sovereign	**-**	**-**	**-**	**-**	**-**
Bank	**104**	**-**	**70**	**4**	**-**
Residential mortgage	**786**	**2,559**	**184**	**15**	**22**
Qualifying revolving retail	**-**	**95**	**52**	**-**	**62**
Other retail	**19**	**131**	**67**	**1**	**52**
Total	**5,464**	**3,231**	**2,383**	**300**	**207**

(1) Specific Provision Balance includes certain AIFRS 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 ending 30 September 2010.

	As at 30 June 2010			Quarter Ended 30 June 2010	
	Impaired Assets	Past Due Loans ≥ 90 Days	Specific Provision Balance (1)	Net Charges for Individual Provisions	Actual Losses (2)
Portfolio	$M	$M	$M	$M	$M
Corporate	4,258	439	1,745	217	294
Sovereign	-	-	-	-	-
Bank	103	-	66	(2)	1
Residential mortgage	836	2,666	200	(37)	51
Qualifying revolving retail	-	100	54	-	75
Other retail	19	145	77	20	169
Total	**5,216**	**3,350**	**2,142**	**198**	**590**

(1) Specific Provision Balance includes certain AIFRS 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 ending 30 June 2010.

6. Glossary

Term	Definition
ADI	Authorised Deposit-taking Institution - includes banks, building societies and credit unions which are authorised by APRA to take deposits from customers.
AIFRS	Australian equivalents to International Financial Reporting Standards.
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'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	APS asset class - includes claims on central banks, international banking agencies, regional development banks, ADI 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.
CBA	Commonwealth Bank of Australia - the chief entity for the Group.
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 AIFRS (AASB 139 "Financial Instruments: Recognition and Measurement").
Corporate	APS asset class – includes 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.
General Reserve for Credit Losses	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 Tier 1 capital on an after tax basis.
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 established based primarily on estimates of realisable value of collateral taken. These provisions are as reported in the Group's Financial Statements in accordance with AIFRS (AASB 139 "Financial Instruments: Recognition and Measurement"). Also known as individually assessed provisions or IAP.
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 that is not expected to be recovered following default.
Other Assets	APS asset class - includes Cash, Investments in Related Entities, Fixed Assets and Margin Lending.

6. Glossary (continued)

Term	Definition
Other Retail	APS asset class - includes 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.
Qualifying Revolving Retail	APS asset class - represents revolving exposures to individuals less than $0.1 million, unsecured and unconditionally cancellable by the Bank. Only Australian retail credit cards qualify for this asset class.
Residential Mortgage	APS asset class - includes retail and small and medium enterprise exposures up to $1 million that are secured by residential mortgage property.
RWA	Risk Weighted Assets – the value of the Group's on and off-balance sheet assets are adjusted according to 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 IRB approach. The current scaling factor is 1.06.
Securitisation	APS asset class - includes Group-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities.
SME Corporate	APS asset class - includes 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	APS asset class - includes small and medium enterprise (SME) exposures up to $1 million that are not secured by residential mortgage property.
Sovereign	APS asset class - includes claims on the Reserve Bank of Australia and on Australian and foreign governments.
Specialised Lending	APS asset classes subject to the supervisory slotting approach and which include Income Producing Real Estate (IPRE) and Project Finance assets.
Specific Provision	APS 220 requires ADIs to report as specific provisions all provisions for impairment assessed by an ADI on an individual basis in accordance with AIFRS 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).

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