

# BASEL III PILLAR 3

CAPITAL ADEQUACY AND RISKS  
DISCLOSURES AS AT 30 SEPTEMBER 2016



**WHEN  
WE BELIEVE,  
WE CAN**

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## Table of Contents

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

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## 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, 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.

APRA has re-accredited the use of the AIRB approach for the Bankwest non-retail portfolio, effective from 30 September 2016. This change had minimal impact on the Group's capital.

In August 2016, APRA reaffirmed its aim to increase average risk weights applied to Australian residential mortgages held by ADIs accredited to use the AIRB approach to credit risk. Effective 1 July 2016, the Group has applied APRA's requirements to all Australian retail residential mortgages, other than lending to small retail businesses secured by residential mortgages. APRA has advised that further recalibration and modelling changes may be required to retail mortgage risk weights as these changes are finalised.

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 2016 are available on the Group's corporate website:

[www.commbank.com.au/about-us/investors/shareholders](http://www.commbank.com.au/about-us/investors/shareholders).

### Group Capital Ratios

The Group's Basel III Common Equity Tier 1 (CET1) APRA ratio was 9.4% at 30 September 2016, compared to 10.6% at 30 June 2016.

After allowing for an increase in risk weighting for Australian residential mortgages and the impact of the 2016 final dividend (which included the issuance of shares in respect of the Dividend Reinvestment Plan (DRP)), the CET1 (APRA) ratio increased 34 basis points in the quarter, primarily driven by capital generated from earnings.

The Group's Basel III internationally comparable CET1 ratio as at 30 September 2016 was 14.3%. The internationally comparable basis aligns with the APRA study entitled "International capital comparison study" (13 July 2015).

### Capital Initiatives

The following capital initiative was undertaken during the quarter:

- The DRP in respect of the 2016 final dividend was satisfied by the allocation of approximately \$586 million of ordinary shares, representing a participation rate of 15.4%.

### Leverage Ratio

The Group's Leverage Ratio, which is defined as Tier 1 Capital as a percentage of exposures, was 4.8% at 30 September 2016 (30 June 2016: 5.0%) on an APRA basis and 5.4% (30 June 2016: 5.6%) on an internationally comparable basis.

	30 Sep 16	30 Jun 16
	%	%
<b>Summary Group Capital Adequacy Ratios (Level 2)</b>		
Common Equity Tier 1	9.4	10.6
Tier 1	11.0	12.3
Tier 2	1.7	2.0
<b>Total Capital (APRA)</b>	<b>12.7</b>	<b>14.3</b>
<b>Common Equity Tier 1 (Internationally Comparable)<sup>(1)</sup></b>	<b>14.3</b>	<b>14.4</b>

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

## 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 2016 quarter	
	30 Sep 16	30 Jun 16	\$M	%
<b>Credit Risk</b>				
<b>Subject to AIRB approach <sup>(1)</sup></b>				
Corporate <sup>(2)</sup>	74,519	71,682	2,837	4.0
SME corporate <sup>(2)</sup>	34,401	29,957	4,444	14.8
SME retail	4,830	4,953	(123)	(2.5)
SME retail secured by residential mortgage	2,771	2,813	(42)	(1.5)
Sovereign	6,869	6,622	247	3.7
Bank	13,428	13,098	330	2.5
Residential mortgage <sup>(3)</sup>	115,538	83,758	31,780	37.9
Qualifying revolving retail	9,469	9,897	(428)	(4.3)
Other retail	14,840	15,102	(262)	(1.7)
<b>Total RWA subject to AIRB approach</b>	<b>276,665</b>	<b>237,882</b>	<b>38,783</b>	<b>16.3</b>
<b>Specialised lending <sup>(2)</sup></b>	<b>66,237</b>	<b>56,795</b>	<b>9,442</b>	<b>16.6</b>
<b>Subject to standardised approach</b>				
Corporate <sup>(2)</sup>	1,484	10,982	(9,498)	(86.5)
SME corporate <sup>(2)</sup>	901	4,133	(3,232)	(78.2)
SME retail	6,112	6,122	(10)	(0.2)
Sovereign	250	268	(18)	(6.7)
Bank	212	224	(12)	(5.4)
Residential mortgage <sup>(2)</sup>	4,599	7,428	(2,829)	(38.1)
Other retail	2,672	2,750	(78)	(2.8)
Other assets	5,006	5,360	(354)	(6.6)
<b>Total RWA subject to standardised approach</b>	<b>21,236</b>	<b>37,267</b>	<b>(16,031)</b>	<b>(43.0)</b>
Securitisation	1,486	1,511	(25)	(1.7)
Credit valuation adjustment	7,407	8,273	(866)	(10.5)
Central counterparties	1,544	2,302	(758)	(32.9)
<b>Total RWA for credit risk exposures</b>	<b>374,575</b>	<b>344,030</b>	<b>30,545</b>	<b>8.9</b>
Traded market risk	10,579	9,439	1,140	12.1
Interest rate risk in the banking book	14,960	7,448	7,512	large
Operational risk	33,750	33,750	-	-
<b>Total risk weighted assets</b>	<b>433,864</b>	<b>394,667</b>	<b>39,197</b>	<b>9.9</b>

(1) Pursuant to APRA requirements, RWA amounts derived from AIRB risk weight functions have been multiplied by a scaling factor of 1.06. Comparatives have been restated to conform to presentation in the current period.

(2) APRA has re-accredited the use of the advanced AIRB approach for the Bankwest non-retail portfolio, effective 30 September 2016.

(3) Includes \$32.0 billion due to implementation of APRA requirements to increase the average risk weight applied to Australian residential mortgages using the AIRB approach.

### Risk Weighted Assets

Total Group RWA increased by \$39.2 billion or 9.9% on the prior quarter to \$433.9 billion.

### Credit Risk RWA

After allowing for an increase in risk weighted assets of \$32.0 billion to meet APRA's requirements for Australian residential mortgages, there was a modest decrease of \$1.5 billion on the prior quarter. This was primarily due to:

- Foreign currency movements; and
- Advanced IRB accreditation for Bankwest non-retail portfolios.

### Traded Market Risk RWA

Traded market risk RWA increased by \$1.1 billion or 12.1% on the prior quarter to \$10.6 billion. This was mainly driven by a conservative measurement approach for some longer term interest rates, particularly in currencies with negative or near zero rates.

### Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA increased \$7.5 billion or 100.9% on the prior quarter to \$15.0 billion. This was driven by an APRA requirement to include spread risk for debt securities held in the banking book and interest rate risk management activity.

### Operational Risk RWA

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

# 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 2016				Average exposure for September 2016 quarter <sup>(1)</sup>	Change in exposure for September 2016 quarter <sup>(2)</sup>	
	Off balance sheet			Total			
	On balance sheet	Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M	\$M	%
<b>Subject to AIRB approach</b>							
Corporate <sup>(3)</sup>	64,802	46,839	8,566	120,207	118,001	4,412	3.8
SME corporate <sup>(3)</sup>	43,017	8,693	648	52,358	49,625	5,466	11.7
SME retail	7,138	3,090	36	10,264	10,325	(121)	(1.2)
SME retail secured by residential mortgage	4,611	1,129	-	5,740	5,734	12	0.2
Sovereign	78,307	1,240	1,867	81,414	80,548	1,732	2.2
Bank	30,210	1,961	10,963	43,134	42,374	1,519	3.7
Residential mortgage	455,219	74,096	-	529,315	524,824	8,983	1.7
Qualifying revolving retail	9,708	17,534	-	27,242	27,283	(83)	(0.3)
Other retail	7,821	3,188	-	11,009	11,060	(101)	(0.9)
<b>Total AIRB approach</b>	<b>700,833</b>	<b>157,770</b>	<b>22,080</b>	<b>880,683</b>	<b>869,774</b>	<b>21,819</b>	<b>2.5</b>
<b>Specialised lending <sup>(3)</sup></b>	<b>61,099</b>	<b>14,273</b>	<b>2,153</b>	<b>77,525</b>	<b>72,411</b>	<b>10,227</b>	<b>15.2</b>
<b>Subject to standardised approach</b>							
Corporate <sup>(3)</sup>	1,204	306	-	1,510	6,275	(9,531)	(86.3)
SME corporate <sup>(3)</sup>	700	198	-	898	2,502	(3,207)	(78.1)
SME retail	5,300	763	34	6,097	6,107	(20)	(0.3)
Sovereign	512	1	-	513	525	(23)	(4.3)
Bank	579	2	-	581	630	(99)	(14.6)
Residential mortgage <sup>(3)</sup>	8,985	1,718	-	10,703	12,212	(3,018)	(22.0)
Other retail	2,550	119	-	2,669	2,704	(69)	(2.5)
Other assets	9,869	-	-	9,869	10,401	(1,064)	(9.7)
Central counterparties	-	-	5,377	5,377	6,100	(1,446)	(21.2)
<b>Total standardised approach</b>	<b>29,699</b>	<b>3,107</b>	<b>5,411</b>	<b>38,217</b>	<b>47,456</b>	<b>(18,477)</b>	<b>(32.6)</b>
<b>Total credit exposures <sup>(4)</sup></b>	<b>791,631</b>	<b>175,150</b>	<b>29,644</b>	<b>996,425</b>	<b>989,641</b>	<b>13,569</b>	<b>1.4</b>

(1) The simple average of exposures as at 30 September 2016 and 30 June 2016.

(2) The difference between exposures as at 30 September 2016 and 30 June 2016.

(3) APRA has re-accredited the use of the AIRB approach for the Bankwest non-retail portfolio, effective 30 September 2016.

(4) 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 2016				Average exposure for June 2016 quarter <sup>(1)</sup>	Change in exposure for June 2016 quarter <sup>(2)</sup>	
	Off balance sheet			Total			
	On balance sheet	Non-market related	Market related				
\$M	\$M	\$M	\$M	\$M	\$M	%	
<b>Subject to AIRB approach</b>							
Corporate	60,865	45,171	9,759	115,795	116,056	(522)	(0.4)
SME corporate	38,629	7,474	789	46,892	44,999	3,786	8.8
SME retail	7,293	3,065	27	10,385	10,570	(370)	(3.4)
SME retail secured by residential mortgage	4,624	1,104	-	5,728	5,637	182	3.3
Sovereign	75,848	1,299	2,535	79,682	84,449	(9,534)	(10.7)
Bank	27,823	2,324	11,468	41,615	41,022	1,186	2.9
Residential mortgage	447,283	73,049	-	520,332	512,746	15,172	3.0
Qualifying revolving retail	9,889	17,436	-	27,325	27,280	90	0.3
Other retail	7,944	3,166	-	11,110	11,013	194	1.8
<b>Total AIRB approach</b>	<b>680,198</b>	<b>154,088</b>	<b>24,578</b>	<b>858,864</b>	<b>853,772</b>	<b>10,184</b>	<b>1.2</b>
<b>Specialised lending</b>	<b>52,102</b>	<b>13,123</b>	<b>2,073</b>	<b>67,298</b>	<b>66,742</b>	<b>1,112</b>	<b>1.7</b>
<b>Subject to standardised approach</b>							
Corporate	9,105	1,837	99	11,041	11,066	(49)	(0.4)
SME corporate	3,783	302	20	4,105	4,128	(46)	(1.1)
SME retail	5,258	836	23	6,117	6,132	(30)	(0.5)
Sovereign	531	5	-	536	472	128	31.4
Bank	673	7	-	680	703	(46)	(6.3)
Residential mortgage	11,621	2,076	24	13,721	13,412	617	4.7
Other retail	2,652	86	-	2,738	2,725	25	0.9
Other assets	10,933	-	-	10,933	10,605	656	6.4
Central counterparties	-	-	6,823	6,823	5,875	1,897	38.5
<b>Total standardised approach</b>	<b>44,556</b>	<b>5,149</b>	<b>6,989</b>	<b>56,694</b>	<b>55,118</b>	<b>3,152</b>	<b>5.9</b>
<b>Total credit exposures <sup>(3)</sup></b>	<b>776,856</b>	<b>172,360</b>	<b>33,640</b>	<b>982,856</b>	<b>975,632</b>	<b>14,448</b>	<b>1.5</b>

(1) The simple average of exposures as at 30 June 2016 and 31 March 2016.

(2) The difference between exposures as at 30 June 2016 and 31 March 2016.

(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

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

	30 September 2016		
	General	Specific	Total
	reserve for	provision <sup>(1)</sup>	provisions
	credit losses <sup>(1)</sup>	provision <sup>(1)</sup>	provisions
	\$M	\$M	\$M
Collective provision <sup>(2)</sup>	2,615	242	2,857
Individual provisions <sup>(2)</sup>	-	970	970
<b>Total provisions</b>	<b>2,615</b>	<b>1,212</b>	<b>3,827</b>
Additional GRCL requirement <sup>(3)</sup>	525	-	525
<b>Total regulatory provisions</b>	<b>3,140</b>	<b>1,212</b>	<b>4,352</b>

(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 \$525 million in order to maintain the required minimum GRCL.

	30 June 2016		
	General	Specific	Total
	reserve for	provision <sup>(1)</sup>	provisions
	credit losses <sup>(1)</sup>	provision <sup>(1)</sup>	provisions
	\$M	\$M	\$M
Collective provision <sup>(2)</sup>	2,562	256	2,818
Individual provisions <sup>(2)</sup>	-	944	944
<b>Total provisions</b>	<b>2,562</b>	<b>1,200</b>	<b>3,762</b>
Additional GRCL requirement <sup>(3)</sup>	552	-	552
<b>Total regulatory provisions</b>	<b>3,114</b>	<b>1,200</b>	<b>4,314</b>

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

(2) Provisions as reported in financial accounts according to the Australian Accounting Standards.

(3) The Group has recognised a deduction from CET1 of \$552 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 2016			Quarter ended 30 September 2016	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance <sup>(1)</sup>	Net charges for individual provisions	Actual losses <sup>(2)</sup>
	\$M	\$M	\$M	\$M	\$M
Corporate including SME, specialised lending and central counterparties	1,840	431	730	62	84
Sovereign	-	-	-	-	-
Bank	9	-	10	-	-
Residential mortgage	1,115	1,883	297	44	27
Qualifying revolving retail	96	-	58	-	64
Other retail	146	25	117	-	105
<b>Total</b>	<b>3,206</b>	<b>2,339</b>	<b>1,212</b>	<b>106</b>	<b>280</b>

(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 2016.

Portfolio	As at 30 June 2016			Quarter ended 30 June 2016	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance <sup>(1)</sup>	Net charges for individual provisions	Actual losses <sup>(2)</sup>
	\$M	\$M	\$M	\$M	\$M
Corporate including SME, specialised lending and central counterparties	1,805	417	730	124	208
Sovereign	-	-	-	-	-
Bank	10	-	10	(4)	-
Residential mortgage	1,032	1,899	269	35	17
Qualifying revolving retail	106	-	65	-	65
Other retail	163	27	126	1	101
<b>Total</b>	<b>3,116</b>	<b>2,343</b>	<b>1,200</b>	<b>156</b>	<b>391</b>

(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 2016.

# 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 2016	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	105	-
Credit cards and other personal loans	-	-
Auto and equipment finance	2	-
Commercial loans	-	-
Other	-	-
<b>Total</b>	<b>107</b>	<b>-</b>

Underlying Asset Type	For the 3 months to 30 June 2016	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	454	-
Credit cards and other personal loans	1	-
Auto and equipment finance	195	-
Commercial loans	-	-
Other	-	-
<b>Total</b>	<b>650</b>	<b>-</b>

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

Securitisation Facility Type	As at 30 September 2016		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	-	84	84
Warehouse facilities	4,058	1,679	5,737
Derivative facilities	10	8	18
Holdings of securities	7,630	4	7,634
Other	-	-	-
<b>Total securitisation exposures</b>	<b>11,698</b>	<b>1,775</b>	<b>13,473</b>

Securitisation Facility Type	As at 30 June 2016		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	-	110	110
Warehouse facilities	4,037	1,789	5,826
Derivative facilities	23	8	31
Holdings of securities	8,000	-	8,000
Other	-	-	-
<b>Total securitisation exposures</b>	<b>12,060</b>	<b>1,907</b>	<b>13,967</b>

## 4. Leverage Ratio

The Group's leverage ratio, defined as Tier 1 Capital as a percentage of total exposures, was 4.8% at 30 September 2016 on an APRA basis and 5.4% 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.

<b>Summary Group Leverage Ratio</b>	<b>30 Sep 16</b>	<b>30 Jun 16</b>	<b>31 Mar 16</b>	<b>31 Dec 15</b>
Tier 1 Capital (\$M)	47,568	48,553	46,991	47,972
Total Exposures (\$M) <sup>(1)</sup>	991,196	980,846	959,856	952,969
<b>Leverage Ratio (APRA) (%)</b>	<b>4.8</b>	5.0	4.9	5.0
<b>Leverage Ratio (Internationally Comparable) (%) <sup>(2)</sup></b>	<b>5.4</b>	5.6	5.5	5.6

(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

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<b>Term</b>	<b>Definition</b>
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 II framework revised (2009) to include additional requirements such as the Incremental Risk Charge (IRC), Stressed VaR (SVaR), the treatment of securitisation exposures and the Comprehensive Risk Measure (CRM) for certain correlation trading activities.
Basel 2.5	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.

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<b>Term</b>	<b>Definition</b>
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 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

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<b>Term</b>	<b>Definition</b>
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.

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