

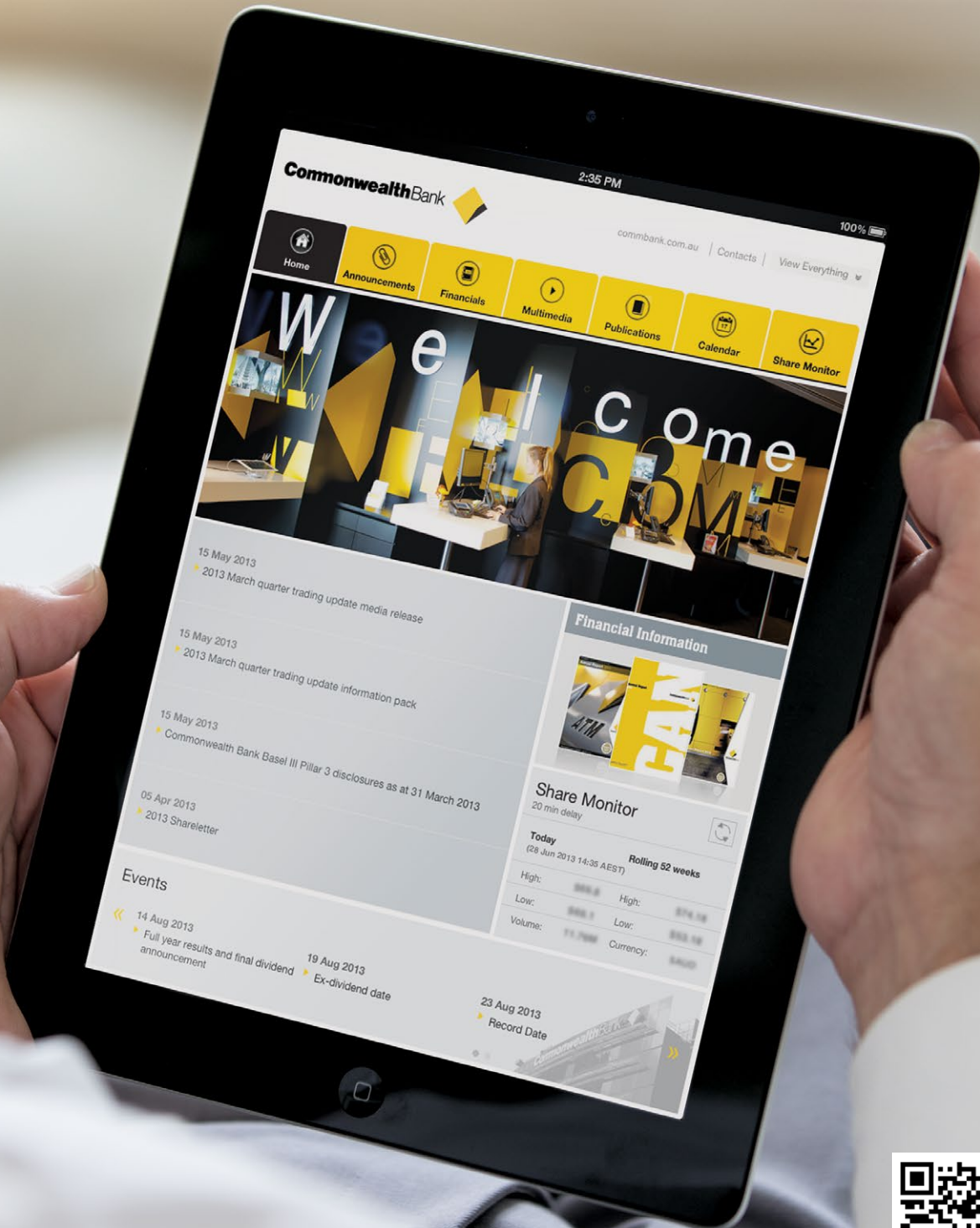
Basel III Pillar 3

Capital adequacy and risk disclosures
Quarterly Update as at 30 September 2013

CommonwealthBank



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Commonwealth Bank of Australia

ACN 123 123 124

Basel III Pillar 3 – Capital Adequacy and Risk Disclosures Quarterly update as at 30 September 2013

1 Scope of Application

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 has been 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 exposures, market risk, Interest Rate Risk in the Banking Book (IRRBB) and operational risk.

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

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

The Group's capital adequacy and risk disclosures for the year ended 30 June 2013 is available on the Group's corporate website www.commbank.com.au/shareholders.

2 Group Capital Ratios

The Group's Basel III CET1, Tier One and Total Capital ratios under APRA's Basel III prudential standards as at

30 September 2013 were 7.8%, 9.8% and 10.7% respectively.

The decrease in capital ratios during the quarter primarily reflects the impact of the declaration of the 2013 final dividend, which included the on market purchase of shares in respect of the dividend reinvestment plan, more than offsetting the capital generated from earnings.

The Group's CET1 internationally harmonised ratio as at 30 September 2013 was 10.7%, well in excess of the Board approved target of greater than 9%.

The major differences in the Basel III APRA and the Basel III internationally harmonised CET1 ratios are:

- APRA requires a full deduction to be taken against CET1 for equity investments and deferred tax assets. Whilst on an internationally harmonised basis, such items are concessionally risk weighted if they fall below prescribed thresholds.
- APRA requires capital to be held for IRRBB with no similar requirement on an internationally harmonised basis; and
- APRA requires a minimum Loss Given Default (LGD) floor of 20% to be applied to residential mortgages which is higher than regulatory requirements elsewhere.

Capital Initiatives

The following significant capital initiatives have been undertaken since 30 June 2013.

- The Dividend Reinvestment Plan (DRP) for the 2013 final dividend was satisfied in full by the on market purchase of shares. The participation ratio for the DRP was 22.4%.
- Redemption of \$500 million subordinated tier two debt issue.

APS 330 Table 3f – Capital ratios

	30 Sep 13	30 Jun 13
	%	%
Summary Group Capital Adequacy Ratios (Level 2)		
Common Equity Tier 1	7.8	8.2
Tier 1	9.8	10.2
Tier 2	0.9	1.0
Total Capital	10.7	11.2
Common Equity Tier 1 (Internationally Harmonised)	10.7	11.0

3 Risk Weighted Assets

RWA are calculated in accordance with 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 the ratings-based approach is used for securitisation exposures rated by External Credit Assessment Institutions (ECAI).

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

Asset Category	Risk Weighted Assets		Change in RWA for Sep 2013 quarter	
	30 Sep 13 \$M	30 Jun 13 \$M	\$M	%
Credit Risk				
Subject to advanced IRB approach				
Corporate	48,247	53,468	(5,221)	(9.8)
SME corporate	28,064	30,835	(2,771)	(9.0)
SME retail	5,249	4,203	1,046	24.9
Sovereign	3,766	3,684	82	2.2
Bank	10,221	10,328	(107)	(1.0)
Residential mortgage	69,112	66,741	2,371	3.6
Qualifying revolving retail	6,447	6,683	(236)	(3.5)
Other retail	11,429	11,093	336	3.0
Impact of the regulatory scaling factor ⁽¹⁾	10,952	11,222	(270)	(2.4)
Total RWA subject to advanced IRB approach	193,487	198,257	(4,770)	(2.4)
Specialised lending	53,065	50,392	2,673	5.3
Subject to standardised approach				
Corporate	3,409	3,684	(275)	(7.5)
SME corporate	554	525	29	5.5
SME retail	4,789	4,572	217	4.7
Sovereign	95	249	(154)	(61.8)
Bank	175	176	(1)	(0.6)
Residential mortgage	2,480	2,432	48	2.0
Other retail	2,277	2,224	53	2.4
Other assets	5,263	4,395	868	19.7
Total RWA subject to standardised approach	19,042	18,257	785	4.3
Securitisation	5,316	5,373	(57)	(1.1)
Credit valuation adjustment	6,504	7,395	(891)	(12.0)
Central co counterparties ⁽²⁾	104	-	104	large
Total RWA for credit risk exposures	277,518	279,674	(2,156)	(0.8)
Traded market risk	6,085	5,151	934	18.1
Interest rate risk in the banking book	22,102	16,289	5,813	35.7
Operational risk	28,386	28,044	342	1.2
Total risk weighted assets	334,091	329,158	4,933	1.5

(1) APRA requires RWA amounts that are derived from Internal Ratings Based (IRB) risk weight functions to be multiplied by a factor of 1.06.

(2) Under Basel III capital reforms, trade exposures cleared through Central Counterparties (CCP) are subject to revised interim capital requirements.

Risk Weighted Assets

Total RWA increased by \$4.9 billion or 1.5% on the prior quarter to \$334.1 billion.

Credit Risk Exposure and RWA

Credit risk RWA decreased \$2.2 billion or 0.8% to \$277.5 billion, mostly due to:

- Improving credit quality;
- The net result of data and methodology changes; and
- Lower non-retail volumes.

These decreases in RWA were partly offset by:

- RBNZ changes to New Zealand Residential Mortgage correlation factors; and
- Growth in retail exposures.

Traded Market Risk RWA

Traded market risk RWA increased by \$0.9 billion or 18% to \$6.1 billion. This was driven mainly by an increase in customer flow in Commodities.

Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA increased by \$5.8 billion during the quarter as a result of treasury risk management activities increasing exposure to long term interest rates.

Operational Risk RWA

Operational Risk RWA increased a modest \$0.3 billion over the quarter which is consistent with a stable operational risk profile across the Group.

4 Credit Risk Exposure

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

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

Portfolio Type	30 September 2013				Average exposure for September 2013 quarter ⁽¹⁾	Change in exposure for September 2013 quarter ⁽²⁾	
	Off balance sheet			Total			
	On balance sheet	Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M	\$M	%
Subject to advanced IRB approach							
Corporate	44,657	33,540	4,488	82,685	85,612	(5,854)	(6.6)
SME corporate	37,805	6,151	694	44,650	46,154	(3,007)	(6.3)
SME retail	8,008	2,148	17	10,173	9,130	2,087	25.8
Sovereign	51,936	2,908	1,593	56,437	56,699	(523)	(0.9)
Bank	27,508	4,571	10,689	42,768	42,765	7	0.0
Residential mortgage	377,132	68,172	-	445,304	440,467	9,669	2.2
Qualifying revolving retail	9,335	13,313	-	22,648	22,576	144	0.6
Other retail	7,046	2,433	-	9,479	9,308	343	3.8
Total advanced IRB approach	563,427	133,236	17,481	714,144	712,711	2,866	0.4
Specialised lending							
	49,315	10,226	1,755	61,296	59,158	4,276	7.5
Subject to standardised approach							
Corporate	2,545	948	11	3,504	3,691	(374)	(9.6)
SME corporate	346	182	-	528	535	(14)	(2.6)
SME retail	4,344	422	1	4,767	5,133	(732)	(13.3)
Sovereign	223	-	-	223	377	(307)	(57.9)
Bank	523	41	-	564	496	136	31.8
Residential mortgage	4,560	720	-	5,280	5,259	42	0.8
Other retail	2,243	31	-	2,274	2,286	(23)	(1.0)
Other assets	10,862	-	-	10,862	10,103	1,516	16.2
Central counterparties	-	-	416	416	208	416	large
Total standardised approach	25,646	2,344	428	28,418	28,088	660	2.4
Total credit exposures⁽³⁾	638,388	145,806	19,664	803,858	799,957	7,802	1.0

(1) The simple average of exposures as at 30 September 2013 and 30 June 2013.

(2) The difference between credit exposures as at 30 September 2013 and 30 June 2013.

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

4 Credit Risk Exposure (continued)

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

Portfolio Type	30 June 2013				Average exposure for June 2013 quarter ⁽¹⁾	Change in exposure for June 2013 quarter ⁽²⁾	
	On balance sheet	Off balance sheet		Total		\$M	%
		Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M		
Subject to advanced IRB approach							
Corporate	46,700	35,371	6,468	88,539	86,781	3,517	4.1
SME corporate	40,375	6,605	677	47,657	47,213	888	1.9
SME retail	6,551	1,509	26	8,086	8,286	(399)	(4.7)
Sovereign	52,309	2,940	1,711	56,960	53,436	7,048	14.1
Bank	26,250	3,925	12,586	42,761	43,092	(661)	(1.5)
Residential mortgage	369,224	66,411	-	435,635	430,279	10,713	2.5
Qualifying revolving retail	9,463	13,041	-	22,504	22,415	179	0.8
Other retail	6,923	2,213	-	9,136	8,958	357	4.1
Total advanced IRB approach	557,795	132,015	21,468	711,278	700,460	21,642	3.1
Specialised lending	46,207	9,482	1,331	57,020	55,390	3,260	6.1
Subject to standardised approach							
Corporate	2,730	1,131	17	3,878	3,683	391	11.2
SME corporate	351	190	1	542	410	265	95.7
SME retail	4,200	1,298	1	5,499	5,358	282	5.4
Sovereign	530	-	-	530	426	208	64.6
Bank	390	38	-	428	468	(80)	(15.7)
Residential mortgage	4,540	698	-	5,238	5,173	130	2.5
Other retail	2,208	89	-	2,297	2,282	30	1.3
Other assets	9,346	-	-	9,346	9,247	199	2.2
Central counterparties	-	-	-	-	-	-	n/a
Total standardised approach	24,295	3,444	19	27,758	27,047	1,425	5.4
Total credit exposures⁽³⁾	628,297	144,941	22,818	796,056	782,897	26,327	3.4

(1) The simple average of exposures as at 30 June 2013 and 31 March 2013.

(2) The difference between credit exposures as at 30 June 2013 and 31 March 2013.

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

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5 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 2013		
	General reserve for credit losses ⁽¹⁾	Specific provision ⁽¹⁾	Total provisions
	\$M	\$M	\$M
Collective provision ⁽²⁾	2,672	154	2,826
Individual provisions ⁽²⁾	-	1,648	1,648
Total provisions	2,672	1,802	4,474
Additional GRCL requirement ⁽³⁾	291	-	291
Total regulatory provisions	2,963	1,802	4,765

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

(2) Provisions according to the Australian Accounting Standards.

(3) The Group has recognised an after tax deduction from CET1 of \$204 million in order to maintain the required minimum GRCL.

	30 June 2013		
	General reserve for credit losses ⁽¹⁾	Specific provision ⁽¹⁾	Total provisions
	\$M	\$M	\$M
Collective provision ⁽²⁾	2,699	159	2,858
Individual provisions ⁽²⁾	-	1,628	1,628
Total provisions	2,699	1,787	4,486
Additional GRCL requirement ⁽³⁾	297	-	297
Total regulatory provisions	2,996	1,787	4,783

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

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

(3) The Group has recognised an after tax deduction from CET1 of \$208 million in order to maintain the required minimum GRCL.

5 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 2013			Quarter ended 30 September 2013	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance ⁽¹⁾	Net charges for individual provisions	Actual losses ⁽²⁾
	\$M	\$M	\$M	\$M	\$M
Corporate including SME and specialised lending	2,912	597	1,418	109	130
Sovereign	-	-	-	-	-
Bank	25	-	23	-	-
Residential mortgage	1,092	1,640	221	21	29
Qualifying revolving retail	104	-	53	-	70
Other retail	149	30	87	(1)	79
Total	4,282	2,267	1,802	129	308

(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.

Portfolio	As at 30 June 2013			Quarter ended 30 June 2013	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance ⁽¹⁾	Net charges for individual provisions	Actual losses ⁽²⁾
	\$M	\$M	\$M	\$M	\$M
Corporate including SME and specialised lending	2,924	430	1,394	73	330
Sovereign	-	-	-	-	-
Bank	25	-	23	(10)	10
Residential mortgage	1,117	1,760	225	37	74
Qualifying revolving retail	110	-	56	-	65
Other retail	154	25	89	4	73
Total	4,330	2,215	1,787	104	552

(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.

6 Securitisation

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

Underlying Asset Type	For the 3 months to 30 September 2013	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	3,191	-
Credit cards and other personal loans	-	-
Auto and equipment finance	1	-
Commercial loans	-	-
Other	-	-
Total	3,192	-

Underlying Asset Type	For the 3 months to 30 June 2013	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	427	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial loans	108	-
Other	-	-
Total	535	-

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

Securitisation Facility Type	As at 30 September 2013		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	-	100	100
Warehouse facilities	2,189	1,351	3,540
Derivative facilities	523	-	523
Holdings of securities	4,669	-	4,669
Other	-	-	-
Total securitisation exposures in the banking book	7,381	1,451	8,832

Securitisation Facility Type	As at 30 June 2013		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	-	142	142
Warehouse facilities	2,540	1,559	4,099
Derivative facilities	575	-	575
Holdings of securities	4,738	-	4,738
Other	-	-	-
Total securitisation exposures in the banking book	7,853	1,701	9,554

7 Glossary

Term	Definition
Additional Tier One Capital	Additional Tier One 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.
ADI	Authorised Deposit-taking Institution - includes banks, building societies and credit unions which are authorised by APRA to take deposits from customers.
AIRB	Advanced Internal Ratings Based approach - used to measure credit risk in accordance with the Group's Basel III accreditation approval 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 approval that allows the Group to use its own internal 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.
Basel 2.5	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 III	Refers to the Basel Committee on Banking Supervision's Basel III: A global regulatory 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.
CET1	Common Equity Tier One Capital is 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	APS asset class - includes commercial credit risk where annual revenues exceed \$50 million.
Credit Valuation Adjustment (CVA)	A capital charge that covers the risk of mark-to-market losses on the counterparty credit risk arising from bilateral OTC derivative contracts. CVA is the amount of counterparty credit risk net of the mark-to market calculated for CBA.
EAD	Exposure at Default - the extent to which a bank may be exposed upon default of an obligor.
ECAI	External Credit Assessment Institution, for example Moody's.
ELE	Extended Licenced Entity – 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.

8 Glossary continued

Term	Definition
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 CET1 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 the Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement"). Also known as individually assessed provisions or IAP.
IRRBB	Interest Rate Risk in the Banking Book - is 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 the period. 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 licence 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.
LGD	Loss Given Default – the fraction of EAD 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.
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 \$0.1m, unsecured and unconditionally cancellable by the Group. Only Australian retail credit cards qualify for this AIRB 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.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
RWA	Risk Weighted Assets – 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 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.

8 Glossary continued

Term	Definition
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), object finance and project finance assets.
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).
Stress 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 One Capital	Comprises CET1 and Additional Tier One Capital.
Tier Two Capital	Capital items that fall short of the necessary conditions to qualify as Tier One Capital.

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