Commonwealth Bank of Australia

ACN 123 123 124

Basel II Pillar 3 - Capital Adequacy and Risk Disclosures

Quarterly update as at 31 March 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.

These disclosures include consolidation of the Bank of Western Australia Limited (Bankwest), CommBank Europe Limited and PT Bank Commonwealth which operate under 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 2009 is available on the Group's corporate web site.

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 31 March 2010 are 9.19% and 11.33% respectively.

Comparable Tier One and Total Capital ratios as at 31 March 2010 under the UK Financial Services Authority method of calculating regulatory capital are 12.5% and 14.4% respectively.

Capital Initiatives

The following significant capital initiatives have been undertaken since 31 December 2009.

Tier One Capital:

- The allocation of $772 million worth of ordinary shares in order to satisfy the Dividend Reinvestment Plan (DRP), in respect of the interim dividend for the 2010 financial year, representing a participation rate of 42%.

Tier Two Capital:

- Redemption of subordinated Lower Tier Two debt; $300 million in February 2010 and a further $450 million (Euro 300 million) in March 2010.

APS 330 Table 16e - Capital ratios

	31 March 2010	31 December 2009
	%	%
Tier One	9.19	9.10
Tier Two	2.14	2.53
Total Capital	**11.33**	**11.63**

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)

	31 March 2010	31 December 2009	Change in RWA	
	$M	$M	$M	%
Credit risk				
Subject to advanced IRB approach				
Corporate	42,251	43,031	(780)	(1.8%)
SME corporate	25,308	25,322	(14)	(0.1%)
SME retail	4,920	4,765	155	3.3%
Sovereign	2,011	1,956	55	2.8%
Bank	6,077	6,745	(668)	(9.9%)
Residential mortgage	56,753	56,909	(156)	(0.3%)
Qualifying revolving retail	6,598	6,292	306	4.9%
Other retail	6,329	6,315	14	0.2%
Other assets	-	-	-	n/a
Impact of the Basel II scaling factor [1]	9,015	9,079	(64)	(0.7%)
Total RWA subject to advanced IRB	**159,262**	**160,414**	**(1,152)**	(0.7%)
Specialised lending	**37,384**	**38,678**	**(1,294)**	(3.3%)
Subject to standardised approach				
Corporate	9,226	10,053	(827)	(8.2%)
SME corporate	7,634	7,540	94	1.2%
SME retail	4,530	4,505	25	0.6%
Sovereign	210	233	(23)	(9.9%)
Bank	1,260	1,206	54	4.5%
Residential mortgage	21,779	22,531	(752)	(3.3%)
Other retail	2,448	2,411	37	1.5%
Other assets	5,724	6,405	(681)	(10.6%)
Total RWA subject to standardised approach	**52,811**	**54,884**	**(2,073)**	(3.8%)
Securitisation exposures	**1,652**	**1,962**	**(310)**	(15.8%)
Equity exposures	**2,607**	**2,528**	**79**	3.1%
Total RWA for credit risk exposures	**253,716**	**258,466**	**(4,750)**	(1.8%)
Traded market risk	**3,770**	**4,033**	**(263)**	(6.5%)
Interest rate risk in the banking book	**16,911**	**16,601**	**310**	1.9%
Operational risk	**19,490**	**18,349**	**1,141**	6.2%
Total risk weighted assets	**293,887**	**297,449**	**(3,562)**	(1.2%)

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).

Total credit risk exposure (excluding securitisation and equity exposures) remained stable at $650 billion. Total RWA decreased by $3.6 billion or 1.2% on the prior quarter to $293.9 billion.

Credit Risk RWA

Credit Risk RWA decreased by $4.8 billion or 1.8% over the quarter to $253.7 billion.

The reduction in Corporate and Specialised Lending RWA reflects net run-off of exposure within these portfolios, exchange rate appreciation and a modest improvement in credit quality.

A reduction in money market lending and swap exposure resulted in a decrease in Bank RWAs.

Review and disaggregation of some portfolio data reduced Standardised Residential Mortgage, Corporate and Other Asset exposures which were subsequently given Advanced treatment.

With the rise in interest rates, end of the first home buyers 'boost' and tightening of credit standards focussed on loan serviceability in a rising rate environment, the growth in Residential Mortgages exposure has slowed compared to prior period (as can be seen in APS 330 Table 17a).

Traded Market, IRRBB and Operational Risk RWA

Traded Market risk RWA decreased $0.3 billion (-6.5%) on the prior half to $3.8 billion. This decrease was a result of lower VaR and a small reduction in trading over the quarter.

Interest rate risk in the banking book RWA remained largely unchanged.

Operational risk RWA increased by $1.1 billion (6.2%) over the quarter due to an increase in risk associated with Transaction Execution, Delivery and Process Management.

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

	31 March 2010						
		Off Balance Sheet					
Total Credit Risk Exposure [1]	**On Balance Sheet $M**	**Non-Market Related $M**	**Market Related $M**	**Total $M**	**Average[2] Exposure for March Quarter $M**	**Change[3] in Exposure for March Quarter $M**	**%**
Subject to advanced IRB approach							
Corporate	36,955	24,207	5,552	66,714	66,894	(360)	(0.5%)
SME corporate	32,392	5,674	379	38,445	38,439	13	0.0%
SME retail	7,344	1,660	11	9,015	8,970	90	1.0%
Sovereign	25,005	1,525	1,808	28,338	28,191	294	1.0%
Bank	16,945	2,227	9,397	28,569	30,015	(2,892)	(9.2%)
Residential mortgage	273,944	52,440	-	326,384	323,592	5,584	1.7%
Qualifying revolving retail	8,288	4,269	-	12,557	12,467	180	1.5%
Other retail	4,941	774	201	5,916	5,929	(25)	(0.4%)
Total advanced IRB approach	**405,814**	**92,776**	**17,348**	**515,938**	**514,496**	2,884	0.6%
Specialised lending	**33,224**	**6,848**	**929**	**41,001**	**41,433**	**(864)**	(2.1%)
Subject to standardised approach							
Corporate	8,415	845	39	9,299	10,198	(1,798)	(16.2%)
SME corporate	6,889	803	36	7,728	7,666	124	1.6%
SME retail	3,969	1,313	-	5,282	5,272	21	0.4%
Sovereign	565	1	-	566	576	(20)	(3.4%)
Bank	6,155	66	40	6,261	6,137	248	4.1%
Residential mortgage	45,611	517	16	46,144	46,685	(1,081)	(2.3%)
Other retail	2,399	92	1	2,492	2,473	38	1.5%
Other assets	15,754	-	-	15,754	15,702	105	0.7%
Total standardised approach	**89,757**	**3,637**	**132**	**93,526**	**94,708**	(2,363)	(2.5%)
Total exposures [1]	**528,795**	**103,261**	**18,409**	**650,465**	**650,637**	(343)	(0.1%)

1 Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
2 The simple average of closing balances of each quarter.
3 Change, as at 31 March 2010, of exposures compared to balances at 31 December 2009.

	31 December 2009						
		Off Balance Sheet					
Total Credit Risk Exposure [1]	**On Balance Sheet $M**	**Non-Market Related $M**	**Market Related $M**	**Total $M**	**Average[2] Exposure for December Quarter $M**	**Change[3] in Exposure for December Quarter $M**	**%**
Subject to advanced IRB approach							
Corporate	37,787	25,016	4,271	67,074	73,337	(12,526)	(15.7%)
SME corporate	32,410	5,615	407	38,432	38,496	(128)	(0.3%)
SME retail	7,324	1,596	5	8,925	8,846	158	1.8%
Sovereign	25,122	1,547	1,375	28,044	25,668	4,752	20.4%
Bank	19,160	1,788	10,513	31,461	34,008	(5,093)	(13.9%)
Residential mortgage	268,153	52,647	-	320,800	316,902	7,796	2.5%
Qualifying revolving retail	8,154	4,223	-	12,377	12,128	498	4.2%
Other retail	4,940	1,001	-	5,941	5,930	23	0.4%
Total advanced IRB approach	**403,050**	**93,433**	**16,571**	**513,054**	**515,314**	(4,520)	(0.9%)
Specialised lending	**33,140**	**7,893**	**832**	**41,865**	**39,311**	**5,109**	13.9%
Subject to standardised approach							
Corporate	8,688	2,366	43	11,097	11,552	(910)	(7.6%)
SME corporate	6,780	781	43	7,604	7,691	(174)	(2.2%)
SME retail	3,942	1,319	-	5,261	5,327	(132)	(2.4%)
Sovereign	585	1	-	586	542	89	17.9%
Bank	5,785	182	46	6,013	6,125	(224)	(3.6%)
Residential mortgage	46,234	971	20	47,225	46,087	2,277	5.1%
Other retail	2,356	97	1	2,454	2,440	29	1.2%
Other assets	15,649	-	-	15,649	16,428	(1,557)	(9.0%)
Total standardised approach	**90,019**	**5,717**	**153**	**95,889**	**96,190**	(602)	(0.6%)
Total exposures [1]	**526,209**	**107,043**	**17,556**	**650,808**	**650,815**	(13)	(0.0%)

1 Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
2 The simple average of closing balances of each quarter.
3 Change, as at 31 December 2009, of exposures compared to balances at 30 September 2009.

5. Past due and impaired exposures, provisions and reserves

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

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

	31 March 2010		
	General Reserve for Credit Losses	Specific Provision	Total Provisions [1]
	$M	$M	$M
Collective provisions	3,244	130	3,374
Individual provisions	-	2,127	2,127
Total regulatory provisions [2]	**3,244**	**2,257**	**5,501**

1 Provisions according to AIFRS.

2 Provisions before tax classified according to APS 220 "Credit Quality".

	31 December 2009		
	General Reserve for Credit Losses	Specific Provision	Total Provisions [1]
	$M	$M	$M
Collective provisions	3,319	133	3,452
Individual provisions	-	1,822	1,822
Total regulatory provisions [2]	**3,319**	**1,955**	**5,274**

1 Provisions as reported in financial accounts according to AIFRS.

2 Provisions before tax classified according to APS 220 "Credit Quality".

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

	As at 31 March 2010			Quarter ended 31 March 2010	
	Impaired Loans	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	4,288	345	1,823	337	147
Sovereign	-	-	-	-	-
Bank	102	-	69	4	-
Residential mortgage	881	2,539	239	48	25
Qualifying revolving retail	-	114	62	(5)	52
Other retail	20	149	64	11	64
Total	**5,291**	**3,147**	**2,257**	**395**	**288**

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 31 March 2010.

	As at 31 December 2009			Quarter ended 31 December 2010	
	Impaired Loans	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	3,853	391	1,544	423	528
Sovereign	-	-	-	-	-
Bank	89	-	65	18	73
Residential mortgage	858	2,393	216	118	19
Qualifying revolving retail	9	116	78	(5)	71
Other retail	14	126	52	(5)	51
Total	**4,823**	**3,026**	**1,955**	**549**	**742**

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 31 December 2009.

Loans 90 days or more past due and impaired exposures have increased as the broader impact of the economy flows through portfolios. Individual provisions have been raised appropriately for impaired assets.

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 equivalent 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 Revised Framework for International Convergence of Capital Measurement and Capital Standards issued in June 2006 and as amended subsequently.
CBA	Commonwealth Bank of Australia - the chief entity for the Group.
Collective Provisions	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 Impairment".
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.
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 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 Impairment".
Level 1	The lowest level at which the Group reports its capital adequacy to APRA.

Glossary (continued)

Term	Definition
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	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 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 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 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 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 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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