

Basel III Pillar 3

Capital Adequacy
and Risk Disclosures
as at 30 June 2023

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The release of this announcement was authorised by the Board.

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1 Introduction

The Commonwealth Bank of Australia (CBA) 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 for CBA and its subsidiaries (the Group) in accordance with a Board approved policy and APRA Prudential Standard (APS) 330 *Public Disclosure* (APS 330). It presents information on the Group's capital adequacy and Risk Weighted Assets (RWA) calculations for credit risk including securitisation, traded market risk, Interest Rate Risk in the Banking Book (IRRBB) and operational risk.

This document also presents information on the Group's leverage and liquidity ratios and Countercyclical Capital Buffer (CCyB) in accordance with prescribed methodologies.

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 business and certain entities through which securitisation of Group assets is conducted.

The Group is predominantly accredited to use the Advanced Internal Ratings-based approach (AIRB) for credit risk and adopted APS 115 *Capital Adequacy: Standardised Measurement Approach to Operational Risk* (APS 115) for operational risk effective from 1 January 2023. The Group is also required to assess its traded market risk and IRRBB requirements under Pillar 1 of the Basel capital framework.

The Group engaged the external auditor (PwC) to perform assurance procedures over the Pillar 3 report in accordance with the Australian Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

This Pillar 3 document is available on the Group's corporate website: [Commbank.com.au/regulatorydisclosures](https://commbank.com.au/regulatorydisclosures).

The Group in Review

	30 Jun 23 Revised Framework ¹	31 Dec 22 ²	30 Jun 22 ²
Summary Group Capital Adequacy Ratios (Level 2)	%	%	%
Common Equity Tier 1	12.2	11.4	11.5
Additional Tier 1	2.3	1.9	2.1
Tier 1	14.5	13.3	13.6
Tier 2	5.5	4.5	4.0
Total Capital	20.0	17.8	17.6

¹ Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

² Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

Group Capital Ratios

As at 30 June 2023, the Group's Basel III Common Equity Tier 1 (CET1), Tier 1 and Total Capital ratios were 12.2%, 14.5% and 20.0% respectively.

Leverage Ratio

The Group's leverage ratio, which is defined as Tier 1 Capital as a percentage of total exposures, was 5.1% as at 30 June 2023.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) requires Australian ADIs to hold sufficient liquid assets to meet 30 day Net Cash Outflows (NCO) projected under an APRA prescribed stress scenario. The Group maintained an average LCR of 131% in the June 2023 quarter.

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is the ratio of the amount of Available Stable Funding (ASF) to the amount of Required Stable Funding (RSF). Factors prescribed by APRA are used to determine the stable funding requirement of assets and the stability of alternative sources of funding. The Group's NSFR was 124% at 30 June 2023.

Policy Framework

The Group regularly benchmarks and aligns its policy framework against existing prudential and regulatory standards. Potential developments in Australian and international standards, and global best practice are also considered.

The Group continues to monitor and take actions to enhance and strengthen its risk culture. The Group has a formal Risk Management Approach (RMA) that creates clear obligations and transparency over risk management and strategy decisions. A risk accountability model (Three Lines of Accountability) requires business management to operate responsibly by taking well understood and managed risks that are appropriately and adequately priced.

The application is reflected in the Group's overall asset quality and capital position. In particular, the Group remains in a small group of banking institutions with an AA-/Aa3 credit rating. To maintain this strength, the Group continues to invest in its risk systems and management processes.

The Group's capital forecasting process and capital plans are in place to ensure a sufficient capital buffer above minimum levels is maintained at all times. The Group manages its capital by regularly and simultaneously considering regulatory capital requirements, rating agency views on the capital required to maintain the Group's credit rating, the market response to capital levels and stress testing. These views then cascade into consideration of the target capital level. The Group's management of its capital adequacy is supported by robust capital management processes applied in each Business Unit (BU). The results are integrated into the Group's risk-adjusted performance and pricing processes.

The Group is required to report the calculation of RWA and the assessment of capital adequacy on a Level 2 basis (see section 3, page 4 for further details). APRA has set minimum regulatory capital requirements for ADIs. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by banks so that the “need” for capital can be compared to the amount of capital “at hand”. The Basel Regulatory Capital Framework is based on “three pillars” as summarised below.

Basel Capital Framework		
Pillar 1 Minimum Capital Requirements	Pillar 2 Supervisory Review Process	Pillar 3 Market Discipline
Credit Risk Interest Rate Risk in the Banking Book ¹ Traded Market Risk Operational Risk	Firm-wide risk oversight Internal Capital Adequacy Assessment Process considers: additional risks, capital buffers and targets and risk concentrations	Regular disclosure to the market covering both qualitative and quantitative aspects of capital adequacy and risk disclosures

¹ Applicable to Pillar 1 in Australia only (Pillar 2 elsewhere).

Pillar 1 – Minimum Capital Requirements

Basel II

In December 2007, APRA granted advanced Basel II accreditation to the Group to calculate RWA and the assessment of capital adequacy in accordance with Pillar 1.

Adoption of advanced methodologies prescribed under Basel II was effective from 1 January 2008.

As a result of receiving advanced Basel II accreditation, the Group predominantly used the AIRB approach for credit risk and the AMA for operational risk in the calculation of RWA from 1 January 2008 until 31 December 2022. Portfolios that attract the Standardised approach are discussed in section 8.3 “Portfolios Subject to Standardised and Supervisory Risk Weights” (page 41).

The Group incorporates measured IRRBB in its regulatory capital calculations with effect from 1 July 2008, as required by APRA for Australian ADIs (this is not a Pillar 1 requirement in other jurisdictions).

The Basel II enhancements announced in July 2009, relating to securitisation and market risk, were implemented on 1 January 2012. These enhancements are commonly referred to as Basel 2.5.

Basel III

APRA has implemented a set of capital, liquidity and funding reforms based on the Basel Committee on Banking Supervision (BCBS) “Basel III” framework. The objectives of the reforms are to increase the quality, consistency and transparency of capital, to enhance the risk coverage framework, and to reduce systemic and pro-cyclical risk.

Up until 1 January 2023, the APRA prudential standards required a minimum CET1 Capital ratio or Prudential Capital Requirement (PCR) of 4.5%. An additional CET1 capital conservation buffer (CCB) of 3.5%, inclusive of a Domestic Systemically Important Bank (DSIB) requirement of 1% and a countercyclical capital buffer (CCyB) of 0%, brought the minimum CET1 ratio requirement to 8%.

Additionally under this capital framework, APRA’s expectation was that the Australian major banks operate for the majority of the year with a CET1 Capital ratio of 10.5% or more.

From 1 January 2023, APRA implemented its revisions to the ADI capital framework, which included a 2.25% increase in the CCB, inclusive of a 1% CCyB, bringing the total CET1 requirement to 10.25%. Further details of these changes are provided on page 6.

The Group expects to operate with a post-dividend CET1 Capital ratio of greater than 11%, compared to the revised APRA minimum of 10.25%, except in circumstances of unexpected capital volatility.

Pillar 2 – Supervisory Review Process

ICAAP

Under Pillar 2, APRA requires each bank to have in place and report confidentially its Internal Capital Adequacy Assessment Process (ICAAP). The Group updates the ICAAP annually. The ICAAP document provides details on:

- The Group’s capital position and regulatory minima;
- A three year capital forecast;
- Stress testing and contingent capital planning;
- Key capital management policies; and
- Details on key processes and supporting frameworks.

Pillar 3 – Market Discipline

Disclosures

To enhance transparency in Australian financial markets, APRA established a set of requirements within APS 330 for the public disclosure of information on the risk management practices and capital adequacy of ADIs (pursuant to Pillar 3).

Pillar 3 qualitative and quantitative disclosures are made in detail in this document as part of the Group’s 30 June 2023 financial year reporting. Detailed quantitative information is released at the Group’s December half year with summarised quantitative information released for March and September quarters. These reports are published on the Group’s corporate website, together with the Group’s APS 330 public disclosure of capital instruments and remuneration:

[Commbank.com.au/regulatorydisclosures](https://www.commbank.com.au/regulatorydisclosures).

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Scope of Application

This document has been prepared in accordance with Board approved policy and reporting requirements set out in APS 330.

APRA adopts a tiered approach to the measurement of an ADI's capital adequacy:

- **Level 1:** the Parent Bank (CBA) and offshore branches (the Bank) and APRA approved Extended Licensed Entities (ELE);
- **Level 2:** the Consolidated Banking Group excluding the insurance businesses and certain entities through which securitisation of Group assets is conducted; and
- **Level 3:** the conglomerate group including the Group's insurance business¹ (the Group).

The Group is required to report its assessment of capital adequacy on a Level 2 basis. The head of the Level 2 Group is the Parent Bank. Additional disclosure of capital ratios relating to material ADIs within the Group together with CBA's own Level 1 capital ratios are included under Table 6g of this report (page 8).

ASB Bank Limited (ASB) operates under Advanced Basel III status and is subject to regulation by the Reserve Bank of New Zealand (RBNZ). The RBNZ applies a similar methodology to APRA in calculating regulatory capital requirements.

CBA Europe N.V. and PT Bank Commonwealth (PTBC) apply the Standardised Basel III methodology in calculating their local regulatory capital requirements. Effective from March 2022, APRA approved CBA Europe N.V. to apply the Internal Ratings-based (IRB) approach for the purpose of determining the Group's capital requirement at Level 2.

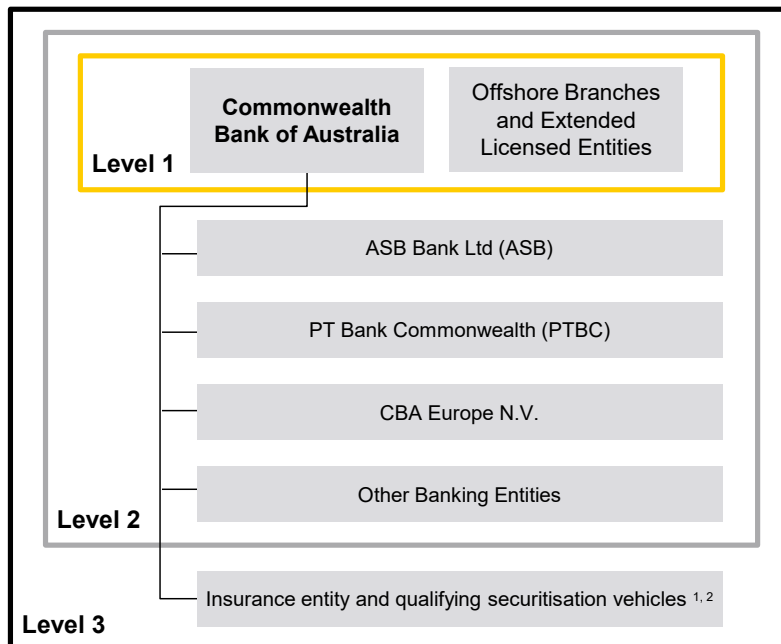
During the year ended 30 June 2023, the Group completed the sale of its Australian general insurance business, Commisure General Insurance.

Restrictions on transfer of funds or regulatory capital within the Group

The transfer of regulatory capital and funding within the Group is subject to restrictions imposed by local regulatory requirements. In particular, APS 222 *Associations with Related Entities* establishes prudential limits on the level of exposure that the Bank may have to a related entity.

The Bank and all of the subsidiaries of the Group are adequately capitalised. There are no restrictions or other major impediments on the transfer of funds within the Group. There are no capital deficiencies in non-consolidated (regulatory) subsidiaries in the Group.

APS 330 reporting structure



¹ A detailed list of non-consolidated entities is provided in Appendix 13.5.

² Securitisation that meets APRA's operational requirements for regulatory capital relief under APS 120 *Securitisation* (APS 120).

4

Capital

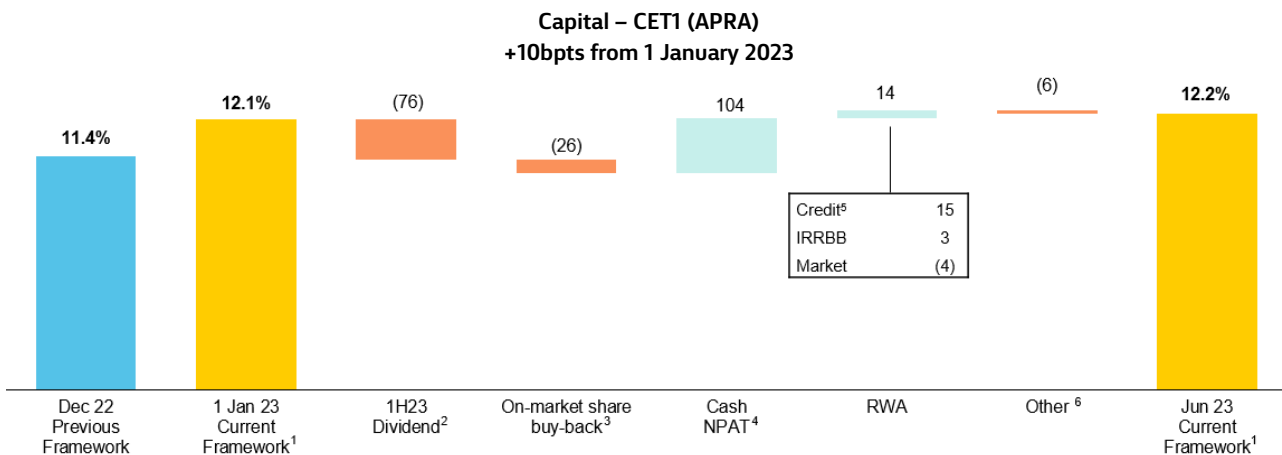
Capital Adequacy

The Group actively manages its capital to balance the perspectives of various stakeholders (regulators, rating agencies and shareholders). This is achieved by optimising the mix of capital, while maintaining adequate capital ratios throughout the financial year. The Group's capital is managed within a formal framework, the ICAAP, which is an integration of risk, financial and capital management processes.

APRA advises the Group of its Prudential Capital Requirement (PCR), which represents the regulatory minimum CET1, Tier 1 and Total Capital ratios that the Group is required to maintain at all times. In order to ensure there is no breach of these minimum levels, APRA expects the Group to maintain a prudent buffer over these prescribed minimum levels. The PCR is subject to an ongoing review by APRA and is formally reassessed on an annual basis. The Group is required to inform APRA immediately of any breach or potential breach of its PCR, including details of remedial action taken or planned to be taken.

The Group has a range of instruments and methodologies available to effectively manage capital. These include share issues and buybacks, dividend and Dividend Reinvestment Plan (DRP) policies, hybrid capital raising and subordinated debt issuances. All major capital related initiatives require approval by the Board.

The Group's capital position is monitored on a continuous basis and reported monthly to the Executive Leadership Team of the Group and at regular intervals throughout the year to the Board Risk and Compliance Committee. Capital forecasts are updated on a continuous basis and a detailed capital plan is presented to the Board annually.



1 CET1 ratio under APRA's revised capital framework effective 1 January 2023.

2 The 2023 interim dividend included the on-market purchase of \$596 million of shares (CET1 impact of 13 bpts) in respect of the Dividend Reinvestment Plan.

3 As at 30 June 2023, the previously announced \$3 billion on-market share buy-back has been completed, with a total of 30,222,281 shares acquired at an average price of \$99.26 (\$1.2 billion of the buy-back was completed in 2H23).

4 Excludes net equity accounted profits/losses from associates as they are capital neutral with offsetting changes in regulatory capital deductions.

5 Excludes impact of foreign exchange (FX) movements which is included in 'Other'.

6 Includes intangibles, FX impact on Credit Risk RWA, equity accounted profits/losses from associates, movements in reserves and other regulatory adjustments.

Capital Position

The Group's CET1 ratio (APRA) was 12.2% as at 30 June 2023, an increase of 10 basis points during the half year after allowing for the 70 basis point uplift in the ratio from the implementation of the new capital framework on 1 January 2023. The CET1 ratio was well above APRA's regulatory requirement at all times throughout the full year ended 30 June 2023.

Excluding the payment of the 1H23 dividend (-76 basis points) and completion of the previously announced \$3 billion on-market share buy-back (-26 basis points), the CET1 ratio

increased 112 basis points. Key drivers of the change in CET1 for the 6 months ended 30 June 2023 were:

- Capital generated from earnings (+104 basis points); and
- Lower total RWA (+14 basis points), mainly driven by a decrease in Credit Risk RWA; partly offset by
- Other regulatory adjustments and movement in reserves (-6 basis points).

Further details on the movements in RWA are provided on pages 10-14.

Capital (continued)

Capital Initiatives

In addition to the on-market share buy-backs, the following significant capital initiatives were undertaken during the year ended 30 June 2023:

Common Equity Tier 1 Capital

- The DRP in respect of both the 2022 final dividend and the 2023 interim dividend were satisfied in full by the on-market purchase of shares. The participation rate for both was 16.8%.

Additional Tier 1 Capital

- In November 2022, the Group concurrently issued \$1,777 million of CommBank PERLS XV Capital Notes and redeemed \$1,577 million of CommBank PERLS VII Capital notes, both of which are Basel III compliant Additional Tier 1 Capital;
- In December 2022, the Group redeemed the remaining \$1,423 million of CommBank PERLS VII Capital Notes; and
- In June 2023, the Group issued \$1,550 million of CommBank PERLS XVI Capital Notes that are Basel III compliant Additional Tier 1 Capital.

Tier 2 Capital

The Group issued the following Basel III compliant subordinated notes:

- HKD400 million and AUD300 million in September 2022;
- JPY20 billion in October 2022;
- Two subordinated notes totalling AUD2,000 million in November 2022;
- AUD1,750 million in March 2023; and
- HKD580 million in April 2023.

Regulatory Framework

APRA has implemented a set of capital, liquidity and funding reforms based on the Basel Committee on Banking Supervision (BCBS) "Basel III" framework.

Prior to 1 January 2023, APRA's prudential standards required a minimum CET1 ratio or Prudential Capital Requirement (PCR) of 4.5%. An additional CET1 capital conservation buffer (CCB) of 3.5%, inclusive of a Domestic Systemically Important Bank (D-SIB) requirement of 1% and a countercyclical capital buffer (CCyB)¹ of 0%, brought the minimum CET1 ratio requirement to 8%. The minimum Tier 1 and Total Capital ratio requirements were 9.5% and 13% respectively.

Additionally under this capital framework, APRA's expectation was that the Australian major banks operate for the majority of the year with a CET1 ratio of 10.5% or more.

From 1 January 2023, APRA implemented its revisions to the ADI capital framework. The objectives of these revisions are to increase the risk sensitivity within the capital framework, to enhance the ability of ADIs to respond flexibly to future stress events, and to improve the comparability of the Australian framework with international standards.

¹ APRA announced that the CCyB for Australian exposures was 0% prior to 1 January 2023, based on its assessment of systemic risk in the banking sector. This subsequently increased to 1% under the revised capital framework.

APRA's revisions included the following changes with respect to Internal Ratings-based (IRB) ADIs such as CBA:

- A minimum CET1 Capital Ratio of 10.25%, which is comprised of a minimum PCR of 4.5% and a CCB of 5.75%, which includes a D-SIB buffer of 1% and a baseline CCyB set at 1%. The CCyB, which may be varied by APRA in the range of 0-350 basis points, can be released in times of systemic stress and post-stress recovery;
- Enhancing risk sensitivity in the residential mortgage and commercial property portfolio, through greater allowance of an ADI's own models to measure credit risk capital, and higher capital requirements for high-risk segments such as interest only and investor mortgages;
- Replacing the operational risk advanced measurement approach (AMA) with a standardised approach across the industry;
- Implementing a 72.5% output floor to limit the gap in capital requirements between standardised and IRB ADIs; and
- Further aligning the RWA of New Zealand banking subsidiaries at the consolidated group level by adopting a revised version of the RBNZ capital framework.

The Group expects to operate with a post-dividend CET1 ratio of greater than 11%, compared to the revised APRA minimum of 10.25%, except in circumstances of unexpected capital volatility.

The Tier 1 and Total Capital ratio requirements are 11.75% and 13.75% respectively. From 1 January 2024, D-SIBs, including CBA, will be required to hold additional Total Capital to satisfy APRA's loss-absorbing capacity requirements, bringing the Total Capital ratio requirement to 16.75%. From 1 January 2026, this requirement will increase again to 18.25%.

Regulatory Developments

IRRBB Consultation

APRA is currently consulting the industry on proposed changes to APS 117 *Capital Adequacy: Interest Rate Risk in the Banking Book* which sets out the requirements that an ADI must meet in managing its Interest Rate Risk in the Banking Book. The changes are expected to be implemented in 2025.

Traded Market Risk and Counterparty Credit Risk

APRA is yet to commence consultation on revisions to APS 116 *Capital Adequacy: Market Risk*, and APS 180 *Capital Adequacy: Counterparty Credit Risk*. Consultation is expected to commence in 2024 with revisions to both standards expected to be implemented in 2026.

New Zealand bank capital adequacy requirements

In June 2021, the Reserve Bank of New Zealand (RBNZ) finalised its bank capital adequacy requirements. These requirements include the RWA of New Zealand IRB banks, such as ASB Bank Limited, increasing to approximately 90% of that required under a standardised approach. In addition, for those banks deemed systemically important, including ASB, the Tier 1 capital requirement will increase to 16% of RWA, of which 13.5% must be in the form of CET1 capital. Tier 2 capital will remain in the framework, and can contribute up to 2% of the 18% minimum Total Capital ratio.

These reforms have been phased in from 1 October 2021 with full implementation on 1 July 2028.

Capital (continued)

Regulatory Developments (continued)

Resolution Planning

On 18 May 2023, APRA released its final Prudential Standard CPS 900 "Resolution Planning", which aims to ensure that an APRA-regulated entity can be managed by APRA in an orderly manner where that entity is unable to, or is likely to be unable to, meet its obligations or suspends, or is likely to suspend, payments. In such circumstances, the aim of the resolution is to protect beneficiaries, minimise disruption to the financial system and provide continuity of functions that are critical for the economy. CPS 900 will come into effect from 1 January 2024.

Prudential framework for groups

On 24 October 2022, APRA released a letter to all APRA regulated entities indicating that it is reviewing the prudential framework for groups operating in the Australian banking sector

to ensure it caters for the increasing array of new groups and that it is consistently applied across different structures. APRA expects to consult on any revisions to the relevant standards over 2023-2024, with implementation of revised standards expected to occur in 2025.

Recovery and Exit Planning

On 1 December 2022, APRA released its final Prudential Standard CPS 190 "Recovery and Exit Planning", aimed at reinforcing the resilience of the financial system. In particular, the new standard aims to ensure that APRA regulated entities are better prepared to manage periods of severe financial stress. CPS 190 will come into effect from 1 January 2024 for banks.

Group Regulatory Capital Position

	30 Jun 23 Revised Framework ¹	31 Dec 22 ²	30 Jun 22 ²
	%	%	%
Summary Group Capital Adequacy Ratios (Level 2)			
Common Equity Tier 1	12.2	11.4	11.5
Additional Tier 1	2.3	1.9	2.1
Tier 1	14.5	13.3	13.6
Tier 2	5.5	4.5	4.0
Total Capital	20.0	17.8	17.6

¹ Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

² Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

	30 Jun 23 Revised Framework ¹	31 Dec 22 ²	30 Jun 22 ²
	\$M	\$M	\$M
Group Regulatory Capital Position			
Ordinary share capital and treasury shares	34,075	35,277	36,493
Reserves	(1,710)	(986)	(460)
Retained earnings	39,752	38,356	36,695
Common Equity Tier 1 Capital before regulatory adjustments	72,117	72,647	72,728
Common Equity Tier 1 regulatory adjustments	(15,208)	(15,095)	(15,705)
Common Equity Tier 1 Capital	56,909	57,552	57,023
Additional Tier 1 Capital	10,862	9,312	10,535
Tier 1 Capital	67,771	66,864	67,558
Tier 2 Capital	26,009	22,889	19,992
Total Capital	93,780	89,753	87,550
Risk Weighted Assets	467,992	504,380	497,892

¹ Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

² Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

Further details on the composition of the Group's capital are detailed in Appendix 13.1.

Capital (continued)

Group Regulatory Capital Position (continued)

Table 6g – Capital Ratios – Level 1 and Major Subsidiaries

	30 Jun 23	31 Dec 22	30 Jun 22
	%	%	%
Significant Group ADIs			
CBA Level 1 CET1 Capital ratio ¹	12.5	11.7	11.8
CBA Level 1 Tier 1 Capital ratio ¹	15.0	13.7	14.1
CBA Level 1 Total Capital ratio ¹	21.1	18.6	18.4
ASB CET1 Capital ratio ²	14.3	14.1	12.3
ASB Tier 1 Capital ratio ²	14.3	14.1	13.5
ASB Total Capital ratio ²	15.7	15.5	15.0

1 30 June 2023 has been prepared in accordance with APRA's revised capital framework effective from 1 January 2023. 31 December 2022 and 30 June 2022 have been prepared in accordance with previous APRA framework effective up until 31 December 2022.

2 Calculated in accordance with the RBNZ Prudential Requirements.

	30 Jun 23 Revised Framework ¹	31 Dec 22 ²	30 Jun 22 ²
	\$M	\$M	\$M
CBA Level 1			
Common Equity Tier 1 Capital	52,924	54,182	54,569
Additional Tier 1 Capital	10,862	9,312	10,535
Tier 1 Capital	63,786	63,494	65,104
Tier 2 Capital	25,633	22,786	19,924
Total Capital	89,419	86,280	85,028
Risk Weighted Assets	424,650	463,425	461,320

1 Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

2 Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

	30 Jun 23	31 Dec 22	30 Jun 22
	NZ\$M	NZ\$M	NZ\$M
ASB Banking Group ¹			
Common Equity Tier 1 Capital	10,109	9,768	8,379
Additional Tier 1	–	–	875
Tier 1 Capital	10,109	9,768	9,254
Tier 2 Capital	1,034	1,036	1,013
Total Capital	11,143	10,804	10,267
Risk Weighted Assets	70,780	69,491	68,301

1 Calculated in accordance with the RBNZ Prudential Requirements.

5 Leverage Ratio

The Group's leverage ratio, defined as Tier 1 Capital as a percentage of total exposures, was 5.1% at 30 June 2023. The ratio was flat on the prior half, as the 1% increase in exposures from higher lending volumes was offset by a 1% increase in Tier 1 Capital, from the issuance of PERLS XVI and capital generated from earnings after the payment of the 1H23 dividend and the completion of the on-market share buy-back.

Under APRA's revised capital framework effective 1 January 2023, the minimum leverage ratio requirement for IRB banks, such as CBA, is 3.5%.

	30 Jun 23 Revised Framework ¹	31 Mar 23 Revised Framework ¹	31 Dec 22 ²	30 Sep 22 ²	30 Jun 22 ²
Summary Group Leverage Ratio ³					
Tier 1 Capital (\$M)	67,771	66,005	66,864	66,472	67,558
Total Exposures (\$M) ⁴	1,334,426	1,351,297	1,318,783	1,314,458	1,295,368
Leverage Ratio (%)	5.1	4.9	5.1	5.1	5.2

1 Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

2 Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

3 Refer to Appendix 13.2 for further details on the composition of the leverage ratio.

4 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* (APS 110). Refer to Appendix 13.2 for the calculation of the 30 June 2023 exposures.

6 Risk Weighted Assets

RWA are calculated using the IRB approach for the majority of the Group's credit risk exposures. The Group must use the External Ratings-based Approach where a securitisation exposure is externally rated by an External Credit Assessment Institution (ECAI) or for which an inferred rating is available. Where the Group cannot use the External Ratings-based Approach, the Group must use the Supervisory Formula Approach.

APRA's revised capital framework, effective from 1 January 2023, results in changes to previously reported credit risk asset classes. The below table sets out the Group's revised credit risk asset classes under APRA's revised standards.

Revised Asset Class	Previous Equivalent Asset Class	Asset Class Definition	Explanation of Changes
AIRB			
Corporate	Corporate	Exposures to corporate counterparties where consolidated annual revenues are less than \$750 million, but greater than or equal to \$75 million.	<ul style="list-style-type: none"> Excludes exposures where consolidated annual revenues are greater than \$750 million, now recognised as Corporate - large exposures on a Foundation Internal Ratings-based (FIRB) basis. Excludes non-bank financial institution exposures, now recognised as Financial institution exposures on a FIRB basis. Includes Income Producing Real Estate (IPRE) exposures previously recognised as specialised lending. Reflects the impact of a consolidated annual revenue threshold increase for SME, from \$50 million to \$75 million.
SME corporate	SME corporate	Exposures to corporate counterparties where consolidated annual revenues are less than \$75 million.	<ul style="list-style-type: none"> Excludes exposures where consolidated annual revenues are greater than or equal to \$75 million, now recognised as Corporate exposures on an AIRB basis or Corporate - large exposures on a FIRB basis. Reflects the impact of a consolidated annual revenue threshold increase for SME, from \$50 million to \$75 million.
SME retail	SME retail	Business-related exposures totalling less than \$1.5 million which are non-complex in nature and managed as part of a portfolio for risk management purposes, and where consolidated annual revenues are less than \$75 million.	<ul style="list-style-type: none"> Includes exposures up to \$1.5 million, previously up to \$1 million.
Residential mortgage	Residential mortgage	Retail exposures not for business purposes, fully or partially secured by residential property.	<ul style="list-style-type: none"> No material change noting that residentially-backed non-standard mortgages are now classified under APS 112 <i>Capital Adequacy: Standardised Approach to Credit Risk</i> (APS 112).

Risk Weighted Assets (continued)

Revised Asset Class	Previous Equivalent Asset Class	Asset Class Definition	Explanation of Changes
AIRB (continued)			
Qualifying revolving retail	Qualifying revolving retail	Revolving exposures to individuals with exposures less than \$0.1 million, which are unsecured, unconditionally cancellable and are not for business purposes.	<ul style="list-style-type: none"> No material change.
Other retail	Other retail	Retail exposures which do not meet the criteria of any other retail asset class.	<ul style="list-style-type: none"> No material change.
FIRB			
Corporate - large	New	Exposures to corporate counterparties where consolidated annual revenues are greater than \$750 million.	<ul style="list-style-type: none"> Exposures where consolidated annual revenues are greater than \$750 million, which were previously included in the AIRB - Corporate asset class, or as specialised lending IPRE exposures.
Sovereign	AIRB - Sovereign	Exposures to governments, central banks and certain multilateral institutions and development banks.	<ul style="list-style-type: none"> No material change.
Financial institution	New	Exposures to financial institution counterparties, including banks, securities firms, insurance companies and leveraged funds.	<ul style="list-style-type: none"> Includes non-bank financial institution exposures, previously included in the AIRB - Corporate asset class.
Other			
Specialised lending	Specialised lending	Exposures subject to the supervisory slotting approach.	<ul style="list-style-type: none"> Excludes IPRE exposures now recognised in either the AIRB or FIRB Corporate asset classes.
RBNZ regulated entities	Various	Exposures of a Reserve Bank of New Zealand (RBNZ) regulated entity, which are required to be calculated using RBNZ rules subject to certain APRA prescribed adjustments.	<ul style="list-style-type: none"> APS 330 requires RBNZ regulated entity credit exposures to be classified as a separate 'asset class', and is therefore excluded from all other respective asset classes under the new framework.

Risk Weighted Assets (continued)

Table 6b to 6f – Basel III Capital Requirements (RWA)

Asset Category	Risk Weighted Assets		
	30 Jun 23 Revised Framework ¹	31 Dec 22 ²	30 Jun 22 ²
	\$M	\$M	\$M
Credit risk			
Subject to AIRB approach ³			
Corporate (incl. SME corporate)	80,251	105,755	99,292
SME retail	10,189	8,601	8,522
Sovereign	n/a	2,311	2,249
Bank	n/a	3,218	4,194
Residential mortgage ⁴	147,716	171,742	171,819
Qualifying revolving retail	5,584	5,050	5,022
Other retail	8,554	9,170	8,815
Total RWA subject to AIRB approach	252,294	305,847	299,913
Subject to FIRB approach ³			
Corporate - large	22,466	n/a	n/a
Sovereign	2,173	n/a	n/a
Financial institution	10,857	n/a	n/a
Total RWA subject to FIRB approach	35,496	n/a	n/a
Specialised lending	3,868	70,865	67,078
Subject to standardised approach			
Corporate (incl. SME corporate)	530	864	1,079
SME retail	937	2,112	2,169
Sovereign	261	294	322
Residential mortgage	7,046	6,680	6,429
Other retail	604	1,152	1,078
Other assets	8,303	8,352	8,326
Total RWA subject to standardised approach	17,681	19,454	19,403
Securitisation	3,316	3,585	3,439
Credit valuation adjustment	2,226	2,119	3,136
Central counterparties	101	147	678
RBNZ regulated entities	47,887	n/a	n/a
Total RWA for credit risk exposures	362,869	402,017	393,647
Traded market risk	15,390	13,773	10,683
Interest rate risk in the banking book	46,578	47,850	47,640
Operational risk ⁵	43,155	40,740	45,922
Total risk weighted assets	467,992	504,380	497,892

1 Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

2 Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

3 Pursuant to APRA requirements, RWA amounts at 30 June 2023 derived from AIRB and FIRB risk weight functions have been multiplied by a scaling factor of 1.10 and RWA amounts at 31 December 2022 and 30 June 2022 derived from AIRB risk weight functions have been multiplied by a scaling factor of 1.06.

4 As a condition of APRA's approval of the Residential Mortgage LGD model, a \$7.4 billion RWA overlay has been applied at 30 June 2023 for regulatory capital purposes.

5 Operational risk RWA as at 30 June 2023 are determined under the standardised measurement approach in accordance with APS 115 effective from 1 January 2023. Prior to 1 January 2023 operational risk RWA were determined in accordance with the advanced measurement approach.

Risk Weighted Assets (continued)

Table 6i – Capital Floor

	30 Jun 23 Revised Framework ¹
	\$M
Risk weighted assets under the standardised approach	
Credit risk ²	535,933
Traded market risk	15,390
Operational risk	43,155
Interest rate risk in the banking book	n/a
Total	594,478
Risk weighted assets prior to application of floor	
Credit risk	362,869
Traded market risk	15,390
Operational risk	43,155
Interest rate risk in the banking book	46,578
Total	467,992
Capital Floor at 72.5%	430,997
Capital floor adjustment	–

1 Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

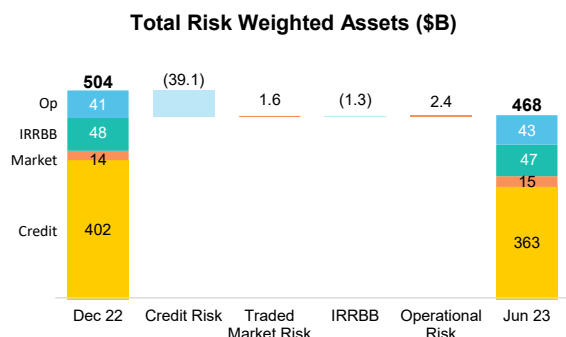
2 RWA for residential mortgages (excluding RBNZ regulated subsidiaries) measured under the retail IRB approach is \$220 billion when calculated under the standardised approach.

Risk Weighted Assets (continued)

Risk Weighted Assets ¹

Total Group RWA

Total RWA decreased \$36.4 billion or 7% on the prior half to \$468.0 billion, mainly driven by lower Credit Risk RWA from the implementation of APRA's revisions to the capital framework on 1 January 2023.



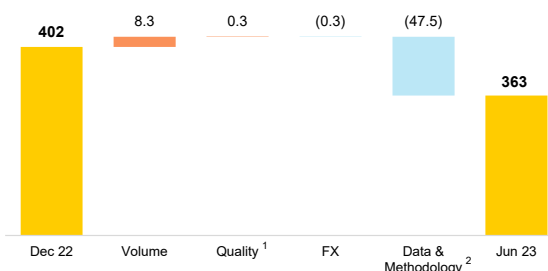
Credit Risk RWA

Credit Risk RWA decreased \$39.1 billion or 10% on the prior half to \$362.9 billion. Key drivers include:

- Volume growth (increase of \$8.3 billion) across retail and commercial portfolios and derivatives.
- Credit quality movement (increase of \$0.3 billion) primarily driven by ASB and domestic unsecured retail portfolios, partly offset by improvements in commercial portfolios.
- Foreign currency movements (decrease of \$0.3 billion).
- Data and methodology, including changes in credit risk estimates and regulatory treatments (decrease of \$47.5 billion), primarily driven by the implementation of APRA's revisions to the capital framework on 1 January 2023 as well as the benefit of new capital models approved and implemented in the half, partly offset by data, methodology and other changes.

¹ Due to rounding, numbers presented in this section may not sum precisely to the totals provided.

Credit Risk Weighted Assets (\$B)



¹ Credit quality includes portfolio mix.

² Includes APRA's revisions to the capital framework, data and methodology, credit risk estimates changes and regulatory treatments.

Traded Market Risk RWA

Traded Market Risk RWA increased \$1.6 billion or 12% on the prior half to \$15.4 billion. This was driven by increased client activity, market volatility from the rising interest rate environment and an associated increase in the APRA Risks-Not-In-VaR (RNIV) overlay.

Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA decreased \$1.3 billion or 3% on the prior half to \$46.6 billion. This was primarily driven by lower embedded losses due to lower swap rates.

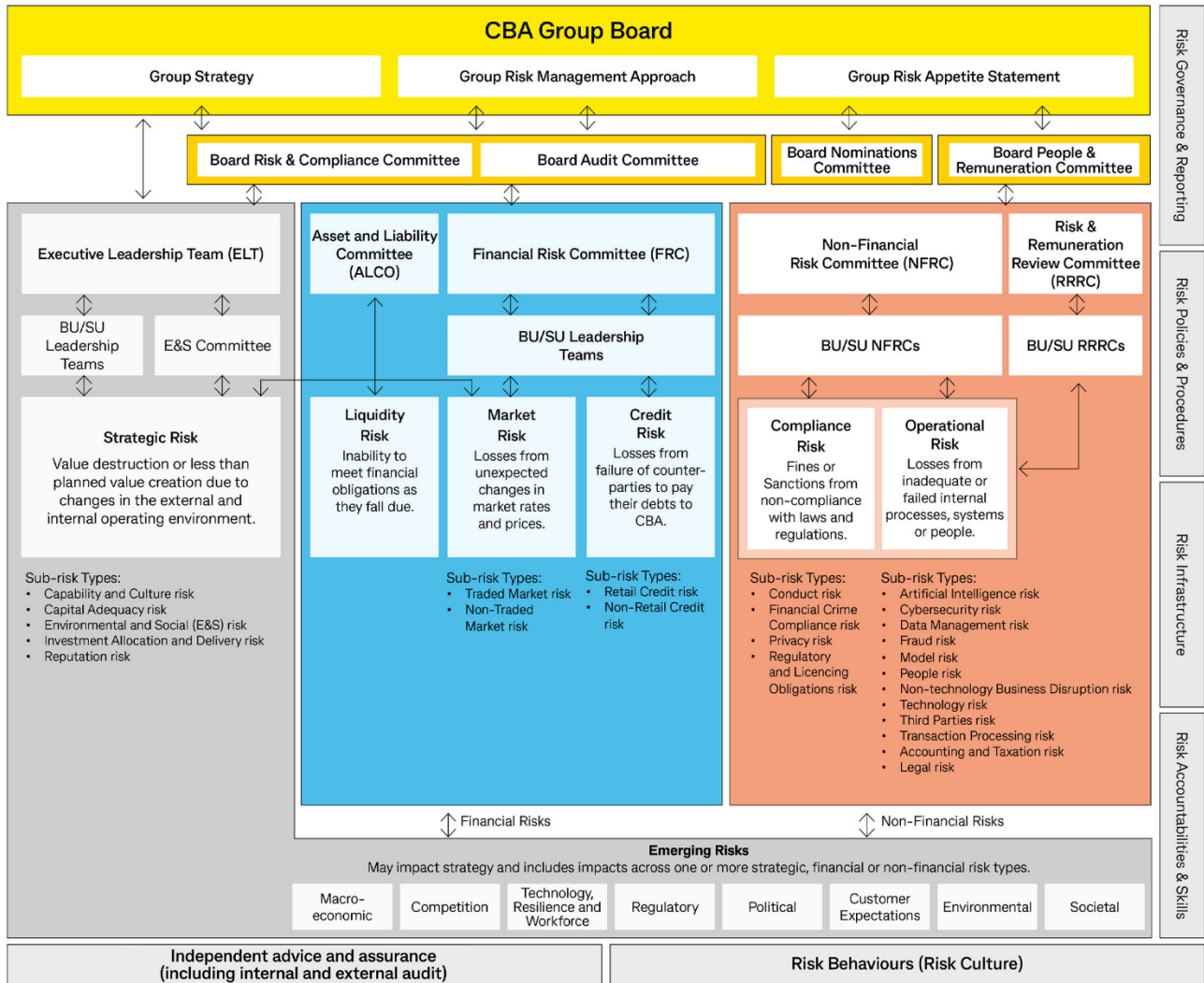
Operational Risk RWA

Operational risk RWA increased \$2.4 billion or 6% on the prior half to \$43.2 billion, driven by adoption of the standardised measurement approach, as required by APS 115 under APRA's revised capital framework.

7

Risk Management

The Group is exposed to financial, non-financial and strategic risks arising through the products and services it offers. The Group manages these risks through its Risk Management Framework, which evolves to accommodate changes in the business operating environment, better risk practices, and regulatory and community expectations. The components of the Risk Management Framework are illustrated below, including the governance that enables executive and Board oversight of these risks.



Further details on each of the material risks, and how the Group manages them, are outlined in this section.

Risk Management Framework

The Risk Management Framework comprises the systems, structures, policies, processes and people that identify, measure, evaluate, control, monitor and report on, both internal and external sources of material risk. It incorporates three key documents:

- **The Group's Business Plan** (consisting of the Group Strategy and the Financial Plan) sets out the approach to implement the Group's strategic objectives;

- **The Group Risk Appetite Statement (RAS)** that establishes the type and degree of risk the Board is prepared to accept and the maximum level of risk that the Group must operate within; and
- **The Group Risk Management Approach (RMA)** that sets out the Board and the Executive Leadership Team's expectations regarding the Group's approach to managing risk and the key elements of the Risk Management Framework that give effect to this approach.

Risk Management (continued)

Risk Management Framework (continued)

The Risk Management Framework is underpinned by the following Risk Framework Enablers that allow the Group to effectively identify, measure, evaluate, control, monitor and report on, both internal and external sources of material risk.

Risk Governance and Reporting

The Group is committed to ensuring that its risk management practices reflect a high standard of governance. This enables management to undertake, in an effective manner, prudent risk-taking activities. The Board operates as the highest level of the Group's risk governance. The Board Risk and Compliance Committee oversees the Risk Management Framework and helps formulate the Group's risk appetite for consideration by the Board. In particular it:

- Monitors the Group's risk profile (including identification of emerging risks); and
- Reviews regular reports from management on the measurement of risk and the adequacy and effectiveness of the Group's risk management and internal control systems.

At management level, risk governance is undertaken by a structured hierarchy of personal delegations and management committees and forums across the Group and within the BUs and Support Units (SUs).

Regular management information is produced that allows financial, strategic and non-financial risk positions to be monitored against approved risk appetite and policy limits. At Board level, the majority of risk reporting is provided to the Board Risk and Compliance Committee, although select matters are reported directly to the Board as required. Controls reporting is provided to the Board Audit Committee. The Chairs of the Board Risk & Compliance and Audit Committees report to the Board following each Committee meeting.

Risk Policies & Procedures

Risk policies and procedures provide guidance to the business on the management of each material risk. They support the Risk Management Framework by:

- Summarising the principles and practices to be used by the Group in identifying and assessing its material risks; and
- Quantifying the operating tolerances for material risks.

Risk Infrastructure

The Risk Management Framework is supported by key infrastructure systems and processes that together provide the infrastructure for the management of the Group's Material Risk Types:

- **Risk processes** to identify, assess, escalate, monitor and manage risks, issues and incidents;
- **Management information systems** to measure and aggregate risks across the Group; and
- **Risk models and tools**, including significant calculators.

Risk Accountabilities and Skills

The Group operates a Three Lines of Accountability (3LoA) model that places the accountability for risk ownership with the Line 1 BUs and SUs, while focusing the mandate of Line 2 Risk teams on risk appetite and the Risk Management Framework,

assurance, approval or acceptance of risk decisions of Line 1 and advice. Line 3 internal audit provides independent assurance to the Board, regulators and other stakeholders on the effectiveness of risk management, internal controls and governance. The Risk Stewards (senior leaders in Line 1 or Line 2) complement the 3LoA model, by providing a view on the aggregated risk profile and adequacy of the Risk Management Framework for each of our Risk Types, including design of key controls and policies, mitigation strategies and the capabilities needed to manage the Risk Type.

The effective management of the Group's material risks requires appropriate resourcing of skilled employees within each of the Group's 3LoA. It is important for all Group employees to have an awareness of their risk accountabilities, the Risk Management Framework, and the role the Group's Values play in helping the Group manage risk. This awareness is developed through:

- **Communication of the Group RAS and RMA** - Following approval by the Board, the updated RAS and RMA are made available to all employees;
- **Performance and remuneration frameworks** are designed to drive accountability for managing risks and adopting risk behaviours that assist the Group to respond to new and emerging risks and to better support the Group's customers and communities. Each year employees are assessed on how they met the risk management expectations of their role as part of the annual performance review;
- **Group Mandatory Learning modules** that provide foundational knowledge of the Risk Management Framework and Risk Management Approach for all Group employees;
- **Risk Management Capability Framework** enabling the education, experience and exposure to build risk skills and judgment effectively within the Group; and
- **Induction and ongoing learning** to support employees in gaining the knowledge, skills and behaviours required to work effectively across the Group.

Risk Culture and Conduct Risk

Risk culture is the beliefs, values and behaviours within the Group that determine how risks are identified, measured, governed, and acted upon. A positive risk culture drives the right risk decisions and helps the Group make sound judgements in new and unfamiliar circumstances. The risk behaviours that demonstrate a positive risk culture and are expected of employees by the Board, senior management, customers, communities, shareholders and regulators, are underpinned by our CBA values of Care, Courage and Commitment.

In relation to conduct risk, the Group requires behaviours and business practices that are fair to customers, protect the fair and efficient operation of the market and engender confidence in the Group's products and services. Annually, the Board forms a view of the Group's risk culture and identifies desirable changes. Action plans are initiated and monitored to improve and sustain risk culture.

Risk Management (continued)

Material Risk Types

Description	Governing Policies and Key Management Committees	Key Controls and Risk Mitigation Strategies
Credit Risk (Section 8)		
<p>Credit risk is the potential for loss arising from the failure of a counterparty to meet their contractual obligations to the Group.</p> <p>The Group is primarily exposed to credit risk through:</p> <p>Retail Credit Risk</p> <ul style="list-style-type: none"> • Residential mortgage lending; and • Unsecured retail lending; <p>Non-Retail Credit Risk</p> <ul style="list-style-type: none"> • Commercial lending; and • Large corporate (institutional) lending and markets exposures. 	<p>Governing Policies:</p> <ul style="list-style-type: none"> • Group Credit Risk Policies and Standards, Principles, Framework and Governance <p>Key Management Committees:</p> <ul style="list-style-type: none"> • Financial Risk Committee • BU/SU Financial Risk Committees 	<ul style="list-style-type: none"> • Defined credit risk indicators set in the Group RAS; • Transacting with counterparties that demonstrate the ability and willingness to service their obligations through performance of due diligence and appropriate credit quality assessments; • Applications assessed by credit decisioning models, with more complex or higher risk applications referred to credit authority holders who exercise expert judgement; • Taking collateral where appropriate; • Pricing appropriately for the risks the Group is taking; • Credit concentration frameworks that set exposure limits to counterparties, groups of related counterparties, industry sectors and countries; • Regular monitoring of credit quality, concentrations, arrears, policy exceptions and policy breaches; • Working with customers in financial difficulty, or those in danger of becoming so, to help them rehabilitate their financial positions; and • Stress testing, both at a counterparty and portfolio level.
Market Risk including Equity Risk (Section 9 and 10)		
<p>Market risk is the risk that market rates and prices will change and that this may have an adverse effect on the profitability and/or net worth of the Group.</p> <p>The Group is primarily exposed to market risk through:</p> <p>Traded Market Risk;</p> <p>Non-Traded Market Risk:</p> <ul style="list-style-type: none"> • Interest Rate Risk in the Banking Book (IRRBB); • Structural Foreign Exchange Risk; • Lease Residual Value Risk; and • Non-traded Equity Risk. 	<p>Governing Policy:</p> <ul style="list-style-type: none"> • Group Market Risk Policy <p>Key Management Committees:</p> <ul style="list-style-type: none"> • Financial Risk Committee and IB&M Financial Risk Committee (Oversight of traded market risk) • Asset and Liability Committee (ALCO) (oversight of Non-Traded Market Risk, including IRRBB) 	<ul style="list-style-type: none"> • Defined market risk indicators set in the Group RAS; • Minimal appetite for proprietary trading; • Conservative market risk limits with granular concentration limits at a position level including currency/index, tenor and product type; • Pricing appropriately for risk; • Back-testing of Value-at-Risk (VaR) models against hypothetical profit and loss; • Daily monitoring and attribution of traded market risk exposures including risk sensitivities, VaR and stress testing; • Weekly monitoring of VaR and stress test measures for derivative valuation adjustments (XVAs); • Monthly monitoring of residual value risk exposures versus limits; • Managing the Balance Sheet with a view to balancing net interest income profit volatility and market value; • Regular monitoring of IRRBB market risk exposures against limits including risk sensitivities, credit spread risk, VaR, net interest earnings at risk and stress testing; • Appropriate transfer pricing for interest rate risk; • Regular monitoring of structure foreign exchange risk versus limits; and • Regular monitoring of Group Super funding level versus limits, accounting valuations and VaR.

Risk Management (continued)

Material Risk Types (continued)

Description	Governing Policies and Key Management Committees	Key Controls and Risk Mitigation Strategies
Liquidity Risk (Section 12)		
<p>Liquidity risk is the combined risks of not being able to meet financial obligations as they fall due (funding liquidity risk), and that liquidity in financial markets, such as the market for debt securities, may reduce significantly (market liquidity risk).</p>	<p>Governing Policy:</p> <ul style="list-style-type: none"> • Group Liquidity Policy • Group Liquidity Management Standard <p>Key Management Committee:</p> <ul style="list-style-type: none"> • ALCO 	<ul style="list-style-type: none"> • Defined liquidity risk indicators in the Group RAS; • The Annual Funding Strategy (the Group’s wholesale funding strategy based on a three year funding plan); • Maintaining a diverse, yet stable, pool of potential funding sources across different currencies, geographies, entities and products; • Maintaining sufficient liquidity buffers and short-term funding capacity to withstand periods of disruption in long-term wholesale funding markets and unanticipated changes in the Balance Sheet funding gap; • Limiting the portion of wholesale funding sourced from offshore; • Conservatively managing the mismatch between asset and liability maturities; • Maintaining a conservative mix of readily saleable or repo-eligible liquid assets; • Daily monitoring of liquidity risk exposures, including LCR and NSFR; • Market and idiosyncratic stress test scenarios; and • The Contingency Funding Plan provides strategies for addressing liquidity shortfalls in a crisis situation.

Risk Management (continued)

Material Risk Types (continued)

Description	Governing Policies and Key Management Committees	Key Controls and Risk Mitigation Strategies
Operational Risk (Section 11)		
<p>Operational risk is the risk of loss arising from inadequate or failed internal processes, systems or people, or from external events.</p> <p>The Group is exposed to operational risk primarily through:</p> <ul style="list-style-type: none"> • Accounting and Taxation risks; • Artificial Intelligence risks; • Cyber security risks; • Data management risks; • Fraud risks (external and internal); • Legal risks; • Model risks; • Non-technology business disruption risks; • People risks (employment practices and workplace safety); • Technology risks (disruptions from hardware or software failures); • Third party risks; and • Transaction processing risks. 	<p>Governing Policies:</p> <ul style="list-style-type: none"> • Operational Risk Management Framework (ORMF) • Group Artificial Intelligence Policy • Group Information Security (IS) Policy • Group Data Management Policy • Group Fraud Management Policy • Group Whistleblower Policy • Group Model Policy • Group Policy on Business Continuity Management • Group Protective Security Policy • Group IT Service Support and Management Policy • Group Supplier Lifecycle Policy <p>Key Management Committees:</p> <ul style="list-style-type: none"> • Non-Financial Risk Committee • BU/SU Non-Financial Risk Committees • Model Risk Governance Committee (MRGC) 	<ul style="list-style-type: none"> • Defined operational risk indicators in the Group RAS; • Implementation of manual and automated controls to prevent, detect and mitigate the specific operational risks that the Group is exposed to; • Regular Risk and Control Self-Assessment (RCSA) to assess key risks and controls for each BU/SU; • Routine Controls Assurance Program tests to assess whether controls are designed and operating effectively to maintain risk exposures within acceptable levels; • Incident management processes to identify, assess, record, report and manage actual operational or compliance events that have occurred. This data is used to guide management to strengthen processes and controls; • Issue management processes to identify, assess, record, report and manage weaknesses or gaps in controls; • Risk in Change process to effectively understand and manage the risks from changes to the business through projects or initiatives; • Establishment of Key Risk Indicators to monitor movements in risk exposures over time; and • Assurance undertaken by Line 2 Risk teams to assess that operational risks are appropriately identified and managed across the Group.

Risk Management (continued)

Material Risk Types (continued)

Description	Governing Policies and Key Management Committees	Key Controls and Risk Mitigation Strategies
Compliance Risk		
<p>Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Group may incur as a result of its failure to comply with its obligations.</p> <p>The Group is exposed to compliance risk primarily through:</p> <ul style="list-style-type: none"> • Laws, regulations, rules, licence conditions, and statements of regulatory policy; • Privacy laws and regulations regarding the collection, handling and protection of personal information of individuals; • Financial crime (regulation relating to Anti Money Laundering (AML), Counter Terrorism Financing (CTF), Anti-Bribery and Corruption, Anti-Tax Evasion Facilitation and Sanctions); and • Poor conduct (product design and distribution, market conduct and employee misconduct). 	<p>Governing Policies:</p> <ul style="list-style-type: none"> • Group Compliance Management Framework (CMF) and Policies • Group and BU Compliance Policies and Standards • Group Privacy Policy • AML/CTF Group Program • Anti-Bribery and Corruption Policy • Group Economic Trade Sanctions Policy • Code of Conduct • Product Development and Distribution Policy <p>Key Management Committees:</p> <ul style="list-style-type: none"> • Executive Financial Crime Risk Committee • Non-Financial Risk Committee • BU/SU Non-Financial Risk Committees 	<ul style="list-style-type: none"> • Compliance and privacy risk indicators included in the Group RAS; • Mandatory online Compliance and Privacy training for all employees; • Regulatory change management to establish compliant business practices; • Maintenance of obligation registers; • Compliance Privacy risk profiling through the RCSA process; • Group-wide minimum standards in key compliance areas; • Co-operative and transparent relationships with regulators; • Board and management governance and reporting; • Pre-employment due diligence on the Group's employees and enhanced screening for high risk roles; • Training and awareness sessions to staff highlighting the community impact of financial crime and the Group's role to detect, deter and disrupt money laundering, terrorist financing and other serious crime; • Customer on-boarding processes to meet AML/CTF identification and screening requirements; • Ongoing customer due diligence to ensure information the Group maintains on customers is accurate; • Risk assessments of customers, products and channels to ensure the Group understands the money laundering and terrorist financing risks; • Enhanced customer due diligence on higher risk segments; • Monitoring customer payments, trade and all transactions to manage the AML/CTF and sanctions risks identified; • Undertake statutory reporting requirements including International Funds Transfer Instructions, Threshold Transaction Reports and Suspicious Matter Reports; • Controls to prevent corruption of public officials and private sector individuals by employees, representatives, suppliers or third party agents, including disclosure and approval of gifts and entertainment, charitable donations and sponsorships; • Controls to prevent the facilitation of tax evasion by employees, representatives and other third parties who are Associated Persons of the Group, including risk assessments (third party, product/channel and enterprise-wide risk assessment); employee due diligence and ongoing staff training and awareness. • Conduct Risk strategy and Code of Conduct, supported by mandatory training for all staff. • Ongoing Conduct Risk profiling, including use of the Conduct Risk Steward Guides and controls taxonomy to manage and address Conduct Risks; • Measurement and governance of Conduct Risk exposures through RAS metrics and NFRC/Board reporting; • Assurance and monitoring to better identify Conduct Risk exposures and control weaknesses; • Enhancement of Code of Conduct related policies with changes in understanding of conduct obligations and expectations; and • Consistently applying the Code of Conduct and the 'Should We?' test to deliver the right outcome for our customers.

Risk Management (continued)

Material Risk Types (continued)

Description	Governing Policies and Key Management Committees	Key Controls and Risk Mitigation Strategies
Strategic Risk		
<p>Strategic risk is the risk of material stakeholder value destruction or less than planned value creation.</p> <p>The strategic risk type also includes the following sub-risk types that support or drive strategic decisions but are managed more routinely through their own dedicated governance, policies and procedures, infrastructure and teams:</p> <ul style="list-style-type: none"> • Capital Adequacy Risk: Inability to capitalise on strategic opportunities or withstand extreme events due to insufficient or inefficient use of capital. • Capability and Culture Risk: Inability to execute effectively on strategy due to inadequate organisational skills and capabilities and a misaligned organisational culture. • Environmental and Social Risk: Not understanding or failing to take appropriate action to mitigate the impacts of the physical and transition risks related to climate change and nature loss; or from practices that result in negative social impacts. • Reputation Risk: Business practices, behaviours or events negatively impact the Group's reputation. • Investment Allocation and Delivery Risk: Expected outcomes not achieved or missed strategic opportunities due to variations in the delivery (scope, timing and quality) of change initiatives. 	<p>Governing Policies:</p> <ul style="list-style-type: none"> • Group Strategic Risk Management Policy • Stress Testing Policy • Risk Adjusted Performance Measurement Policy • Group Remuneration Policy • Group Environmental and Social Policy • Group Continuous Disclosure Policy • Group Public Disclosure of Prudential Information Policy • Group External Engagement and Communication Policy • Group Policy on Publicly Issued Documents and Marketing Materials • Group Delivery Framework and Policy 	<p>Strategic Risk Management Framework</p> <p>The Strategic Risk Management Framework considers the impact to the Group's strategy of dynamically evolving material current and emerging risks arising from changes in areas such as: the competitive landscape, emerging technologies, macroeconomic conditions, the regulatory and political environment, and changes in social expectations.</p> <p>The Group assesses, monitors and responds to strategic risk throughout its processes of:</p> <ul style="list-style-type: none"> • Strategy development, approval and review; • Identifying and monitoring changes and potential changes to the operating environment; and • Monitoring execution progress of strategies. <p>Capital Adequacy Risk</p> <ul style="list-style-type: none"> • Capital advice for projects and funding deals; • Dividend decision and management processes; • Capital monitoring, reporting and forecasting; • Internal Capital Adequacy Assessment Process (ICAAP); • Group, portfolio and risk type stress testing; and • Ratings agency interactions. <p>Capability and Culture Risk</p> <ul style="list-style-type: none"> • Talent acquisition processes; • Leadership development initiatives; • Organisational culture development initiatives; • Performance and remuneration processes; • Inclusion and Diversity initiatives; • Capability development and training; • Accountability frameworks; and • Strategic workforce planning.

Risk Management (continued)

Material Risk Types (continued)

Description	Governing Policies and Key Management Committees	Key Controls and Risk Mitigation Strategies
Strategic Risk (continued)	<p>Key Management Committees:</p> <ul style="list-style-type: none"> • Executive Leadership Team (ELT) • ELT Environmental and Social Committee • Asset and Liability Committee (ALCO) • Non-Financial Risk Committee • ELT Risk and Remuneration Review Committee (RRRC) 	<p>Environmental and Social Risk</p> <ul style="list-style-type: none"> • Defined Environmental and Social (E&S) Risk Indicators in the Group RAS; • Target financed emissions Glidepaths for priority sectors; • Scenario analyses and stress testing to understand the physical and transition risks of climate change; • E&S Risk embedded in the Group and BUs/SUs business profiles; • Client and supplier E&S due diligence process • Development of new pilot products and services that support reduced emissions; • Environmental, Social and Governance (ESG) lending tool applied to certain lending decisions; • Corporate Responsibility programs; and • Supplier Code of Conduct to ensure adherence to CBA's E&S standards. <p>Reputation Risk</p> <ul style="list-style-type: none"> • Media management, marketing and branding standards, processes and protocols; • Community investment initiatives; • Government and political affairs protocols; and • Strategic decisions to address actual or perceived material conduct risks. <p>Investment Allocation and Delivery Risk</p> <ul style="list-style-type: none"> • Group and BU Change Investment Process; • Group Delivery Framework development and maintenance; and • Project/program reporting and governance.

8

Credit Risk

Credit risk is the potential of loss arising from failure of a borrower to meet their contractual obligations to the Group. It arises primarily from lending activities, the provision of guarantees (including letters of credit), investments in bonds and notes, financial markets transactions, credit enhancements, securitisations and other associated activities.

The Group maintains a robust system of controls and processes to optimise the Group's credit risk-taking activities.

Credit risk is managed at both a Group and BU level. The key credit risk related functions support the overall risk management responsibilities of the Board Risk and Compliance Committee and senior management as discussed in section 7 "Risk Management" of this document.

The Group applies the following elements for effective credit risk practice in its day-to-day business activities:

- Credit Risk Management Framework with associated policies and standards; and
- Credit Risk Rating and Measurement (pages 43-45).

Credit Risk Management Framework

The Board Risk and Compliance Committee oversees the Group's approach to credit risk management which includes key elements of the Group Credit Risk Framework. The Group Credit Risk Management Framework is designed to achieve credit portfolio outcomes that are consistent with the Group's risk appetite and risk / return expectations. The Board Risk and Compliance Committee meets at least six times each year.

The Group has clearly defined credit policies and standards for the approval and management of credit risk. These set the minimum requirements for assessing the integrity and ability of borrowers to meet their contractual obligations for repayment, acceptable forms of collateral and security and the frequency of credit reviews.

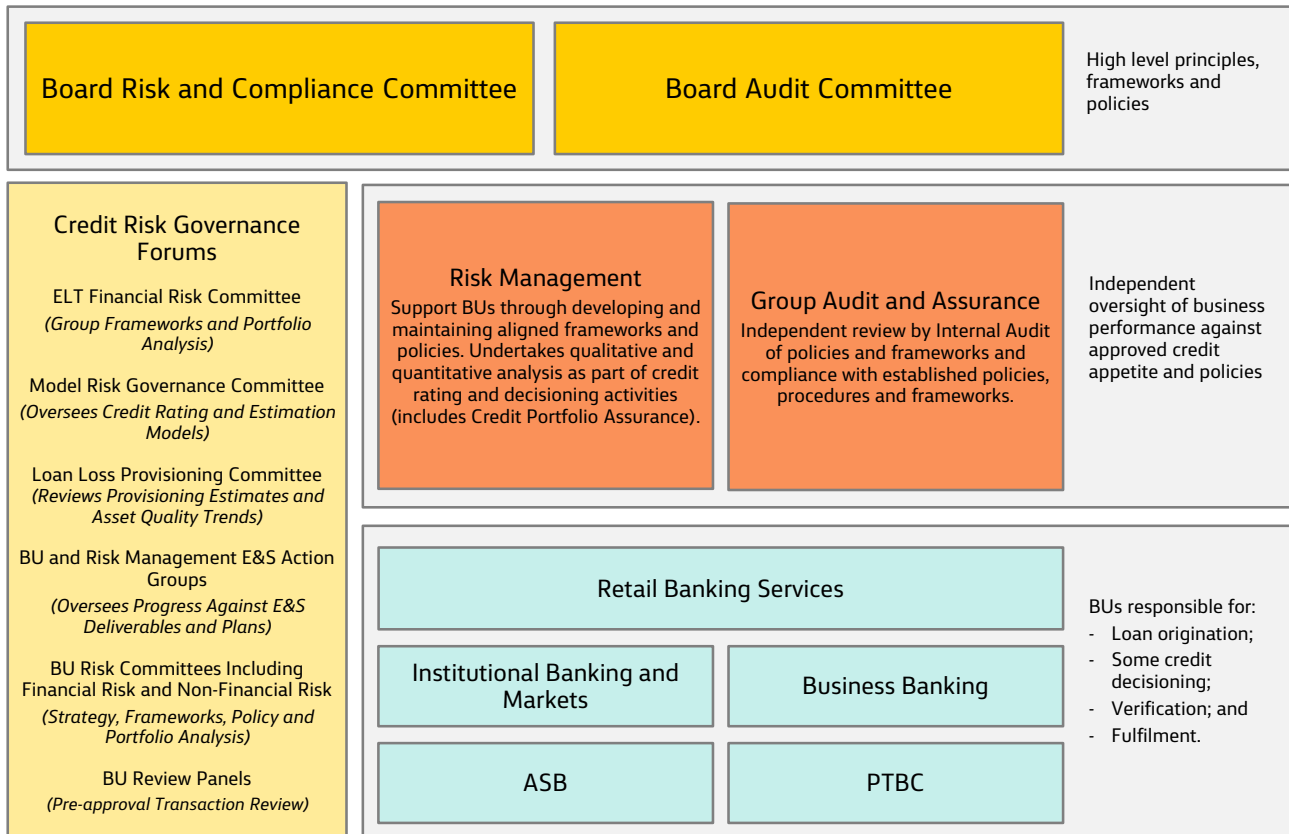
The Group's RAS requires that there is appropriate diversification of credit risk. This is achieved through established policies that include limits for the key dimensions of the credit portfolio for:

- Individual borrowers, or groups of related borrowers;
- Industry sectors; and
- Geography (e.g. country risk).

Experts in each BU are accountable for identifying ways to diversify credit risk exposure in their businesses, all within the policy limits.

The Credit Portfolio Assurance Unit, part of Group Operational Risk, Assurance and Models, reviews credit portfolios and BU compliance with policies, application of credit risk ratings and other key practices on a regular basis. The Credit Portfolio Assurance Unit reports its findings to the ELT Financial Risk Committee (FRC) and the Board Risk and Compliance Committee as appropriate.

The chart below illustrates the approach taken to manage credit risk in the Group.



Credit Risk (continued)

8.1 Credit Risk Exposure – excluding Equities and Securitisation

The following tables detail credit risk exposures subject to AIRB, FIRB and standardised approaches.

Table 7i – Credit risk exposures by portfolio type and modelling approach

Portfolio Type	30 June 2023 Revised Framework ¹			
	Off Balance Sheet			Total \$M
	On Balance Sheet \$M	Non- market related \$M	Market related \$M	
Subject to AIRB approach				
Corporate (incl. SME corporate)	136,568	17,366	1,032	154,966
SME retail	12,911	5,891	4	18,806
Residential mortgage	563,683	72,074	–	635,757
Qualifying revolving retail	8,116	15,415	–	23,531
Other retail	6,180	1,436	–	7,616
Total AIRB approach	727,458	112,182	1,036	840,676
Subject to FIRB approach				
Corporate - large	23,869	13,313	4,167	41,349
Sovereign	174,913	562	22,232	197,707
Financial institution	22,244	7,294	13,094	42,632
Total FIRB approach	221,026	21,169	39,493	281,688
Specialised lending	3,514	1,023	104	4,641
Subject to standardised approach				
Corporate (incl. SME corporate)	332	224	3	559
SME retail	859	375	14	1,248
Sovereign	519	1	–	520
Residential mortgage	14,925	1,689	–	16,614
Other retail	504	100	–	604
Other assets ²	12,167	1,200	–	13,367
Central counterparties	–	–	2,616	2,616
Total standardised approach	29,306	3,589	2,633	35,528
RBNZ regulated entities	115,373	12,880	2,713	130,966
Total credit exposures ³	1,096,677	150,843	45,979	1,293,499

¹ Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

² Includes immaterial contributions from other standardised asset classes, including Domestic public sector entities, Commercial property, Land acquisition, development and construction, and Bank.

³ Total credit risk exposures (calculated as EAD) do not include equities or securitisation exposures. Off Balance Sheet market related exposures include \$20.7 billion of exposures in relation to Securities Financing Transactions (SFTs).

Credit Risk (continued)

8.1 Credit Risk Exposure – excluding Equities and Securitisation (continued)

Table 7i – Credit risk exposures by portfolio type and modelling approach (continued)

Portfolio Type ¹	31 December 2022				Average exposure for December 2022 half ²	Change in exposure for December 2022 half ³	
	On Balance Sheet	Non-market related	Market related	Total		\$M	%
	\$M	\$M	\$M	\$M	\$M		
Off Balance Sheet							
Subject to AIRB approach							
Corporate (incl. SME corporate)	136,260	61,361	9,396	207,017	201,637	10,759	5.5
SME retail	10,621	5,094	5	15,720	15,693	55	0.4
Sovereign	213,190	1,263	6,075	220,528	218,589	3,876	1.8
Bank	11,848	672	5,623	18,143	19,263	(2,240)	(11.0)
Residential mortgage	621,664	82,255	–	703,919	694,920	17,997	2.6
Qualifying revolving retail	8,186	15,246	–	23,432	23,413	39	0.2
Other retail	6,602	2,523	–	9,125	8,968	313	3.6
Total AIRB approach	1,008,371	168,414	21,099	1,197,884	1,182,483	30,799	2.6
Specialised lending	66,922	12,053	365	79,340	78,138	2,403	3.1
Subject to standardised approach							
Corporate (incl. SME corporate)	573	279	11	863	972	(217)	(20.1)
SME retail	1,554	535	15	2,104	2,134	(59)	(2.7)
Sovereign	588	–	–	588	615	(53)	(8.3)
Bank	187	7	–	194	209	(29)	(13.0)
Residential mortgage	14,147	2,142	–	16,289	15,795	987	6.5
Other retail	948	195	–	1,143	1,106	75	7.0
Other assets	12,042	–	–	12,042	13,753	(3,421)	(22.1)
Central counterparties	–	–	3,685	3,685	7,324	(7,278)	(66.4)
Total standardised approach	30,039	3,158	3,711	36,908	41,908	(9,995)	(21.3)
Total credit exposures ⁴	1,105,332	183,625	25,175	1,314,132	1,302,529	23,207	1.8

1 Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

2 The simple average of balances as at 31 December 2022 and 30 June 2022.

3 The difference between exposures as at 31 December 2022 and 30 June 2022.

4 Total credit risk exposures (calculated as EAD) do not include equities or securitisation exposures.

Credit Risk (continued)

8.1 Credit Risk Exposure – excluding Equities and Securitisation (continued)

Table 7i – Credit risk exposures by portfolio type and modelling approach (continued)

Portfolio Type ¹	30 June 2022 Off Balance Sheet				Average exposure for June 2022 half ²	Change in exposure for June 2022 half ³	
	On Balance Sheet \$M	Non-market related \$M	Market related \$M	Total \$M		\$M	%
Subject to AIRB approach							
Corporate (incl. SME corporate)	129,375	56,050	10,833	196,258	192,942	6,631	3.5
SME retail	10,752	4,909	4	15,665	15,758	(185)	(1.2)
Sovereign	210,016	1,116	5,520	216,652	208,260	16,785	8.4
Bank	12,413	438	7,532	20,383	20,204	359	1.8
Residential mortgage	604,509	81,413	–	685,922	681,170	9,502	1.4
Qualifying revolving retail	7,808	15,585	–	23,393	23,473	(160)	(0.7)
Other retail	6,252	2,560	–	8,812	9,181	(739)	(7.7)
Total AIRB approach	981,125	162,071	23,889	1,167,085	1,150,988	32,193	2.8
Specialised lending	64,041	12,409	487	76,937	76,505	865	1.1
Subject to standardised approach							
Corporate (incl. SME corporate)	739	324	17	1,080	1,505	(849)	(44.0)
SME retail	1,580	577	6	2,163	2,222	(120)	(5.3)
Sovereign	640	1	–	641	3,145	(5,010)	(88.7)
Bank	211	12	–	223	227	(8)	(3.5)
Residential mortgage	13,394	1,908	–	15,302	15,140	325	2.2
Other retail	914	154	–	1,068	1,015	107	11.1
Other assets	15,463	–	–	15,463	17,606	(4,285)	(21.7)
Central counterparties	–	–	10,963	10,963	10,407	1,113	11.3
Total standardised approach	32,941	2,976	10,986	46,903	51,267	(8,727)	(15.7)
Total credit exposures ⁴	1,078,107	177,456	35,362	1,290,925	1,278,760	24,331	1.9

1 Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

2 The simple average of balances as at 30 June 2022 and 31 December 2021.

3 The difference between exposures as at 30 June 2022 and 31 December 2021.

4 Total credit risk exposures (calculated as EAD) do not include equities or securitisation exposures.

Credit Risk (continued)

8.1 Credit Risk Exposure – excluding Equities and Securitisation (continued)

Table 7b – Credit risk exposure by portfolio type

Portfolio Type	As at 30 Jun 23 Revised Framework ¹
	\$M
Corporate (incl. Large and SME corporate)	196,874
Sovereign	198,227
Financial institution	42,632
SME retail	20,054
Residential mortgage	652,371
Qualifying revolving retail	23,531
Other retail	8,220
Specialised lending	4,641
Other assets	13,367
Central counterparties	2,616
RBNZ regulated entities	130,966
Total credit exposures ²	1,293,499

¹ Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

² Total credit risk exposures do not include equities or securitisation exposures.

Portfolio Type	As at 31 Dec 22 ¹
	\$M
Corporate (incl. SME corporate)	207,880
SME retail	17,824
Sovereign	221,116
Bank	18,337
Residential mortgage	720,208
Qualifying revolving retail	23,432
Other retail	10,268
Specialised lending	79,340
Other assets	12,042
Central counterparties	3,685
Total credit exposures ²	1,314,132

¹ Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

² Total credit risk exposures do not include equities or securitisation exposures.

Credit Risk (continued)

8.1 Credit Risk Exposure – excluding Equities and Securitisation (continued)

Table 7b – Credit risk exposure by portfolio type (continued)

Portfolio Type	As at 30 Jun 22 ¹ \$M
Corporate (incl. SME corporate)	197,338
SME retail	17,828
Sovereign	217,293
Bank	20,606
Residential mortgage	701,224
Qualifying revolving retail	23,393
Other retail	9,880
Specialised lending	76,937
Other assets	15,463
Central counterparties	10,963
Total credit exposures ²	1,290,925

1 Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

2 Total credit risk exposures do not include equities or securitisation exposures.

Table 7c – Credit risk exposure by portfolio type and geographic distribution

Portfolio Type	30 June 2023 Revised Framework ¹			Total \$M
	Australia \$M	New Zealand \$M	Other \$M	
Corporate (incl. Large and SME corporate)	182,612	2,402	11,860	196,874
Sovereign	167,134	132	30,961	198,227
Financial institution	22,010	–	20,622	42,632
SME retail ²	20,035	–	19	20,054
Residential mortgage	651,952	–	419	652,371
Qualifying revolving retail	23,531	–	–	23,531
Other retail	7,787	–	433	8,220
Specialised lending	2,603	–	2,038	4,641
Other assets	12,193	14	1,160	13,367
Central counterparties	478	–	2,138	2,616
RBNZ regulated entities	548	129,817	601	130,966
Total credit exposures ³	1,090,883	132,365	70,251	1,293,499

1 Prepared in accordance with APRA's revised capital framework effective from 1 January 2023. Balances are reported based on the risk domicile of the borrowers.

2 Including SME retail secured by residential property.

3 Total credit risk exposures do not include equities or securitisation exposures.

Credit Risk (continued)

8.1 Credit Risk Exposure – excluding Equities and Securitisation (continued)

Table 7c – Credit risk exposure by portfolio type and geographic distribution (continued)

Portfolio Type	31 December 2022 ¹			Total \$M
	Australia \$M	New Zealand \$M	Other \$M	
Corporate (incl. SME corporate)	148,080	29,664	30,136	207,880
SME retail ²	16,186	1,535	103	17,824
Sovereign	162,990	12,643	45,483	221,116
Bank	5,698	1,479	11,160	18,337
Residential mortgage	641,475	77,880	853	720,208
Qualifying revolving retail	23,431	–	1	23,432
Other retail	7,372	2,462	434	10,268
Specialised lending	65,907	10,812	2,621	79,340
Other assets	10,145	870	1,027	12,042
Central counterparties	301	–	3,384	3,685
Total credit exposures ³	1,081,585	137,345	95,202	1,314,132

- 1 Prepared in accordance with APRA's capital framework effective up until 31 December 2022. Balances are reported based on the risk domicile of the borrowers.
 2 Including SME retail secured by residential property.
 3 Total credit risk exposures do not include equities or securitisation exposures.

Portfolio Type	30 June 2022 ¹			Total \$M
	Australia \$M	New Zealand \$M	Other \$M	
Corporate (incl. SME corporate)	138,802	28,132	30,404	197,338
SME retail ²	16,170	1,551	107	17,828
Sovereign	160,314	11,603	45,376	217,293
Bank	6,500	1,809	12,297	20,606
Residential mortgage	625,645	74,623	956	701,224
Qualifying revolving retail	23,392	–	1	23,393
Other retail	7,081	2,385	414	9,880
Specialised lending	64,334	10,022	2,581	76,937
Other assets	12,044	828	2,591	15,463
Central counterparties	392	–	10,571	10,963
Total credit exposures ³	1,054,674	130,953	105,298	1,290,925

- 1 Prepared in accordance with APRA's capital framework effective up until 31 December 2022. Balances are reported based on the risk domicile of the borrowers.
 2 Including SME retail secured by residential property.
 3 Total credit risk exposures do not include equities or securitisation exposures.

Credit Risk (continued)

8.1 Credit Risk Exposure – excluding Equities and Securitisation (continued)

Table 7d – Credit risk exposure by portfolio type and industry sector

Portfolio Type	30 June 2023 Revised Framework ¹							
	Industry Sector							
	Consumer	Finance & Insurance	Business Services	Agriculture & Forestry	Construction	Mining, Oil & Gas	Wholesale & Retail Trade	Transport & Storage
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Corporate (incl. Large and SME corporate)	–	1,256	8,755	15,831	5,879	4,909	19,460	17,256
Sovereign	–	–	–	–	–	–	–	–
Financial institution	–	42,632	–	–	–	–	–	–
SME retail ²	–	361	1,897	1,585	2,627	129	2,785	1,167
Residential mortgage	652,371	–	–	–	–	–	–	–
Qualifying revolving retail	23,531	–	–	–	–	–	–	–
Other retail	8,220	–	–	–	–	–	–	–
Specialised lending	–	–	–	–	–	173	250	1,061
Other assets ⁵	2,861	457	2	–	8	1	34	3
Central counterparties	–	2,616	–	–	–	–	–	–
RBNZ regulated entities	78,449	3,184	1,788	10,830	1,152	8	3,565	930
Total credit exposures ³	765,432	50,506	12,442	28,246	9,666	5,220	26,094	20,417

Portfolio Type	Industry Sector (continued)							
	Manufacturing	Commercial Property ⁴	Government Admin. & Defence	Health & Community Services	Entertainment Leisure & Tourism	Electricity Gas & Water	Other	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Corporate (incl. Large and SME corporate)	12,570	73,065	–	9,580	12,430	6,938	8,945	196,874
Sovereign	–	–	198,227	–	–	–	–	198,227
Financial institution	–	–	–	–	–	–	–	42,632
SME retail ²	1,049	1,988	–	1,035	1,200	43	4,188	20,054
Residential mortgage	–	–	–	–	–	–	–	652,371
Qualifying revolving retail	–	–	–	–	–	–	–	23,531
Other retail	–	–	–	–	–	–	–	8,220
Specialised lending	346	–	–	–	160	2,516	135	4,641
Other assets ⁵	45	–	–	–	–	–	9,956	13,367
Central counterparties	–	–	–	–	–	–	–	2,616
RBNZ regulated entities	1,646	10,109	13,672	1,780	837	669	2,347	130,966
Total credit exposures ³	15,656	85,162	211,899	12,395	14,627	10,166	25,571	1,293,499

1 Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

2 SME retail business lending secured by residential property has been allocated by industry.

3 Total credit risk exposures do not include equities or securitisation exposures.

4 Commercial Property includes Real Estate Investment Trusts (REIT) and excludes Business Services.

5 Includes immaterial contributions from other standardised asset classes, including Domestic public sector entities, Commercial property, Land acquisition, development and construction, and Bank.

Credit Risk (continued)

8.1 Credit Risk Exposure – excluding Equities and Securitisation (continued)

Table 7d – Credit risk exposure by portfolio type and industry sector (continued)

Portfolio Type	31 December 2022 ¹							
	Industry Sector							
	Consumer	Finance & Insurance	Business Services	Agriculture & Forestry	Construction	Mining, Oil & Gas	Wholesale & Retail Trade	Transport & Storage
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Corporate (incl. SME corporate)	–	33,248	11,852	26,509	8,171	6,489	25,333	21,489
SME retail ²	–	387	1,707	1,637	2,419	108	2,431	1,034
Sovereign	–	–	–	–	–	–	–	–
Bank	–	18,337	–	–	–	–	–	–
Residential mortgage	720,208	–	–	–	–	–	–	–
Qualifying revolving retail	23,432	–	–	–	–	–	–	–
Other retail	10,268	–	–	–	–	–	–	–
Specialised lending	–	–	–	11	7	475	258	1,313
Other assets	2,165	–	–	–	–	–	–	–
Central counterparties	–	3,685	–	–	–	–	–	–
Total credit exposures ³	756,073	55,657	13,559	28,157	10,597	7,072	28,022	23,836

Portfolio Type	Industry Sector (continued)							
	Manufacturing	Commercial Property ⁴	Government Admin. & Defence	Health & Community Services	Entertainment Leisure & Tourism	Electricity Gas & Water	Other	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Corporate (incl. SME corporate)	17,198	12,597	–	12,096	13,011	7,631	12,256	207,880
SME retail ²	935	1,462	–	806	1,005	46	3,847	17,824
Sovereign	–	–	221,116	–	–	–	–	221,116
Bank	–	–	–	–	–	–	–	18,337
Residential mortgage	–	–	–	–	–	–	–	720,208
Qualifying revolving retail	–	–	–	–	–	–	–	23,432
Other retail	–	–	–	–	–	–	–	10,268
Specialised lending	45	73,215	–	168	315	3,526	7	79,340
Other assets	–	–	–	–	–	–	9,877	12,042
Central counterparties	–	–	–	–	–	–	–	3,685
Total credit exposures ³	18,178	87,274	221,116	13,070	14,331	11,203	25,987	1,314,132

¹ Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

² SME retail business lending secured by residential property has been allocated by industry.

³ Total credit risk exposures do not include equities or securitisation exposures.

⁴ Commercial Property includes Real Estate Investment Trusts (REIT) and excludes Business Services.

Credit Risk (continued)

8.1 Credit Risk Exposure – excluding Equities and Securitisation (continued)

Table 7d – Credit risk exposure by portfolio type and industry sector (continued)

Portfolio Type	30 June 2022 ¹							
	Industry Sector							
	Consumer	Finance & Insurance	Business Services	Agriculture & Forestry	Construction	Mining, Oil & Gas	Wholesale & Retail Trade	Transport & Storage
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Corporate (incl. SME corporate)	–	34,170	10,654	25,733	7,941	6,615	22,848	19,766
SME retail ²	–	356	1,696	1,668	2,350	99	2,418	1,000
Sovereign	–	–	–	–	–	–	–	–
Bank	–	20,606	–	–	–	–	–	–
Residential mortgage	701,224	–	–	–	–	–	–	–
Qualifying revolving retail	23,393	–	–	–	–	–	–	–
Other retail	9,880	–	–	–	–	–	–	–
Specialised lending	–	–	2	6	–	931	247	1,986
Other assets	2,310	–	–	–	–	–	–	–
Central counterparties	–	10,963	–	–	–	–	–	–
Total credit exposures ³	736,807	66,095	12,352	27,407	10,291	7,645	25,513	22,752

Portfolio Type	Industry Sector (continued)							
	Manufacturing	Commercial Property ⁴	Government Admin. & Defence	Health & Community Services	Entertainment Leisure & Tourism	Electricity Gas & Water	Other	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Corporate (incl. SME corporate)	15,039	12,388	–	11,770	11,871	7,223	11,320	197,338
SME retail ²	928	1,515	–	792	977	43	3,986	17,828
Sovereign	–	–	217,293	–	–	–	–	217,293
Bank	–	–	–	–	–	–	–	20,606
Residential mortgage	–	–	–	–	–	–	–	701,224
Qualifying revolving retail	–	–	–	–	–	–	–	23,393
Other retail	–	–	–	–	–	–	–	9,880
Specialised lending	53	70,144	–	170	633	2,613	152	76,937
Other assets	–	–	–	–	–	–	13,153	15,463
Central counterparties	–	–	–	–	–	–	–	10,963
Total credit exposures ³	16,020	84,047	217,293	12,732	13,481	9,879	28,611	1,290,925

¹ Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

² SME retail business lending secured by residential property has been allocated by industry.

³ Total credit risk exposures do not include equities or securitisation exposures.

⁴ Commercial Property includes Real Estate Investment Trusts (REIT) and excludes Business Services.

Credit Risk (continued)

8.1 Credit Risk Exposure – excluding Equities and Securitisation (continued)

Table 7e – Credit risk exposure by portfolio type and residual contractual maturity

Portfolio Type	30 June 2023 Revised Framework ¹				
	≤ 12mths	1 ≤ 5yrs	> 5 years	No specified maturity	Total
	\$M	\$M	\$M	\$M	\$M
Corporate (incl. Large and SME corporate)	54,364	131,527	10,983	–	196,874
Sovereign	124,250	29,876	44,101	–	198,227
Financial institution	27,569	13,970	1,093	–	42,632
SME retail ²	6,755	8,189	5,110	–	20,054
Residential mortgage	20,052	62,323	551,950	18,046	652,371
Qualifying revolving retail	–	–	–	23,531	23,531
Other retail	270	3,819	2,596	1,535	8,220
Specialised lending	1,172	2,493	976	–	4,641
Other assets	3,284	543	289	9,251	13,367
Central counterparties	784	663	1,169	–	2,616
RBNZ regulated entities	42,647	13,719	74,600	–	130,966
Total credit exposures ³	281,147	267,122	692,867	52,363	1,293,499

1 Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

2 Including SME retail secured by residential property.

3 Total credit risk exposures do not include equities or securitisation exposures.

Portfolio Type	31 December 2022 ¹				
	≤ 12mths	1 ≤ 5yrs	> 5 years	No specified maturity	Total
	\$M	\$M	\$M	\$M	\$M
Corporate (incl. SME corporate)	75,630	119,226	13,024	–	207,880
SME retail ²	6,289	6,387	5,148	–	17,824
Sovereign	152,858	29,825	38,433	–	221,116
Bank	12,445	5,114	778	–	18,337
Residential mortgage	29,791	84,071	578,331	28,015	720,208
Qualifying revolving retail	–	–	–	23,432	23,432
Other retail	284	4,263	2,417	3,304	10,268
Specialised lending	23,782	52,733	2,825	–	79,340
Other assets	2,267	351	261	9,163	12,042
Central counterparties	2,328	1,147	210	–	3,685
Total credit exposures ³	305,674	303,117	641,427	63,914	1,314,132

1 Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

2 Including SME retail secured by residential property.

3 Total credit risk exposures do not include equities or securitisation exposures.

Portfolio Type	30 June 2022 ¹				
	≤ 12mths	1 ≤ 5yrs	> 5 years	No specified maturity	Total
	\$M	\$M	\$M	\$M	\$M
Corporate (incl. SME corporate)	72,763	112,237	12,338	–	197,338
SME retail ²	6,434	6,319	5,075	–	17,828
Sovereign	150,991	31,459	34,843	–	217,293
Bank	12,029	7,288	1,289	–	20,606
Residential mortgage	28,869	81,624	561,669	29,062	701,224
Qualifying revolving retail	–	–	–	23,393	23,393
Other retail	278	4,282	2,113	3,207	9,880
Specialised lending	22,926	50,900	3,111	–	76,937
Other assets	2,356	1,859	339	10,909	15,463
Central counterparties	5,444	4,021	1,498	–	10,963
Total credit exposures ³	302,090	299,989	622,275	66,571	1,290,925

1 Prepared in accordance with APRA's capital framework effective up until 31 December 2022.

2 Including SME retail secured by residential property.

3 Total credit risk exposures do not include equities or securitisation exposures.

Credit Risk (continued)

8.2 Non-performing Exposures and Provisions

Provisioning for Impairment

The Group assesses and measures credit losses in accordance with statutory financial accounting requirements under the *Corporations Act 2001* (Cth), Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB) and APRA regulatory requirements.

The Group assesses its provisioning for impairment in accordance with AASB 9 and recognises both individually assessed provisions and collectively assessed provisions.

A monthly assessment is undertaken to assess the quality of the credit portfolio to determine the loan impairment expense and provisions.

APRA Prudential Standard APS 220 *Credit Risk Management* requires provisions be consistent with the objectives of, and measurement result in, appropriate and timely recognition in accordance with, Australian Accounting Standards.

APS 111 *Capital Adequacy: Measurement of Capital* (APS 111) requires the Group to reduce CET1 to the extent the amount of regulatory expected losses is in excess of APRA defined eligible provisions.

Collective Provisions

The expected credit loss (ECL) impairment model is used by the Group to calculate collective provisions. ECL is a probability weighted expected credit loss estimated by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The Group uses the following AASB 9 collective provisioning models in calculating ECL for significant portfolios:

- Retail lending: Home Loans model, Credit Cards model, Personal Loans model; and
- Non-retail lending: Corporate Risk-Rated model, Asset Finance model, Retail SME model.

For each significant portfolio, ECL is calculated as a product of the following credit risk factors at a facility level:

- Exposure at Default (EAD): Expected Balance Sheet exposure at default. The Group generally calculates EAD as the higher of the drawn balance and total credit limit except for the credit cards portfolio, for which the EAD calculation also takes into account the probability of unused limits being drawn down;
- Probability of Default (PD): The likelihood that a borrower will be unable to pay its obligations in full without having to take actions such as realising on security, or that the debtor will become 90 days overdue on an obligation or contractual commitment; and
- Loss Given Default (LGD): The amount that is not expected to be recovered following default.

Credit risk factors of PD and LGD used in the ECL calculation are point-in-time estimates based on current conditions and adjusted to include the impact of multiple probability weighted future forecast economic scenarios. This is distinct from the long-run and downturn estimates used for regulatory purposes described in section 8.4.

Individually Assessed Provisions

Individually Assessed Provisions (IAP) are held against financial assets that are individually significant, or which have been individually assessed as impaired.

Defaulted exposures with an expected loss in excess of \$20,000 are assessed for impairment through an IAP process. Impairment provisions on these exposures are calculated directly as the difference between the defaulted asset's carrying value and the present value of expected future cash flows including cash flows, from realisation of collateral, where applicable.

Credit Risk (continued)

8.2 Non-performing Exposures and Provisions (continued)

Reconciliation of Australian Accounting Standards and APS 220 *Credit Risk Management* based credit provisions and Table 7j – Provisions held against performing exposures

	30 June 2023 Revised Framework ¹		
	General provision	Specific provision ²	Total provisions
	\$M	\$M	\$M
Collective provision ³	4,598	598	5,196
Individual provisions ³	–	754	754
Total regulatory provisions	4,598	1,352	5,950

1 Reflective of APS 220 *Credit Risk Management* definitions in place from 1 January 2022 and reported as per APS 330 effective from 1 January 2023.

2 Specific provision balance includes accounting collective provisions on non-performing exposures.

3 Provisions according to Australian Accounting Standards.

Reconciliation of Australian Accounting Standards and APS 220 *Credit Quality* based credit provisions and Table 7j – General reserve for credit losses

	31 December 2022 ¹		
	General reserve for credit losses	Specific provision ²	Total provisions
	\$M	\$M	\$M
Collective provision ³	4,356	544	4,900
Individual provisions ³	–	641	641
Total regulatory provisions	4,356	1,185	5,541

1 Disclosures have not been restated and are reported as per APS 330 that was effective up until 31 December 2022.

2 Specific provision balance includes certain accounting collective provisions on some defaulted loans.

3 Provisions according to Australian Accounting Standards.

	30 June 2022 ¹		
	General reserve for credit losses	Specific provision ²	Total provisions
	\$M	\$M	\$M
Collective provision ³	4,033	578	4,611
Individual provisions ³	–	736	736
Total regulatory provisions	4,033	1,314	5,347

1 Disclosures have not been restated and are reported as per APS 330 that was effective up until 31 December 2022.

2 Specific provision balance includes certain accounting collective provisions on some defaulted loans.

3 Provisions according to Australian Accounting Standards.

Credit Risk (continued)

8.2 Non-performing Exposures and Provisions (continued)

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

Table 7f (i) – Non-performing, specific provisions and write-offs charged by industry sector

30 June 2023 ¹				
Industry Sector	Non performing exposures ²	Specific provision balance ³	Net full year charges for specific provisions	Full year actual losses ⁴
	\$M	\$M	\$M	\$M
Consumer	5,218	538	76	266
Government Administration & Defence	–	–	–	–
Finance & Insurance	68	20	21	10
Business Services	140	40	(17)	4
Agriculture & Forestry	264	39	(10)	17
Mining, Oil & Gas	35	12	20	47
Manufacturing	197	91	76	170
Electricity, Gas & Water	–	–	–	–
Construction	266	130	100	18
Wholesale & Retail Trade	424	196	72	9
Transport & Storage	213	29	(15)	9
Commercial Property	201	27	1	7
Entertainment, Leisure & Tourism	239	78	(2)	5
Health & Community Services	239	66	48	1
Other	204	86	21	13
Total	7,708	1,352	391	576

1 Reflective of APS 220 *Credit Risk Management* definitions in place from 1 January 2022 and reported as per APS 330 effective from 1 January 2023.

2 Non-performing exposures of \$7,708 million as at 30 June 2023 include exposures previously defined as impaired as well as defaulted exposures that are not considered impaired.

3 Specific provision balance includes accounting collective provisions on non-performing loans.

4 Actual losses equal write-offs from individual provisions and write-offs direct from collective provisions less recoveries of amounts previously written off for the year ended 30 June 2023.

Table 7f (i) – Impaired, past due, specific provisions and write-offs charged by industry sector

31 December 2022 ¹					
Industry Sector	Impaired assets	Past due loans ≥90 days ²	Specific provision balance ³	Net half year charges for individual provisions	Half year actual losses ⁴
	\$M	\$M	\$M	\$M	\$M
Consumer	1,871	2,254	652	6	106
Government Administration & Defence	–	–	–	–	–
Finance & Insurance	25	3	6	–	5
Business Services	100	30	45	(8)	–
Agriculture & Forestry	110	90	27	(3)	13
Mining, Oil & Gas	20	2	18	19	40
Manufacturing	173	13	72	71	164
Electricity, Gas & Water	–	1	–	–	–
Construction	109	27	37	12	11
Wholesale & Retail Trade	242	47	118	10	3
Transport & Storage	89	82	34	(1)	6
Commercial Property	28	94	15	4	6
Entertainment, Leisure & Tourism	97	32	64	2	1
Health & Community Services	56	25	29	30	1
Other	116	69	68	12	8
Total	3,036	2,769	1,185	154	364

1 Disclosures have not been restated and are reported as per APS 330 that was effective up until 31 December 2022.

2 Represents loans ≥ 90 days past due but not impaired.

3 Specific provision balance includes certain Australian Accounting Standards collective provisions on some defaulted loans.

4 Actual losses equal write-offs from individual provisions and write-offs direct from collective provisions less recoveries of amounts previously written off for the half year ended 31 December 2022.

Credit Risk (continued)

8.2 Non-performing Exposures and Provisions (continued)

Table 7f (i) – Impaired, past due, specific provisions and write-offs charged by industry sector (continued)

30 June 2022 ¹					
Industry Sector	Impaired assets	Past due loans ≥90 days ²	Specific provision balance ³	Net Full year charges for individual provisions	Full year actual losses ⁴
	\$M	\$M	\$M	\$M	\$M
Consumer	1,871	2,562	689	(20)	248
Government Administration & Defence	–	–	–	–	–
Finance & Insurance	30	5	3	–	3
Business Services	92	37	54	14	27
Agriculture & Forestry	161	112	47	(1)	26
Mining, Oil & Gas	57	1	36	21	15
Manufacturing	185	21	162	67	83
Electricity, Gas & Water	–	1	–	4	4
Construction	75	26	33	9	9
Wholesale & Retail Trade	147	55	110	12	27
Transport & Storage	98	73	29	19	33
Commercial Property	33	83	20	(2)	48
Entertainment, Leisure & Tourism	106	68	62	15	12
Health & Community Services	6	29	1	1	–
Other	90	80	68	10	23
Total	2,951	3,153	1,314	149	558

1 Disclosures have not been restated and are reported as per APS 330 that was effective up until 31 December 2022.

2 Represents loans ≥ 90 days past due but not impaired.

3 Specific provision balance includes certain Australian Accounting Standards collective provisions on some defaulted loans.

4 Actual losses equal write-offs from individual provisions and write-offs direct from collective provisions less recoveries of amounts previously written off for the year ended 30 June 2022.

Factors impacting the loss experience

The overall quality of the portfolio deteriorated slightly during the financial year ended 30 June 2023. Gross impaired assets as a proportion of Gross Loans and Advances (GLAA) increased by 3 basis points to 0.36% during the financial year ended 30 June 2023. Total provisions as a proportion of GLAA increased by 4 basis points to 0.64%. The increase reflected higher collective and individually assessed provisions, driven by ongoing inflationary pressure and rising interest rates. Group actual losses increased by \$18 million on the prior year to \$576 million primarily driven by higher write-offs in the manufacturing and mining oil & gas sectors, and unsecured consumer portfolios; partially offset by lower write-offs in other non-retail sectors.

Credit Risk (continued)

8.2 Non-performing Exposures and Provisions (continued)

Table 7f (ii) – Non-performing, specific provisions and write-offs charged by portfolio

Portfolio ¹	30 June 2023 ²			
	Non performing exposures ³	Specific provision balance ⁴	Net full year charges for specific provisions ⁵	Full year actual losses ⁶
	\$M	\$M	\$M	\$M
Corporate including SME and specialised lending and central counterparties	2,488	813	317	310
Sovereign	–	–	–	–
Financial institution	2	–	–	–
Residential mortgage	5,040	405	(131)	30
Credit cards	75	58	65	84
Other retail	103	76	140	152
Total	7,708	1,352	391	576

1 Portfolio categories disclosed based on a combination of asset class and industry.

2 Reflective of APS 220 *Credit Risk Management* definitions in place from 1 January 2022 and reported as per APS 330 effective from 1 January 2023.

3 Non-performing exposures of \$7,708 million as at 30 June 2023 include exposures previously defined as impaired as well as defaulted exposures that are not considered impaired.

4 Specific provision balance includes accounting collective provisions on non-performing loans.

5 Includes charges for accounting collective provisions on non-performing exposures for the year ended 30 June 2023.

6 Actual losses equal write-offs from individual provisions and write-offs direct from collective provisions less recoveries of amounts previously written off for the year ended 30 June 2023.

Table 7f (ii) – Impaired, past due, specific provisions and write-offs charged by portfolio

Portfolio	31 December 2022 ¹				
	Impaired Assets	Past due loans ≥90 days ²	Specific provision balance ³	Net half year charges for individual provisions	Half year actual losses ⁴
	\$M	\$M	\$M	\$M	\$M
Corporate including SME and specialised lending and central counterparties	1,165	515	519	148	258
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Residential mortgage	1,721	2,254	557	4	15
Credit cards	60	–	52	–	36
Other retail	90	–	57	2	55
Total	3,036	2,769	1,185	154	364

1 Disclosures have not been restated and are reported as per APS 330 that was effective up until 31 December 2022.

2 Represents loans ≥ 90 days past due but not impaired.

3 Specific provision balance includes certain Australian Accounting Standards collective provisions on some defaulted loans.

4 Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the half year ended 31 December 2022.

Portfolio	30 June 2022 ¹				
	Impaired assets	Past due loans ≥90 days ²	Specific provision balance ³	Net full year charges for individual provisions	Full year actual losses ⁴
	\$M	\$M	\$M	\$M	\$M
Corporate including SME and specialised lending and central counterparties	1,080	591	625	169	310
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Residential mortgage	1,713	2,562	544	(23)	38
Credit cards	66	–	66	–	80
Other retail	92	–	79	3	130
Total	2,951	3,153	1,314	149	558

1 Disclosures have not been restated and are reported as per APS 330 that was effective up until 31 December 2022.

2 Represents loans ≥ 90 days past due but not impaired.

3 Specific provision balance includes certain Australian Accounting Standards collective provisions on some defaulted loans.

4 Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the year ended 30 June 2022.

Credit Risk (continued)

8.2 Non-performing Exposures and Provisions (continued)

Table 7g (i) to (ii) – Non performing, specific provisions, and general provisions by geographic region

Geographic Region ²	30 June 2023 Revised Framework ¹		
	Non performing exposures	Specific provision balance	General provision balance
	\$M	\$M	\$M
Australia	5,995	1,085	4,022
New Zealand	1,447	180	400
Other	266	87	176
Total	7,708	1,352	4,598

1 Reflective of APS 220 *Credit Risk Management* definitions in place from 1 January 2022 and reported as per APS 330 effective from 1 January 2023.

2 Balances are reported based on the risk domicile of the borrower. The Group's financial statements disclose balances based on the domicile of the lending entity.

Table 7g (i) to (ii) – Impaired, past due, specific provisions, and general reserve for credit losses by geographic region

Geographic Region ²	31 December 2022 ¹			
	Impaired assets	Past due loans ≥90 days ³	Specific provision balance	General reserve for credit losses balance
	\$M	\$M	\$M	\$M
Australia	2,123	2,561	971	3,739
New Zealand	758	126	130	475
Other	155	82	84	142
Total	3,036	2,769	1,185	4,356

1 Disclosures have not been restated and are reported as per APS 330 that was effective up until 31 December 2022.

2 Balances are reported based on the risk domicile of the borrower. The Group's financial statements disclose balances based on the domicile of the lending entity.

3 Represents loans ≥ 90 days past due but not impaired.

Geographic Region ²	30 June 2022 ¹			
	Impaired assets	Past due loans ≥90 days ³	Specific provision balance	General reserve for credit losses balance
	\$M	\$M	\$M	\$M
Australia	1,957	2,977	1,012	3,452
New Zealand	719	120	138	367
Other	275	56	164	214
Total	2,951	3,153	1,314	4,033

1 Disclosures have not been restated and are reported as per APS 330 that was effective up until 31 December 2022.

2 Balances are reported based on the risk domicile of the borrower. The Group's financial statements disclose balances based on the domicile of the lending entity.

3 Represents loans ≥ 90 days past due but not impaired.

Credit Risk (continued)

8.2 Non-performing Exposures and Provisions (continued)

Table 7h (i) & (ii)– Movement in individual and collective provisions

	Group			Total
	Stage 1	Stage 2	Stage 3	
	Performing \$M	Performing \$M	Non- performing \$M	\$M
Closing balance as at 31 December 2021	1,708	2,795	1,351	5,854
Transfers to/(from)				
Stage 1	773	(766)	(7)	–
Stage 2	(352)	523	(171)	–
Stage 3	(10)	(293)	303	–
Net re-measurement on transfers between stages	(497)	569	182	254
Net financial assets originated	150	(301)	(113)	(264)
Movement in existing IAP (including IAP write-backs)	–	–	63	63
Movements due to risk parameters and other changes	(454)	17	102	(335)
Loan impairment expense/(benefit) for the period	(390)	(251)	359	(282)
Write-offs	–	–	(292)	(292)
Recoveries	–	–	60	60
Foreign exchange and other commitments	(5)	(6)	18	7
Closing balance as at 30 June 2022	1,313	2,538	1,496	5,347
Transfers to/(from)				
Stage 1	762	(757)	(5)	–
Stage 2	(346)	462	(116)	–
Stage 3	(9)	(200)	209	–
Net re-measurement on transfers between stages	(529)	839	144	454
Net financial assets originated	193	(354)	(125)	(286)
Movement in existing IAP (including IAP write-backs)	–	–	114	114
Movements due to risk parameters and other changes	342	(91)	(22)	229
Loan impairment expense/(benefit) for the period	413	(101)	199	511
Write-offs	–	–	(428)	(428)
Recoveries	–	–	64	64
Foreign exchange and other commitments	10	15	22	47
Closing balance as at 31 December 2022	1,736	2,452	1,353	5,541
Transfers to/(from)				
Stage 1	1,158	(1,147)	(11)	–
Stage 2	(469)	591	(122)	–
Stage 3	(12)	(186)	198	–
Net re-measurement on transfers between stages	(925)	1,540	216	831
Net financial assets originated	191	(461)	(107)	(377)
Movement in existing IAP (including IAP write-backs)	–	–	104	104
Movements due to risk parameters and other changes	30	95	(86)	39
Loan impairment expense/(benefit) for the period	(27)	432	192	597
Write-offs	–	–	(256)	(256)
Recoveries	–	–	44	44
Foreign exchange and other commitments	0	5	19	24
Closing balance as at 30 June 2023	1,709	2,889	1,352	5,950

For definitions of the line items in the table above refer to Note 3.2 in the 2023 Annual Report.

Credit Risk (continued)

8.3 Portfolios Subject to Standardised and Supervisory Risk Weights

The standardised approach is used by the Group where portfolios or segments are considered to be immaterial by the size of exposure or where the relevant prudential standards require a standardised approach to be used¹.

Portfolios that use the standardised approach include:

APRA regulated entities – portfolios under APS 112: *Capital Adequacy: Standardised Approach to Credit Risk* (APS 112)

- Some retail SME (overdrawn accounts) and small unsecured consumer retail portfolios;
- Corporate exposures without risk ratings;
- Some standard residential property loans (including purchased portfolios);
- Non-standard residential property loans as defined in APS 112 including:
 - Interest only loans not predominantly for business purposes with an LVR greater than 80% and an interest only term specified in the contract as greater than 5 years;
 - Property exposures originated since 1 January 2023 where assessment does not result in a positive determination of the borrower's ability to meet repayment obligations; and
 - reverse mortgages and loans to self-managed superannuation funds;
- PTBC exposures;
- Margin lending; and
- Other assets (including property, plant and equipment, lease right of use assets and the residual value of assets under operating leases).

APRA regulated entities – portfolios under APS 180 *Capital Adequacy: Counterparty Credit Risk* (refer Section 8.6)

- Central counterparties; and
- Credit valuation adjustments (CVA).

¹ Since 1 January 2023 APRA has also required advanced ADIs to calculate risk weighted assets under the relevant standardised approach – refer page 13.

Risk weights have been applied in accordance with APS 112 and, where applicable, with consideration to the type of security held:

- For loans secured by residential property, consideration is given with respect to loan purpose, the Loan to Value Ratio (LVR); and whether lenders mortgage insurance (LMI) is held.
- For loans secured by commercial property, consideration is given to the LVR and the dependency on property cash flows.
- The Group's definition of internal risk ratings used for Corporate, Financial Institutions and Sovereign exposures has been aligned to equivalent rating grades provided by external credit assessment institutions including S&P Global Ratings and Moody's Investors Services.

The Group continues to review portfolios that use the standardised approach. Approval to apply the advanced approach will be sought from APRA when the size of exposures and number of customers within these portfolios are sufficient to qualify for advanced approaches.

For RBNZ regulated entities risk weights pertaining to standardised portfolios have been applied in accordance with RBNZ prudential requirements. Portfolios that use the standardised approach include:

RBNZ regulated entities – portfolios under APS 112

- Personal loans;
- Retail SME;
- Bank;
- Sovereign;
- Central counterparties;
- CVA; and
- Other assets.

APRA also requires certain specialised lending exposures, including Object and Project Finance, to be assigned specific risk weights according to "slotting" criteria defined by the regulator in APS 113 *Credit Adequacy: Internal Ratings-based Approach to Credit Risk*. This approach is also applied to Income Producing Real Estate (IPRE) exposures calculated under New Zealand prudential requirements.

Credit Risk (continued)

8.3 Portfolios Subject to Standardised and Supervisory Risk Weights (continued)

Table 8b – Exposures subject to standardised and supervisory risk weights

Standardised Approach Exposures	Exposure after credit risk mitigation ¹		
	30 Jun 23 ²	30 Dec 22	30 Jun 22
	\$M	\$M	\$M
Risk Weight			
0%	2,317	1,829	3,258
20%	5,594	2,569	5,118
25%	2,088	–	–
30%	2,420	–	–
35%	3,139	12,718	11,335
40%	1,904	–	–
45%	1,063	–	–
50%	2,030	2,982	3,336
55%	187	–	–
75%	1,282	599	660
85%	340	–	–
100%	10,054	12,491	12,201
105%	93	–	–
150%	142	35	32
> 150%	37	–	–
Other risk weights	222	–	–
Capital deductions	–	–	–
Total (excl. RBNZ regulated entities)	32,912	33,223	35,940
RBNZ regulated entities	20,633	–	–
Total	53,545	33,223	35,940

1 Exposure after credit risk mitigation does not include central counterparties, equity or securitisation exposures.

2 Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

Specialised Lending Exposures Subject to Supervisory Slotting	Exposure after credit risk mitigation ¹		
	30 Jun 23 ^{2 3}	31 Dec 22	30 Jun 22
	\$M	\$M	\$M
Risk Weight			
0%	144	446	358
70%	1,996	29,137	20,986
90%	2,266	36,968	49,149
115%	115	10,944	5,894
250%	120	1,845	550
RBNZ regulated entities	4,043	–	–
Total exposures	8,684	79,340	76,937

1 APRA requires certain specialised lending exposures to be assigned specific risk weights according to "slotting" criteria as defined by the Regulator.

2 Excludes IPRE exposures now recognised in either AIRB or FIRB asset class.

3 Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches

The Group, with the exception of some relatively small portfolios, is accredited to use Internal Ratings-based approaches to calculate its capital requirements under APS 113 *Capital Adequacy: Internal Ratings-based Approach to Credit Risk* (APS 113).

Credit Risk Measurement

The measurement of credit risk is based on an internal credit risk rating system which uses expert judgement and analytical PD Rating Models to calculate credit risk estimates, including borrower PD, facility LGD, and facility EAD. These are inputs into the estimation of Expected Loss (EL) and Unexpected Loss (UL) for the credit portfolio.

The Model Risk Governance Committee oversees Group credit rating models and processes to ensure appropriate credit risk estimates are developed and used, model performance is reviewed on a regular basis and that there is consistency across BU credit models as appropriate.

Probability of Default

The PD, expressed as a percentage, is the estimate of the population of borrowers or counterparties assigned to a PD grade that will default within a one year period. It reflects a borrower's ability to generate sufficient cash flows in the future to meet the terms of all of its credit obligations to the Group. The PD rating methodology applied to the various segments of the credit portfolio is shown in Table 9c.

PD estimates are based on a long-run average default rate based on the Group's historical data, supplemented with external data where applicable. Borrower or counterparty risk characteristics and account performance criteria are used to define retail risk pools. Pools may be combined to ensure the number of exposures within a given pool is sufficient to allow quantification of reliable estimates and to facilitate validation of loss characteristics at the pool level.

Models are independently validated and confidence intervals are calculated to statistically demonstrate that retail pools meaningfully differentiate risk. PD model results are calibrated to obtain long-run PDs that reflect the central tendency over a full economic cycle.

The credit risk portfolio has two major PD rating segments:

- (i) Risk-Rated; and
- (ii) Retail Managed.

(i) Risk-Rated Segment

This segment comprises non-retail exposures including financial institution and sovereign exposures. Non-retail exposures to borrowers or counterparties with consolidated annual revenue less than \$75 million that are required to be risk-rated and individually managed under the Group's internal credit policy are classified under the SME corporate asset class.

The credit risk rating system for non-retail exposures currently in use includes 24 PD grades (16 performing, 6 weak/doubtful, 1 restructured, 1 defaulted).

Borrowers or counterparties that are risk-rated have their PD rating assigned via expert judgement and the appropriate PD Rating Model. Under expert judgement, PD ratings are assigned based on the expert knowledge of the credit officer conducting the review. The credit officer may use multiple rating inputs to assist with the rating decision, including the use of internal PD Rating Models, the ratings assigned by an external rating agency, benchmark rating criteria, management capability and integrity, market or other relevant information.

PD Rating Models are used to form a benchmark in the rating process and are based on customer financials and a number of management related questions.

For the lending businesses across the Group (including within CBA and ASB), PD Rating Models are the primary method of assigning a PD rating. PD Rating Models are statistical models designed to predict the rating outcome. Ratings are assigned based on the responses to a series of questions relating to the financial condition of the customer's business, as well as questions relating to management capability and integrity. The responses are weighted by their importance in predicting credit quality and are used to calculate an overall score upon which the PD rating is determined.

The PD rating reflects the estimated probability of default for that grade over a one year horizon. The Group uses a through-the-cycle (TTC) approach whereby PD ratings are based on longer term considerations to capture a borrower's ability to perform through a credit cycle. External rating agencies also use a TTC PD rating approach.

The Group's PD rating criteria reflect both long-run and current considerations of the financial health of a borrower or counterparty.

PD ratings fall within the following major categories:

- Exceptional – (A0 through to A3) – a strong profit history with principal and interest repayments covered by large stable cash operating surpluses;
- Very Strong/Strong – (B1 through to C3) – a strongly performing business with principal and interest payments well protected by stable cash operating surpluses;
- Good/Satisfactory – (D1 through to E3) – a soundly performing business with sufficient operating cash surpluses to meet all principal and interest repayments;
- Weak/Doubtful – (F1 through to G3) – profitability has been weak and the capacity to meet financial commitments is diminished with a potential for default;
- Restructured – (R) – concessions of interest and/or principal obligations have been provided due to the borrower or counterparty's financial difficulties, rendering the facility non-commercial to the Group. Restructured facilities are treated as non-performing assets; and
- Default – (H) – the obligation is in default (see below).

A borrower or counterparty whose PD rating is "Weak/Doubtful" (excluding F grade – well secured) or "Default" is not eligible for new facilities or increased exposure unless it will facilitate rehabilitation or protect or improve the Group's position by maximising recovery prospects. Borrowers or counterparties with all other PD ratings qualify for approval of new facilities or increased exposure on normal commercial terms. Assignments of borrower or counterparty PD ratings are reviewed at least annually with higher risk exposures being reviewed more frequently. Rating reviews are also initiated when material new information on a borrower or counterparty comes to light.

For the purpose of determining the PD rating, default is defined as any one of the following:

- The borrower or counterparty is 90 days or more overdue on a scheduled credit obligation to the Group; and/or
- Regardless of the days past-due, the borrower or counterparty is unlikely to repay their credit obligation to the Group in full, without the Group taking action such as realising available security.

Material deviations from the reference default definition are not permitted.

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Probability of Default (continued)

The Group's mapping of internal rating scales for risk-rated exposures to external rating agencies is detailed in Table 9b.

(ii) Retail Managed Segment

This segment has sub-segments covering housing loan, credit card, personal loan facilities, and personal overdrafts. It also includes most non-retail lending where the aggregated credit exposure to a group of related borrowers or counterparties is less than \$1.5 million.

The Group has been using scorecards to "auto-decision" loan applications for over twenty years in its consumer retail divisions and more recently for SME retail applications. These are auto-decided for the approval of credit using a scorecard approach whereby the performance of historical applications is supplemented by information from a credit reference bureau and/or from the Group's existing knowledge of a borrower or counterparty's behaviour. Loan applications that do not meet scorecard auto-decisioning requirements may be referred to a Personal Credit Approval Authority for manual decisioning.

Borrowers or counterparties with similar risk characteristics, products and subject to the same origination process are allocated the same PD.

Portfolios in the Retail Managed Segment are managed using behavioural scoring systems and a delinquency band approach (e.g. actions taken when loan payments are greater than 30 days past due differ from actions when payments are greater than 60 days past due) and are reviewed by the relevant Risk Management team.

Financial assets in the retail segment are classified as secured or unsecured. Unsecured facilities (e.g. credit cards) are considered impaired at 90 days past due and are generally written off once they reach 180 days past due (unless arrangements have been made between the borrower and the Group).

Secured facilities (e.g. home loans) are classified as non-performing when a facility is 90 days past due and it is not well secured, the facility has been formally restructured; or judgement is made that there is reasonable evidence that the customer is unable to meet contractual obligations and it is not well secured.

Common PD, EAD and LGD methodologies are followed in constructing the internal ratings process for residential mortgages, qualifying revolving retail exposures and other retail advances with the default definition applied when payment on a facility is 90 days or more past due, or there are indications of unlikelihood to pay (e.g. a write-off amount exists against the facility).

Loss Given Default

LGDs are derived using data from accounts that were in default during any given month within the modelling observation period.

LGD is estimated as the net present value of the post default loss, including an allowance for internal and external costs, expressed as a percentage of the EAD.

Amounts recovered and the associated costs of recovery after the point of default are discounted using an appropriate discount rate inclusive of a risk premium.

LGD is impacted by:

- The level of security cover and the type of collateral held;
- Liquidity and volatility of collateral value;
- Carrying costs (effectively the costs of providing a facility that is not generating an interest return); and
- Realisation costs.

For calculating regulatory capital an estimated downturn LGD is used that reflects likely recovery rates under stressed economic conditions.

It is recognised that some accounts will cure after entering default. Cure rates are an important aspect of estimating a downturn LGD that is consistent with economic recession conditions.

For large corporate, corporate, SME corporate and SME retail borrowers or counterparties, where collateral is provided as security, an LGD rating is applied based on the security cover ratio, after taking into consideration the security lending margins applied to various security asset types. The LGD rating provides an estimate of the likely loss in the event of default, based on past experience. Secured commercial exposures receive an LGD rating of A-F. By way of examples:

- An LGD rating of A is applied only to very well secured exposures where the security cover ratio exceeds 140%;
- An LGD rating of C reflects a security cover ratio of 100%; and
- An LGD rating of F applies where the security cover is greater than 0% and less than 40%.

For retail exposures, accounts are segmented into homogeneous LGD pools based on product/loan type, secured/unsecured status, Current Loan to Value ratio, and other relevant attributes.

The Group has policies, standards and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be taken, including valuation parameters, review frequency and independence of valuation.

Collateral types are discussed in further detail in section 8.5 "Credit Risk Mitigation".

Exposure at Default

EAD is the estimate of the amount of a facility that will be outstanding in the event of default.

For defaulted facilities, it is the actual amount outstanding at the time of default.

For non-defaulted committed facilities, it is based on the actual amount outstanding, plus the undrawn amount multiplied by a credit conversion factor, which represents the potential rate of conversion from the undrawn amount 12 months prior to default, to the drawn amount at default. For committed non-retail facilities, the Group applies a supervisory credit conversion factor to the undrawn amount, ranging from 0% to 100%. EAD is not recognised for those exposures where the APRA definition of a commitment is not met.

For revolving retail exposures, a modelling approach is used based on factors including limit usage, arrears and loan type to segment accounts into homogeneous pools for the calculation.

Expected Loss

Regulatory EL is calculated on non-defaulted IRB, AIRB and FIRB exposures using long-run PDs and downturn LGDs. For defaulted IRB and AIRB exposures the Best Estimate of Expected Loss (BEEL) is used. For defaulted FIRB exposures regulatory EL is calculated as the downturn LGD rate multiplied by the exposure as required by APS 113. The supervisory slotting approach, calculated as the product of EAD and a prescribed factor, is used to determine regulatory EL for specialised lending exposures. A 50% factor is applied for defaulted specialised lending exposures. Regulatory EL is not required to be calculated on standardised portfolios.

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Unexpected Loss

The UL for each portfolio segment is calculated based on a given level of confidence that the magnitude of the UL will not be exceeded with a known probability. UL represents the difference between EL and the point on the loss distribution associated with the required level of probability that the loss is not to exceed. The Group holds capital to cover the UL. UL is calculated based on the Basel III Framework using a 99.9% probability that UL will not be exceeded.

Uses of Internal Estimates of Credit Risk Components other than for Regulatory Capital Purposes

There are additional business uses for PDs, LGDs and EADs that might include:

- Management of credit risk concentrations - through the Large Credit Exposure, Industry Sector Concentration and Country Risk Exposure policies;
- Loan origination and credit quality control - through the generation and monitoring of credit risk ratings;
- Calculation of some accounting collective provisions;

- Capital budgeting - through modelling of business plans under expected and stressed scenarios; and
- Aligning risk culture to the Group's risk appetite - through its internal risk-based-pricing performance framework ensuring the Group generates appropriate economic returns through its risk-pricing framework at both:
 - a transactional level where long-run EL is factored into interest margins and fees; and
 - a portfolio level via Profit After Capital Charge and Return on Target Equity frameworks.

Credit Risk Ratings System

The Credit Risk Rating (CRR) is assigned by reference to a matrix that maps the PD and long-run LGD to a number commensurate with EL.

The Group uses its credit risk estimates to price transactions, measure performance and help determine the amount of capital required to support business activities.

The Group's credit risk estimates are subject to annual review in accordance with approved model policies and standards to ensure independent validation and testing of assigned risk estimates.

Table 9b – Internal ratings structure for credit risk exposures and mapping to external ratings

Description	Internal Rating	Probability of Default	S&P Rating	Moody's Rating
Exceptional	A0 to A3	0% - 0.035%	AAA to AA-	Aaa to Aa3
Very Strong/Strong	B1 to C3	>0.035% - 0.446%	A+ to BBB-	A1 to Baa3
Good/Satisfactory	D1 to E3	>0.446% - 6.656%	BB+ to B	Ba1 to B2
Weak/Doubtful	F1 to G3	>6.656%	B- to CC	B3 to Ca
Restructured	R	100% ¹	-	-
Defaulted	H	100%	D	C

¹ From January 2023 onwards.

Table 9c – PD rating methodology by portfolio segment

Portfolio Segment	PD Rating Methodology
Sovereign exposures	Expert judgement assigned risk rating, informed but not driven by rating agency views.
Financial Institution exposures (including Banks)	PD Rating Calculator or expert judgement assigned risk rating.
Corporate exposures (including property, agri-business)	Combination of expert judgement and PD Rating Model assigned risk ratings depending on the industry sector.
SME corporate exposures	PD Rating Model and expert judgement assigned risk rating.
SME retail exposures	SME behaviour score assigned PD pools.
Consumer retail exposures (including residential mortgages, qualifying revolving credit and other retail)	Depending on the product, PD pools are assigned using product specific application scorecards, behavioural scorecards, payment status or a combination thereof.

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Credit Risk Exposure Subject to IRB Approaches

Table 9d (i) – Non-retail exposures by portfolio type and PD band

	30 June 2023 Revised Framework ¹							Total \$M
	0 < 0.03% \$M	0.03% < 0.15% \$M	0.15% < 0.5% \$M	PD Band		10% < 100% \$M	Default \$M	
				0.5% < 3% \$M	3% < 10% \$M			
Non-retail ²								
Total credit risk exposures								
Corporate (incl. Large and SME corporate)	–	20,624	53,113	112,891	5,696	2,144	1,847	196,315
Sovereign	180,686	16,740	278	3	–	–	–	197,707
Financial institution	–	38,143	3,962	515	9	1	2	42,632
Total IRB approach	180,686	75,507	57,353	113,409	5,705	2,145	1,849	436,654
RBNZ regulated entities	–	1,610	6,558	18,945	734	310	296	28,453
Total credit risk exposures	180,686	77,117	63,911	132,354	6,439	2,455	2,145	465,107
Undrawn commitments ³								
Corporate (incl. Large and SME corporate)	–	4,546	11,296	14,115	402	218	102	30,679
Sovereign	334	200	26	2	–	–	–	562
Financial institution	–	5,937	1,231	124	1	–	1	7,294
Total IRB approach	334	10,683	12,553	14,241	403	218	103	38,535
RBNZ regulated entities	–	331	1,465	1,714	42	24	25	3,601
Total undrawn commitments	334	11,014	14,018	15,955	445	242	128	42,136
Exposure - average EAD (\$M)								
Corporate (incl. Large and SME corporate)	–	2,079	1,455	0,869	0,723	0,480	0,496	1,021
Sovereign	12,860	18,684	0,599	0,148	–	–	–	12,806
Financial institution	–	2,210	1,865	0,652	0,267	0,072	0,107	2,107
RBNZ regulated entities	–	6,793	0,961	0,588	0,394	0,570	0,615	0,674
Exposure - weighted average LGD (%)								
Corporate (incl. Large and SME corporate)	–	39.2	32.9	25.4	22.8	27.5	33.3	28.9
Sovereign	4.8	21.9	36.3	45.7	–	–	–	6.3
Financial institution	–	49.1	49.5	28.5	64.0	75.0	31.3	48.9
RBNZ regulated entities	–	58.6	33.5	27.6	30.4	31.5	45.0	31.0
Exposure - weighted average risk weight (%) ⁴								
Corporate (incl. Large and SME corporate)	–	25.0	41.7	57.2	84.9	157.8	140.0	52.3
Sovereign	0.9	3.2	33.1	72.8	–	–	–	1.1
Financial institution	–	21.8	53.2	76.3	283.0	479.4	–	25.5
RBNZ regulated entities	–	29.6	37.6	53.7	111.1	176.6	388.1	54.9

¹ Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

² Total credit risk exposures do not include specialised lending, equity or securitisation exposures.

³ The credit exposure value of undrawn commitments included in Total credit risk exposures above.

⁴ Includes 1.10 scaling factor.

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Table 9d (i) – Non-retail exposures by portfolio type and PD band (continued)

	31 December 2022							Total \$M
	0 < 0.03% \$M	0.03% < 0.15% \$M	0.15% < 0.5% \$M	PD Band			Default \$M	
Non-retail ¹				0.5% < 3% \$M	3% < 10% \$M	10% < 100% \$M		
Total credit risk exposures								
Corporate (incl. SME corporate)	–	49,906	56,005	94,668	2,928	1,917	1,593	207,017
SME retail ²	–	–	1,521	10,521	2,952	483	243	15,720
Sovereign	202,419	17,515	582	12	–	–	–	220,528
Bank	–	17,763	372	8	–	–	–	18,143
Total	202,419	85,184	58,480	105,209	5,880	2,400	1,836	461,408
Undrawn commitments ³								
Corporate (incl. SME corporate)	–	17,888	21,708	20,799	565	274	127	61,361
SME retail ²	–	–	1,393	2,945	657	85	14	5,094
Sovereign	839	358	59	7	–	–	–	1,263
Bank	–	607	65	–	–	–	–	672
Total	839	18,853	23,225	23,751	1,222	359	141	68,390
Exposure - average EAD (\$M)								
Corporate (incl. SME corporate)	–	2,940	1,288	0.604	0.336	0.465	0.424	0.885
SME retail ²	–	–	0.089	0.068	0.045	0.089	0.068	0.064
Sovereign	14.402	20.606	1.316	0.322	–	–	–	14.327
Bank	–	1.508	0.434	0.472	–	–	–	1.432
Exposure - weighted average LGD (%)								
Corporate (incl. SME corporate)	–	55.5	42.9	30.3	31.0	33.1	35.3	39.9
SME retail ²	–	–	38.1	33.4	43.6	29.8	33.7	35.7
Sovereign	5.3	11.4	47.3	48.5	60.0	–	–	5.9
Bank	–	58.8	59.8	60.0	–	–	–	58.8
Exposure - weighted average risk weight (%) ⁴								
Corporate (incl. SME corporate)	–	26.9	48.9	59.4	93.8	169.2	165.3	51.3
SME retail ²	–	–	23.2	45.1	84.0	103.8	217.2	54.7
Sovereign	0.8	2.4	41.0	74.7	212.5	–	–	1.0
Bank	–	17.0	49.5	63.8	–	–	–	17.7

1 Total credit risk exposures do not include specialised lending, equity or securitisation exposures.

2 Including SME retail secured by residential property.

3 The credit exposure value of undrawn commitments included in Total credit risk exposures above.

4 Includes 1.06 scaling factor.

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Table 9d (i) – Non-retail exposures by portfolio type and PD band (continued)

	30 June 2022							Total \$M
	0 < 0.03% \$M	0.03% < 0.15% \$M	0.15% < 0.5% \$M	PD Band			Default \$M	
Non-retail ¹				0.5% < 3% \$M	3% < 10% \$M	10% < 100% \$M		
Total credit risk exposures								
Corporate (incl. SME corporate)	–	48,704	51,051	89,970	2,918	1,882	1,733	196,258
SME retail ²	–	–	1,492	10,452	2,982	475	264	15,665
Sovereign	199,543	16,623	455	31	–	–	–	216,652
Bank	–	19,860	511	12	–	–	–	20,383
Total	199,543	85,187	53,509	100,465	5,900	2,357	1,997	448,958
Undrawn commitments ³								
Corporate (incl. SME corporate)	–	16,242	18,942	20,040	477	219	130	56,050
SME retail ²	–	–	1,328	2,832	654	81	14	4,909
Sovereign	733	321	56	6	–	–	–	1,116
Bank	–	393	45	–	–	–	–	438
Total	733	16,956	20,371	22,878	1,131	300	144	62,513
Exposure - average EAD (\$M)								
Corporate (incl. SME corporate)	–	2.899	1.282	0.581	0.372	0.468	0.464	0.864
SME retail ²	–	–	0.086	0.067	0.045	0.086	0.076	0.063
Sovereign	14.053	17.279	0.993	0.768	–	–	–	13.828
Bank	–	1.688	0.390	0.224	–	–	–	1.552
Exposure - weighted average LGD (%)								
Corporate (incl. SME corporate)	–	55.8	44.1	30.8	30.8	32.7	35.7	40.5
SME retail ²	–	–	37.3	32.5	43.3	30.4	31.5	34.9
Sovereign	5.3	13.2	45.4	59.2	60.0	–	–	6.0
Bank	–	58.9	59.9	60.0	–	–	–	58.9
Exposure - weighted average risk weight (%) ⁴								
Corporate (incl. SME corporate)	–	26.1	49.5	59.5	91.1	165.7	114.4	50.6
SME retail ²	–	–	22.7	43.8	84.5	107.3	216.4	54.4
Sovereign	0.8	3.2	36.3	74.2	218.0	–	–	1.0
Bank	–	19.5	62.3	89.1	–	–	–	20.6

¹ Total credit risk exposures do not include specialised lending, equity or securitisation exposures.

² Including SME retail secured by residential property.

³ The credit exposure value of undrawn commitments included in Total credit risk exposures above.

⁴ Includes 1.06 scaling factor.

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Table 9d (ii) – Retail exposures by portfolio type and PD band

Retail	30 June 2023 Revised Framework ¹							Total \$M
	0 < 0.1% \$M	0.1% < 0.3% \$M	0.3% < 0.5% \$M	0.5% < 3% \$M	3% < 10% \$M	10% < 100% \$M	Default \$M	
Total credit risk exposures								
SME retail	–	1,362	2,331	9,823	3,838	1,214	238	18,806
Residential mortgage	163,460	174,872	87,296	175,214	30,200	966	3,749	635,757
Qualifying revolving retail	–	14,628	3,185	4,076	1,343	234	65	23,531
Other retail	59	152	147	3,509	3,071	595	83	7,616
Total IRB approach	163,519	191,014	92,959	192,622	38,452	3,009	4,135	685,710
RBNZ regulated entities	–	11,261	17,273	47,339	788	–	1,177	77,838
Total credit risk exposures	163,519	202,275	110,232	239,961	39,240	3,009	5,312	763,548
Undrawn commitments ²								
SME retail	–	1,159	1,369	2,580	652	114	17	5,891
Residential mortgage	38,441	22,813	6,472	4,222	110	3	13	72,074
Qualifying revolving retail	–	11,241	2,259	1,635	243	34	3	15,415
Other retail	44	16	43	1,173	85	74	1	1,436
Total IRB approach	38,485	35,229	10,143	9,610	1,090	225	34	94,816
RBNZ regulated entities	–	3,928	1,780	2,781	94	–	10	8,593
Total undrawn commitments	38,485	39,157	11,923	12,391	1,184	225	44	103,409
Exposure - average EAD (\$M)								
SME retail	–	0.047	0.074	0.070	0.139	0.127	0.064	0.078
Residential mortgage	0.335	0.329	0.335	0.335	0.300	0.296	0.317	0.331
Qualifying revolving retail	–	0.009	0.007	0.008	0.007	0.004	0.006	0.008
Other retail	0.005	0.542	0.016	0.007	0.013	0.002	0.003	0.007
RBNZ regulated entities	–	0.121	0.146	0.177	0.005	–	0.107	0.120
Exposure - weighted average LGD (%)								
SME retail	–	42.1	33.8	37.8	30.5	32.8	36.9	35.8
Residential mortgage ⁴	13.9	15.0	16.0	16.7	17.6	16.3	20.7	15.5
Qualifying revolving retail	–	84.8	84.2	84.4	84.3	84.3	84.6	84.6
Other retail	98.8	94.7	100.2	69.7	81.7	89.2	86.4	77.6
RBNZ regulated entities	–	16.9	18.3	21.5	34.0	–	22.1	20.2
Exposure - weighted average risk weight (%) ³								
SME retail	–	15.7	23.9	51.0	65.7	102.8	269.8	54.2
Residential mortgage	6.2	9.1	16.8	39.8	92.8	140.2	213.0	23.2
Qualifying revolving retail	–	5.7	14.2	45.4	132.9	213.8	240.7	23.7
Other retail	24.8	35.7	62.6	87.3	131.5	189.0	197.7	112.3
RBNZ regulated entities	–	7.1	16.3	36.6	102.2	–	203.0	31.0

¹ Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

² The credit exposure value of undrawn commitments included in Total credit risk exposures above.

³ Includes 1.10 scaling factor.

⁴ Excludes a \$7.4 billion RWA overlay that has been applied at 30 June 2023 for regulatory capital purposes.

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Table 9d (ii) – Retail exposures by portfolio type and PD band (continued)

Retail	31 December 2022							Total \$M
	0 < 0.1% \$M	0.1% < 0.3% \$M	0.3% < 0.5% \$M	PD Band		10% < 100% \$M	Default \$M	
				0.5% < 3% \$M	3% < 10% \$M			
Total credit risk exposures								
Residential mortgage	159,706	184,976	104,146	219,018	30,617	1,022	4,434	703,919
Qualifying revolving retail	199	14,594	3,176	3,938	1,308	166	51	23,432
Other retail	64	536	409	4,421	3,102	519	74	9,125
Total	159,969	200,106	107,731	227,377	35,027	1,707	4,559	736,476
Undrawn commitments ¹								
Residential mortgage	44,978	18,470	8,844	9,810	117	19	17	82,255
Qualifying revolving retail	162	11,009	2,268	1,558	221	25	3	15,246
Other retail	49	299	235	1,689	176	73	2	2,523
Total	45,189	29,778	11,347	13,057	514	117	22	100,024
Exposure - average EAD (\$M)								
Residential mortgage	0.326	0.297	0.285	0.270	0.289	0.301	0.265	0.292
Qualifying revolving retail	0.004	0.009	0.007	0.008	0.007	0.007	0.005	0.008
Other retail	0.006	0.005	0.005	0.005	0.008	0.002	0.003	0.005
Exposure - weighted average LGD (%)								
Residential mortgage	20.0	19.7	19.5	20.1	20.1	20.0	20.3	19.9
Qualifying revolving retail	81.0	84.9	84.2	84.4	84.3	84.0	84.5	84.6
Other retail	80.8	75.2	76.6	73.0	81.1	89.6	83.9	77.1
Exposure - weighted average risk weight (%) ²								
Residential mortgage	5.2	10.7	18.6	40.1	88.2	143.3	183.3	24.4
Qualifying revolving retail	4.8	5.5	13.7	43.7	128.6	210.2	89.6	21.6
Other retail	19.4	38.1	54.0	85.5	125.6	181.7	155.8	100.5

¹ The credit exposure value of undrawn commitments included in Total credit risk exposures above.

² Includes 1.06 scaling factor.

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Table 9d (ii) – Retail exposures by portfolio type and PD band (continued)

Retail	30 June 2022							Total \$M
	0 < 0.1% \$M	0.1% < 0.3% \$M	0.3% < 0.5% \$M	PD Band			Default \$M	
				0.5% < 3% \$M	3% < 10% \$M	10% < 100% \$M		
Total credit risk exposures								
Residential mortgage	189,935	139,076	85,000	253,549	9,027	4,640	4,695	685,922
Qualifying revolving retail	196	14,539	3,217	3,909	1,312	169	51	23,393
Other retail	63	504	366	4,307	3,027	465	80	8,812
Total	190,194	154,119	88,583	261,765	13,366	5,274	4,826	718,127
Undrawn commitments ¹								
Residential mortgage	43,803	18,042	9,005	10,402	128	17	16	81,413
Qualifying revolving retail	161	11,285	2,348	1,548	216	26	1	15,585
Other retail	50	292	224	1,730	188	72	4	2,560
Total	44,014	29,619	11,577	13,680	532	115	21	99,558
Exposure - average EAD (\$M)								
Residential mortgage	0.276	0.298	0.276	0.285	0.275	0.282	0.260	0.283
Qualifying revolving retail	0.004	0.009	0.007	0.008	0.007	0.007	0.006	0.008
Other retail	0.005	0.005	0.004	0.005	0.008	0.001	0.003	0.005
Exposure - weighted average LGD (%)								
Residential mortgage	20.0	19.6	19.5	20.1	20.2	20.0	20.3	19.9
Qualifying revolving retail	81.0	84.9	84.2	84.5	84.3	84.0	84.5	84.6
Other retail	78.6	74.6	77.1	73.4	81.1	90.5	83.3	77.3
Exposure - weighted average risk weight (%) ²								
Residential mortgage	4.4	12.4	21.3	40.9	103.9	141.8	177.9	25.0
Qualifying revolving retail	4.8	5.5	13.7	43.9	128.9	211.8	6.5	21.5
Other retail	19.6	37.8	54.3	85.9	125.6	184.6	68.4	100.0

¹ The credit exposure value of undrawn commitments included in Total credit risk exposures above.

² Includes 1.06 scaling factor.

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Analysis of Losses

The following tables provide a summary of financial losses by portfolio (Table 9e) and a comparison of financial losses to regulatory Expected Loss (EL) estimates (Table 9f (i)). Actual losses may differ from modelled regulatory EL for a number of reasons.

Actual losses (whether from standardised or internal ratings-based portfolios) are historical and are based on the quality of non-performing assets in prior periods, full or partial write-offs, and more recent economic conditions. Actual losses are expected to be below the regulatory EL estimate in most years. Regulatory EL measures economic loss at a point in time and includes costs (such as internal costs) not included in actual losses.

Regulatory EL is calculated on non-defaulted IRB, AIRB and FIRB exposures using long-run PDs and downturn LGDs. For defaulted IRB and AIRB exposures the Best Estimate of Expected Loss (BEEL) is used. For defaulted FIRB exposures regulatory EL is calculated as the downturn LGD rate multiplied by the exposure as required by APS 113. The supervisory slotting approach, calculated as the product of EAD and a prescribed factor, is used to determine regulatory EL for specialised lending exposures. A 50% factor is applied for defaulted specialised lending exposures. Regulatory EL is not required to be calculated on standardised portfolios.

Table 9e – Actual losses by portfolio type

Portfolio Type	30 June 2023		
	Full year losses in the reporting period		
	Gross write-offs	Recoveries	Actual losses
	\$M	\$M	\$M
Corporate (incl. SME corporate)	262	(2)	260
Specialised lending	7	(1)	6
Total corporate	269	(3)	266
Sovereign	–	–	–
Financial institution	–	–	–
SME retail	32	(1)	31
Residential mortgage	29	(3)	26
Qualifying revolving retail	133	(46)	87
Other retail	172	(42)	130
Total IRB and specialised lending portfolios	635	(95)	540
Non-retail	6	(2)	4
Retail	11	(4)	7
Total RBNZ regulated entities	17	(6)	11

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Table 9e – Actual losses by portfolio type (continued)

Portfolio Type	31 December 2022		
	Half year losses in the reporting period		
	Gross write-offs \$M	Recoveries \$M	Actual losses \$M
Corporate (incl. SME corporate)	202	(3)	199
SME retail	11	–	11
Specialised lending	41	–	41
Total corporate including SME and specialised lending	254	(3)	251
Sovereign	–	–	–
Bank	–	–	–
Residential mortgage	17	(2)	15
Qualifying revolving retail	61	(26)	35
Other retail	77	(30)	47
Total AIRB and specialised lending portfolios	409	(61)	348

Portfolio Type	30 June 2022		
	Full year losses in the reporting period		
	Gross write-offs \$M	Recoveries \$M	Actual losses \$M
Corporate (incl. SME corporate)	209	(7)	202
SME retail	31	(1)	30
Specialised lending	51	–	51
Total corporate including SME and specialised lending	291	(8)	283
Sovereign	–	–	–
Bank	–	–	–
Residential mortgage	41	(3)	38
Qualifying revolving retail	133	(53)	80
Other retail	168	(54)	114
Total AIRB and specialised lending portfolios	633	(118)	515

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Table 9f (i) – Historical loss analysis by portfolio type

30 June 2023		
Portfolio Type	Full year actual loss	Regulatory one year expected loss estimate
	\$M	\$M
Corporate (incl. SME corporate)	260	1,201
Specialised lending	6	111
Total corporate	266	1,312
Sovereign	–	3
Financial institution	–	18
SME retail	31	240
Residential mortgage	26	983
Qualifying revolving retail	87	275
Other retail	130	347
Total IRB and specialised lending portfolios	540	3,178
Non-retail	4	201
Other retail	7	251
Total RBNZ regulated entities	11	452

31 December 2022		
Portfolio Type	Half year actual loss	Regulatory one year expected loss estimate
	\$M	\$M
Corporate (incl. SME corporate)	199	1,114
SME retail	11	207
Specialised lending	41	1,089
Total corporate including SME and specialised lending	251	2,410
Sovereign	–	3
Bank	–	4
Residential mortgage	15	1,496
Qualifying revolving retail	35	237
Other retail	47	331
Total AIRB and specialised lending portfolios	348	4,481

30 June 2022		
Portfolio Type	Full year actual loss	Regulatory one year expected loss estimate
	\$M	\$M
Corporate (incl. SME corporate)	202	1,246
SME retail	30	200
Specialised lending	51	865
Total corporate including SME and specialised lending	283	2,311
Sovereign	–	3
Bank	–	5
Residential mortgage	38	1,542
Qualifying revolving retail	80	249
Other retail	114	336
Total AIRB and specialised lending portfolios	515	4,446

Credit Risk (continued)

8.4 Portfolios Subject to Internal Ratings-based Approaches (continued)

Accuracy of Risk Estimates

The following tables compare credit risk estimates used in calculating regulatory capital to realised outcomes. The risk estimates are based on prudential requirements prior to the revised capital framework. The prudential standard changes have introduced a number of new asset classes which will be captured from 1 July 2023.

Probability of Default

Table 9f (ii) compares estimates of long-run PD to actual default rates averaged over the period from 2016.

Average estimated PD is based on the average of long-run PDs for borrowers that are not in default at the beginning of each financial year in the observation period. Actual PD is based on the number of defaulted borrowers during the year compared to the non-defaulted borrowers measured at the beginning of each financial year.

Table 9f (ii) – Accuracy of risk estimates – PD

Portfolio Type	30 June 2023	
	Average estimated PD	Average actual PD
	%	%
Corporate (incl. SME corporate) ¹	2.19	2.16
Specialised lending ²	n/a	1.71
Sovereign	0.50	–
Bank	0.35	–
SME retail	2.10	1.59
Residential mortgage ¹	0.71	0.55
Qualifying revolving retail ¹	1.61	1.52
Other retail ¹	6.44	6.26
RBNZ regulated entities:		
Non-retail	1.64	0.84
Retail	1.64	1.12

¹ Historical data was restated in June 2023 for the financial period 2016-2022 to reflect an enhancement in data and methodology.

² Average estimated PD not relevant for specialised lending under the Supervisory Slotting approach.

Loss Given Default and Exposure at Default

LGDs for non-retail portfolios are based on accounts that defaulted in 2016 to 2021 financial years. LGDs for retail portfolios are based on accounts that defaulted in 2016 to 2022 financial years. Defaults occurring in the most recent years have been excluded from the analysis, to allow sufficient time for workout of impaired assets, booking of losses and more meaningful disclosures.

The EAD ratio compares estimates of EAD prior to default to realised EAD for borrowers that defaulted.

Table 9f (iii) – Accuracy of risk estimates – LGD and EAD

Portfolio Type	30 June 2023		
	Average estimated downturn LGD	Average actual LGD	Ratio of estimated EAD to actual EAD
	%	%	
Corporate (incl. SME corporate)	43.6	22.7	1.2
Specialised lending ¹	n/a	12.9	1.1
Sovereign	–	–	–
Bank	–	–	–
SME retail	34.9	18.1	1.1
Residential mortgage ^{2 3}	20.0	3.0	1.0
Qualifying revolving retail ³	86.3	67.0	1.2
Other retail ³	94.9	71.6	1.1
RBNZ regulated entities:			
Non-retail	35.9	16.6	1.1
Retail	22.8	6.0	1.0

¹ Average estimated LGD not relevant for specialised lending under the Supervisory Slotting approach.

² Estimated downturn LGD based on minimum regulatory floor requirements imposed by APRA and RBNZ.

³ Historical data was restated in June 2023 for the financial period 2016-2022 to reflect an enhancement in data and methodology.

Credit Risk (continued)

8.5 Credit Risk Mitigation

Collateral

The Group has policies, standards and procedures in place, setting out the acceptable collateral for mitigating credit risk. These include valuation parameters, review frequency and independence of valuation. The Chief Credit Officer (or delegate) is responsible for approving acceptable collateral types.

The collateral type, value, liquidity, realisation costs, security lending margin and loss experience are key determinants of the LGD percentage that is assigned to a credit risk exposure. Collateral held for any credit facility is valued, recorded and controlled in the manner explained below.

Real Estate Collateral

Real estate collateral values can only be used for reducing LGD estimates where the following criteria are met:

- Objective market value of collateral - the collateral must be valued by an independent valuer (or via a valuation approach approved by the BU Chief Risk Officer or delegate), at no more than the current fair value under which the property could be sold via a private contract, between a willing seller and an arm's length buyer, on the date of valuation;
- Revaluation - the Group monitors the value of collateral and updates the value, when appropriate, so that the value is current;
- Insurance - steps are taken to ensure that property taken as collateral is adequately insured against damage or destruction at origination, with documentation requiring the borrower or counterparty to maintain adequate insurance over the life of the credit exposure;
- Prior claim - other parties may have senior claims to the Group on an asset offered for collateral. For example, council rates and land tax usually benefit from specific legal protection. The impact of such claims needs to be considered when assessing collateral values; and
- Environment - the risk of environmental liability arising in respect of the collateral must be appropriately assessed, monitored and where appropriate, reflected in the valuation of collateral.

Home loans are generally secured by mortgages over borrowers' residential properties. In limited circumstances, collateral in the form of cash or commercial property may be provided in addition to residential property. With the exception of some relatively small portfolios, for loans with a LVR of higher than 80% either a Low Deposit Premium or margin is levied, or Lender's Mortgage Insurance (LMI) is taken out to protect the Group by covering the difference between the principal amount plus interest owing and the net amount received from selling the collateral upon default.

Non-Real Estate Collateral

Non-real estate collateral values are only used for reducing LGD estimates where there is a sound process for determining the value of the collateral. Monitoring processes appropriate for the exposure and the collateral type are required to be in place. The main non-real estate collateral types include:

- Cash (usually in the form of a charge over a term deposit) and other liquid assets (e.g. bonds, shares, investment funds);
- Fixed or floating charges over a company's assets, including stock, debtors and work in progress; and
- A charge over assets being financed (e.g. vehicles, equipment).

Where financial collateral is highly correlated with the counterparty exposure that it is used to secure (wrong-way risk), policy specifies that no risk reduction can be taken for the collateral held.

Other Credit Risk Mitigation (including Credit Default Swaps and Guarantees)

The Group mitigates its credit exposure by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Counterparty credit risk is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

The Group mitigates its counterparty credit risk exposure from dealing in Markets type products through the use of Credit Support Annexes (CSAs) and clearing of eligible trades with Central Counterparties (CCPs). CSAs require the counterparty (or the Group) to post collateral when mark-to-market positions exceed agreed threshold and minimum transfer amounts.

Other forms of credit risk mitigation used to either reduce or transfer credit risk include purchasing credit derivatives (e.g. credit default swaps) and/or guarantees from highly rated banks or corporates. To be an eligible mitigant, the credit derivative or guarantee must be contractually binding, have legal certainty and be non-cancellable. Table 10b and 10c (page 57) discloses the Group's coverage of exposure by credit default swaps and guarantees.

Portfolio Management

The Group applies a Board approved Large Credit Exposure Policy (LCEP). This policy governs the authority of management with regard to the amount of credit provided to any single counterparty, or group of related counterparties (as determined by applying the Group Aggregation Standard).

The objective of the LCEP is to limit the risk of catastrophic loss to the Group through over-exposure to the failure of a single counterparty, or group of related counterparties. The LCEP is reviewed annually.

Usage of LCEP limits is determined at both individual counterparty and group of related counterparty levels. Limits are tiered by the counterparty type and the PD rating.

Management reports to the ELT FRC and the Board Risk and Compliance Committee four times a year, on:

- All single counterparties or groups of related counterparties with limits greater than, the LCEP limits, including those resulting from PD rating deterioration; and
- The 20 largest exposure groups of related counterparties on a Total Committed Exposure basis (i.e. committed limits plus drawn uncommitted limited limits).

All relevant borrower-specific credit submissions prominently display relative compliance with the LCEP limits.

Credit risk concentration limits are in place to ensure portfolio diversification and prevent over-concentration to industries or countries. Geographic dispersion monitoring within Australia and New Zealand is also conducted for some larger sub-portfolios. Periodic stress tests of major credit risk concentrations are conducted to identify potential changes in market conditions (such as changes in interest rates, droughts, etc.) that could adversely impact the credit portfolio's performance. Action is taken where necessary to reduce the volatility of losses.

Credit Risk (continued)

8.5 Credit Risk Mitigation (continued)

Table 10b and 10c – Credit risk mitigation

30 June 2023 Revised Framework ¹					
Portfolio Type	Total exposure ^{2 3} \$M	Eligible financial collateral \$M	Exposures covered by guarantees \$M	Exposures covered by credit derivatives \$M	Coverage %
Subject to AIRB approach ³					
Corporate (incl. SME corporate)	154,966	–	17	–	0.0
SME retail ⁴	18,806	–	–	–	–
Residential mortgage	635,757	–	–	–	–
Qualifying revolving retail	23,531	–	–	–	–
Other retail	7,616	–	–	–	–
Total AIRB approach	840,676	–	17	–	0.0
Subject to FIRB approach ³					
Corporate - large	41,349	–	85	–	0.2
Sovereign	197,707	–	141	–	0.1
Financial institution	42,632	–	45	–	0.1
Total FIRB approach	281,688	–	271	–	0.1
Specialised lending	4,641	–	–	–	–
Subject to standardised approach ³					
Corporate (incl. SME corporate)	559	–	–	–	–
SME retail	1,248	–	–	–	–
Sovereign	520	–	–	–	–
Residential mortgage	16,614	–	–	–	–
Other retail	604	–	–	–	–
Other assets	13,367	–	–	–	–
Central counterparties	2,616	–	–	–	–
Total standardised approach	35,528	–	–	–	–
RBNZ regulated entities	130,966	–	–	–	–
Total credit exposures	1,293,499	–	288	–	0.0

1 Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.

2 Credit derivatives that are treated as part of synthetic securitisation structures are excluded from credit risk mitigation disclosures and included within those relating to securitisation.

3 Exposure for derivatives and guarantees is after netting and financial collateral.

4 Including SME retail secured by residential property.

Credit Risk (continued)

8.5 Credit Risk Mitigation (continued)

Table 10b and 10c – Credit risk mitigation (continued)

31 December 2022					
Portfolio Type	Total exposure ¹ \$M	Eligible financial collateral \$M	Exposures covered by guarantees \$M	Exposures covered by credit derivatives \$M	Coverage %
Subject to AIRB approach ²					
Corporate (incl SME corporate)	207,017	–	263	–	0.1
SME retail ³	15,720	–	–	–	–
Sovereign	220,528	–	–	–	–
Bank	18,143	–	–	–	–
Residential mortgage	703,919	–	–	–	–
Qualifying revolving retail	23,432	–	–	–	–
Other retail	9,125	–	–	–	–
Total AIRB approach	1,197,884	–	263	–	0.0
Specialised lending	79,340	–	–	–	–
Subject to standardised approach					
Corporate (incl SME corporate)	863	–	–	–	–
SME retail	2,104	–	–	–	–
Sovereign	588	–	–	–	–
Bank	194	–	–	–	–
Residential mortgage	16,289	–	–	–	–
Other retail	1,143	–	–	–	–
Other assets	12,042	–	–	–	–
Central counterparties	3,685	–	–	–	–
Total standardised approach	36,908	–	–	–	–
Total credit exposures	1,314,132	–	263	–	0.0

1 Credit derivatives that are treated as part of synthetic securitisation structures are excluded from credit risk mitigation disclosures and included within those relating to securitisation.

2 Advanced approach: Exposure for derivatives and guarantees is after netting and financial collateral.

3 Including SME retail secured by residential property.

Credit Risk (continued)

8.5 Credit Risk Mitigation (continued)

Table 10b and 10c – Credit risk mitigation (continued)

	30 June 2022				
Portfolio Type	Total exposure ¹ \$M	Eligible financial collateral \$M	Exposures covered by guarantees \$M	Exposures covered by credit derivatives \$M	Coverage %
Subject to AIRB approach ²					
Corporate (incl SME corporate)	196,258	–	390	–	0.2
SME retail ³	15,665	–	–	–	–
Sovereign	216,652	–	–	–	–
Bank	20,383	–	–	–	–
Residential mortgage	685,922	–	–	–	–
Qualifying revolving retail	23,393	–	–	–	–
Other retail	8,812	–	–	–	–
Total AIRB approach	1,167,085	–	390	–	0.0
Specialised lending	76,937	–	–	–	–
Subject to standardised approach					
Corporate (incl SME corporate)	1,080	–	–	–	–
SME retail	2,163	–	–	–	–
Sovereign	641	–	–	–	–
Bank	223	–	–	–	–
Residential mortgage	15,302	–	–	–	–
Other retail	1,068	–	–	–	–
Other assets	15,463	–	–	–	–
Central counterparties	10,963	–	–	–	–
Total standardised approach	46,903	–	–	–	–
Total credit exposures	1,290,925	–	390	–	0.0

1 Credit derivatives that are treated as part of synthetic securitisation structures are excluded from credit risk mitigation disclosures and included within those relating to securitisation.

2 Advanced approach: Exposure for derivatives and guarantees is after netting and financial collateral.

3 Including SME retail secured by residential property.

Credit Risk (continued)

8.6 Counterparty Credit Risk

Counterparty Credit Risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or a portfolio of transactions with the counterparty has a positive economic value for the Group at the time of default. Unlike an exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, CCR creates a bilateral risk of loss whereby the market value for many different types of transactions can be positive or negative to either counterparty. The market value is uncertain and can vary over time with the movement of underlying market factors.

Capital is allocated to CCR exposures after taking into account the risk-rating and expected exposure to the counterparty, and correlations and diversification impacts across risk types.

CCR is controlled through a variety of credit policies, standards and procedures covering the following topics:

- Large credit exposures;
- Country risk exposures;
- Netting;
- Collateralisation of CCR transactions;
- Central counterparties;
- Wrong-way risk;
- Historical rate rollovers; and
- Specific products.

Wrong-way risk is a risk associated with CCR. There are two types of wrong-way risk, general and specific. General wrong-way risk arises when the PD of counterparties is positively correlated with general market risk factors. Specific wrong-way risk arises when the exposure to a particular counterparty and the PD of the counterparty are highly correlated.

Specific wrong-way risk is managed by not entering into transactions where it exists and by not recognising any risk reduction from credit risk mitigation provided by highly

correlated counterparties. General wrong-way risk is monitored through the Group's stress testing activities.

CSAs are used with some large corporates and most bank and non-bank financial institution counterparties to collateralise CCR for Markets products. The use of CSAs is governed by the credit policies and standards covering netting and collateralisation of CCR transactions. CSAs lower the risk that arises from market movements by requiring the counterparty (or the Group) to post collateral to cover mark-to-market values that might be owed upon a counterparty default.

Aggregate threshold and minimum transfer amounts are the amounts by which the counterparty (or the Group) can be out of the money before they may be obliged to post collateral. In approximately 7.5% of ISDA Master Agreements and CSAs these amounts vary depending on the counterparty's long term debt rating. In the remaining agreements the amounts are fixed.

Risk Managers provide sign-off on terms of the CSA prior to the documentation being executed. Upon execution of a CSA with a counterparty, all relevant threshold levels are input into the collateral management system.

Collateral stress testing is used to determine the effect that a rating downgrade would have on the Group's collateral obligation to its counterparties.

As at 30 June 2023, the maximum additional collateral that could be posted to other counterparties based on the Group's current rating is \$113 million. As at 30 June 2023, a unilateral one-notch and two-notch downgrade in the Group's rating would have resulted in a further \$63 million and \$240 million of collateral being posted to other counterparties respectively. Collateral stress tests are also conducted on the Group's counterparties so that it can monitor for likely collateral stresses in the event of a counterparty downgrade.

Table 11b (i) Counterparty credit risk derivative exposure under the SA-CCR method ¹

	30 Jun 23 \$M	31 Dec 22 \$M	30 Jun 22 \$M
Gross positive fair value	24,040	29,782	35,378
Netting and collateral benefits	(17,597)	(23,118)	(27,267)
Including collateral held of which:			
Cash	(6,309)	(5,384)	(6,577)
Replacement cost	6,443	6,664	8,111
Potential future exposure	9,910	8,740	9,378
Impact of scaling factor of 1.4 and incurred CVA	6,479	6,086	6,910
Exposure at Default	22,832	21,490	24,399

¹ Excluding exposures to CCPs, clearers and derivative exposures classified under Securitisation (for APS 120).

Credit Risk (continued)

8.6 Counterparty Credit Risk (continued)

Table 11b (ii) Counterparty credit risk derivative exposure ¹

Exposure type	Current Credit Exposure		
	30 Jun 23 \$M	31 Dec 22 \$M	30 Jun 22 \$M
Interest rate contracts	2,517	2,967	2,739
Foreign currency contracts	20,249	25,695	31,279
Equity contracts	–	–	–
Credit derivatives	3	4	2
Commodities and other	1,271	1,116	1,358
Total	24,040	29,782	35,378

¹ Excluding exposures to CCPs, clearers and derivative exposures classified under Securitisation (for APS 120). Exposure types based on product.

Table 11c Counterparty credit risk derivative transactions

Notional value by product type as at 30 June 2023 ¹	Own Credit Portfolio		Intermediation Activity	
	Protection buyer	Protection seller	Protection buyer	Protection seller
	\$M	\$M	\$M	\$M
Credit default swaps	1,875	–	935	765
Total return swaps	–	–	–	–
Credit options	–	–	–	–
Other	–	–	–	–
Total	1,875	–	935	765

¹ CCP exposures have been netted against each other where offsetting per CDS index.

Notional value by product type as at 31 December 2022 ¹	Own Credit Portfolio		Intermediation Activity	
	Protection buyer	Protection seller	Protection buyer	Protection seller
	\$M	\$M	\$M	\$M
Credit default swaps	1,962	–	661	611
Total return swaps	–	–	–	–
Credit options	–	–	–	–
Other	–	–	–	–
Total	1,962	–	661	611

¹ CCP exposures have been netted against each other where offsetting per CDS index. Comparative information has been restated to conform to presentation in current period.

Notional value by product type as at 30 June 2022 ¹	Own Credit Portfolio		Intermediation Activity	
	Protection buyer	Protection seller	Protection buyer	Protection seller
	\$M	\$M	\$M	\$M
Credit default swaps	1,901	–	756	656
Total return swaps	–	–	–	–
Credit options	–	–	–	–
Other	–	–	–	–
Total	1,901	–	756	656

¹ CCP exposures have been netted against each other where offsetting per CDS index. Comparative information has been restated to conform to presentation in current period.

Credit Risk (continued)

8.7 Securitisation

Securitisation is a financing structure where the cash flow from a pool of assets is used to service obligations to at least two different tranches or classes of creditors (typically holders of debt securities), with each class or tranche reflecting a different degree of credit risk (i.e. one class of creditor is entitled to receive payments from the pool before another class of creditors).

Securitisations may be categorised as either:

- Traditional securitisation - a securitisation where the pool is transferred (or assigned) to, and held by, or otherwise held directly in its name by, a Special Purpose Vehicle (SPV); or
- Synthetic securitisation - a securitisation whereby the credit risk, or part of the credit risk, of a pool is transferred to a third party which need not be an SPV. The transfer of credit risk can be undertaken through the use of funded (e.g. credit linked notes) or unfunded (e.g. credit default swaps) credit derivatives or guarantees.

Securitisation Activities

The Group is involved in the following types of business activities that give rise to securitisation exposures:

- Group originated securitisations – where the Group equitably assigns home loans it has originated to an SPV, which in turn raises wholesale funding by the issuance of notes to external investors. The Medallion Programme is the Group's securitisation programme of CBA and ASB originated residential mortgage loans. CBA has also established an internal securitisation where CBA retains all the notes issued to use as collateral to raise contingent liquidity from the RBA;
- Third party securitisations – where assets are originated by parties other than the Group. Such transactions usually have added layers of credit protection, whether it is lender's mortgage insurance, over-collateralisation, cash reserves and/or other subordinated credit support. The nature of the underlying assets is similar to those that the Group would normally support in a non-securitised form including residential and commercial mortgages, personal loans, revolving credit exposures, and vehicle loans and equipment financing. The Group acts as a funder/note holder;
- The purchase of asset/mortgage backed securities for trading or portfolio investment; and
- The provision of interest rate swaps, cross-currency swaps and/or liquidity support facilities to an external SPV where the Group may be the arranger, lead manager and/or originator of the respective securities or underlying assets.

For contingent liquidity, the Group manages a Residential Mortgage Backed Security (RMBS) portfolio which is not intended to be issued publicly. These notes will be held by the Group and the senior notes, if required, can be used for repurchase agreements with the RBA and RBNZ to generate additional liquidity for the Group, for which these RMBS are eligible collateral.

Strategic Issues

For the Group, securitisation has provided and will continue to provide a source of liquidity through RBA repurchase transactions and an opportunistic rather than core external funding source. The Group, when undertaking an intermediary role for third party securitisations, receives fee based income and collateral business in other banking products.

Regulatory Compliance

APRA's requirements in managing the capital and risks associated with securitisation activities and exposures are set out in APS 120 and Prudential Practice Guide APG 120 *Securitisation*. To be compliant with the standard the Group has policies and procedures that include:

- Appropriate risk management systems to identify, measure, monitor and manage the risks arising from the Group's involvement in securitisation;
- Monitoring the effects of securitisation on its risk profile, including credit quality, and how it has aligned with its risk management practices; and
- Measures to ensure that it is not providing implicit support for a securitisation.

The Group's securitisation activities also need to comply with other prudential standards applicable to any traded or Balance Sheet exposure.

The Group uses a hierarchy detailed in APS 120 to determine the credit rating grade for regulatory capital purposes. The two approaches the Group uses are the External Ratings-based Approach (ERBA Approach) or the Supervisory Formula Approach (SFA Approach).

Risk Assessment

Securitisation activities expose the Group to risks including liquidity risk, market risk, operational risk and credit risk, which are managed in accordance with the Group's respective risk management frameworks. Where the Group arranges either a Group originated or third party securitisation transaction, the capital markets issuance will be rated by at least one ECAI based on their respective rating models. The Group uses recognised ECAI including S&P Global Ratings, Moody's Investors Service and/or Fitch Ratings for both Group originated and third party securitisation transactions.

The Group undertakes credit assessments on all securitisation transactions. In addition to compliance with the securitisation and other prudential standards, credit risk assessment of securitisation exposures is performed in accordance with the Group's policies and procedures.

The risk assessment takes into account a wide range of credit, reputation, origination, concentration and servicing factors related to the underlying portfolio of assets being securitised in addition to the capital structure of the proposed securitisation SPV.

Where a securitisation exposure is held through a warehouse structure prior to terming out via the debt capital markets, the credit ratings of the warehouse facility are also assessed by the Group using the rating methodologies of the ECAI and/or other models accepted by APRA.

Credit Approval

Credit approval authorities relating to securitisation are restricted to officers with appropriately badged delegations. Risk Management's Institutional Banking and Markets team is responsible for approval and limit management and monitoring for all securitisations. Proposed exposures that exceed individual approval authorities are referred to various credit committees of the Group for decisioning.

Each Group originated or third party transaction is led by a deal team leader who is responsible for the deal origination and its compliance with Group policies and prudential standards.

Credit Risk (continued)

8.7 Securitisation (continued)

Securitisation Risk Management Framework

Exposure Reporting and Monitoring

All securitisation exposures and limits are recorded on appropriate risk systems and monitored for limit and capital compliance.

Where exposures are fair valued for accounting purposes, the transactions are monitored under the Group's Market Risk Management Framework (refer section 10, page 76). This includes a limit framework and monitoring around the size and turnover of such exposures, and a robust independent price validation process conducted on the prices used to value those exposures. All securitisation limits and exposures are reviewed in accordance with the Group's approved Risk Management Framework which in turn is subject to periodic internal (internal audits and reviews) and external reviews (conducted by external audit and APRA).

The Bank receives underlying pool data for all its securitisation exposures and undertakes ongoing analysis and modelling as required under its policies and procedures and to meet APS 120 due diligence requirements. Where exposures are externally rated, the ratings are also monitored. The Group has no exposure to resecuritisation transactions.

Exposure Aggregation

Securitisation SPVs are bankruptcy remote entities. Generally, there is no legally enforceable obligation on the asset originator or issuer to provide ongoing credit support to such transactions and they are mostly not aggregated for either Group Large Credit Exposure Policy or APRA prudential standard compliance. Aggregation is assessed on a case by case basis having regard to the proposed structure. The Group will aggregate, where appropriate, the broader banking exposures to the proposed originator and/or issuing entities in making its determinations.

Group Originated Securitisations

General Principles

Where the Group intends to securitise assets it has originated, it ensures the terms and conditions applicable to the proposed securitisation and any support facilities or dealings are arm's length and market based and compliant with APRA's prudential regulations. These transactions are managed by Group Treasury.

Where the Group has sold assets to an SPV but retains a servicer role in managing those assets on behalf of the SPV the Group ensures those securitised assets are effectively ring-fenced from the Group's own assets. Where the Group or its subsidiary provides support services such as servicing to the SPV, these need to be subject to arm's length, market based terms and be of an equivalent standard available in the market.

Purchase of Securities issued under Group Originated Securitisation

Any purchases of either securities issued by an SPV or assets of an SPV must be arm's length in nature and approved under

the Group's credit approval process. No pre-existing obligation to purchase public securities or the underlying assets of the SPV exists. The Group's SPVs under the Medallion programme are consolidated for accounting purposes.

The Group holds less than 20% (except permitted underwritings as per APS 120) of the public securities outstanding issued by an SPV for Group originated securitisations.

The aggregated value of all securities held by the Group under its various public Medallion programme does not exceed 10% of the Group's Level 2 capital (except permitted security underwritings as per APS 120).

Summary of Accounting Policies

Securitisations may, depending on the individual arrangement, result in:

- continued recognition of the securitised assets on the Balance Sheet of the Group;
- continued recognition of the assets to the extent of the Group's continuing involvement in those assets (as defined within AASB 9); or
- derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer of assets to the securitisation vehicle.

A securitisation transaction is first assessed for any potential requirement to consolidate the vehicles used.

The assessment is made considering the requirements of AASB 10 *Consolidated Financial Statements* (AASB 10). AASB 10 introduces control as the single basis for consolidation for all entities, regardless of the nature of the investee. The Group exercises judgement at inception and periodically, to assess whether a SPV should be consolidated based on the Bank's power over the relevant activities of the entity and the significance of its exposure to variable returns of the structured entity.

For the Group's accounting policy on the derecognition of financial assets and financial liabilities and the measurement of any retained interests, refer to the 2023 Annual Report.

The valuation process of any retained interests in securitisation exposures primarily focuses on quotations from third parties and calibrated valuations from market standard models with key inputs such as spreads to discount rates, default and recovery rates that may be observable or unobservable.

Assets are valued according to the normal methods appropriate to the asset class. As at 30 June 2023 and 31 December 2022, the Group had no assets awaiting securitisation.

The Group discloses all contractual commitments, such as liquidity lines, and applies the accounting policies as set out in the 2023 Annual Report. The Group provides support for securitisation transactions to the extent of those contractual obligations.

Credit Risk (continued)

8.7 Securitisation (continued)

Banking Book

The following table provides banking book exposures securitised by the Group and third party securitised assets where the Group is classified as a sponsor. The Group originated exposures can be broken down as follows:

- Group originated assets - capital relief comprise CBA Medallion Trusts subject to capital treatment under APS 120.
- Group originated assets - non-capital relief comprise CBA Medallion Trusts subject to capital treatment under APS 113 *Capital Adequacy: Internal Ratings-based Approach to Credit Risk*.
- Group originated assets - internal RMBS comprise CBA Medallion and ASB Medallion Trusts, held for contingent liquidity purposes.
- Third party originated assets comprise assets managed and sponsored by the Group.

Table 12g (i) – Banking book exposures securitised – traditional securitisation

Underlying Asset	30 June 2023			
	Group originated assets - capital relief	Group originated assets - non capital relief	Group originated assets - internal RMBS	Third party originated assets
	\$M	\$M	\$M	\$M
Residential mortgage	3,193	4,496	148,458	–
Credit cards and other personal loans	–	–	–	–
Auto and equipment finance	–	–	–	–
Commercial loans	–	–	–	–
Other	–	–	–	–
Total	3,193	4,496	148,458	–

Underlying Asset	31 December 2022			
	Group originated assets - capital relief	Group originated assets - non capital relief	Group originated assets - internal RMBS	Third party originated assets
	\$M	\$M	\$M	\$M
Residential mortgage	3,609	3,154	176,438	–
Credit cards and other personal loans	–	–	–	–
Auto and equipment finance	–	–	–	–
Commercial loans	–	–	–	–
Other	–	–	–	–
Total	3,609	3,154	176,438	–

Underlying Asset	30 June 2022			
	Group originated assets - capital relief	Group originated assets - non capital relief	Group originated assets - internal RMBS	Third party originated assets
	\$M	\$M	\$M	\$M
Residential mortgage	4,082	3,902	174,634	–
Credit cards and other personal loans	–	–	–	–
Auto and equipment finance	–	–	–	–
Commercial loans	–	–	–	–
Other	–	–	–	–
Total	4,082	3,902	174,634	–

Table 12g (ii) – Banking book exposures securitised – synthetic securitisation

APS 120 provides specific regulatory treatment for synthetic securitisations where credit risk is transferred to a third party, however, legal ownership of the underlying assets remains with the originator. The Group has not undertaken any synthetic securitisation in the banking book.

Credit Risk (continued)

8.7 Securitisation (continued)

Table 12h – Non-performing banking book exposures by asset type

Underlying Asset	30 June 2023		
	Group originated assets securitised		
	Outstanding exposure	Non-performing exposure	Losses recognised
	\$M	\$M	\$M
Residential mortgage	156,147	636	–
Credit cards and other personal loans	–	–	–
Auto and equipment finance	–	–	–
Commercial loans	–	–	–
Other	–	–	–
Total	156,147	636	–

Underlying Asset	31 December 2022			
	Group originated assets securitised			
	Outstanding exposure	Impaired assets	Past due	Losses recognised
	\$M	\$M	\$M	\$M
Residential mortgage	183,201	222	409	–
Credit cards and other personal loans	–	–	–	–
Auto and equipment finance	–	–	–	–
Commercial loans	–	–	–	–
Other	–	–	–	–
Total	183,201	222	409	–

Underlying Asset	30 June 2022			
	Group originated assets securitised			
	Outstanding exposure	Impaired assets	Past due	Losses recognised
	\$M	\$M	\$M	\$M
Residential mortgage	182,618	192	416	–
Credit cards and other personal loans	–	–	–	–
Auto and equipment finance	–	–	–	–
Commercial loans	–	–	–	–
Other	–	–	–	–
Total	182,618	192	416	–

Table 12i – Banking book exposures intended to be securitised

As at 30 June 2023, the Group does not have any outstanding banking book exposures that are intended to be securitised.

Credit Risk (continued)

8.7 Securitisation (continued)

Table 12j – Banking book activity for the reporting period

The Group's new securitisation activity in the banking book during the full year ended 30 June 2023, was \$1,596 million.

Underlying Asset	Full year ended 30 June 2023	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	1,386	–
Credit cards and other personal loans	155	–
Auto and equipment finance	14	–
Commercial loans	41	–
Other	–	–
Total	1,596	–

Underlying Asset	Half year ended 31 December 2022	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	1,129	–
Credit cards and other personal loans	150	–
Auto and equipment finance	–	–
Commercial loans	41	–
Other	–	–
Total	1,320	–

Underlying Asset	Full year ended 30 June 2022	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	2,240	–
Credit cards and other personal loans	270	–
Auto and equipment finance	382	–
Commercial loans	58	–
Other	–	–
Total	2,950	–

Credit Risk (continued)

8.7 Securitisation (continued)

Table 12k – Banking book securitisation exposures retained or purchased

Securitisation Facility Type	30 June 2023		Total exposures \$M
	On Balance Sheet \$M	Off Balance Sheet \$M	
Liquidity support facilities	–	179	179
Warehouse facilities	11,041	5,519	16,560
Derivative facilities	–	149	149
Holdings of securities	3,114	–	3,114
Other	–	12	12
Total securitisation exposures in the banking book	14,155	5,859	20,014

Securitisation Facility Type	31 December 2022		Total exposures \$M
	On Balance Sheet \$M	Off Balance Sheet \$M	
Liquidity support facilities	–	172	172
Warehouse facilities	11,704	5,588	17,292
Derivative facilities	–	140	140
Holdings of securities	3,665	–	3,665
Other	–	12	12
Total securitisation exposures in the banking book	15,369	5,912	21,281

Securitisation Facility Type	30 June 2022		Total exposures \$M
	On Balance Sheet \$M	Off Balance Sheet \$M	
Liquidity support facilities	–	217	217
Warehouse facilities	11,168	4,305	15,473
Derivative facilities	–	192	192
Holdings of securities	4,043	–	4,043
Other	–	15	15
Total securitisation exposures in the banking book	15,211	4,729	19,940

Credit Risk (continued)

8.7 Securitisation (continued)

Table 12I (i) – Banking book exposure by risk weighting

Total securitisation exposures in the banking book increased by \$73 million or 0.4% during the full year ended 30 June 2023. The corresponding RWA decreased by \$123 million or 4%, mainly due to upward revision of warehouse risk weights.

30 June 2023						
Risk Weight Band	Exposures		Total exposures	Risk Weighted Assets		Total RWA
	Securitisation	Resecuritisation		Securitisation	Resecuritisation	
	\$M	\$M	\$M	\$M	\$M	\$M
≤ 25%	20,002	–	20,002	3,303	–	3,303
> 25% ≤ 35%	–	–	–	–	–	–
> 35% ≤ 50%	–	–	–	–	–	–
> 50% ≤ 75%	12	–	12	7	–	7
> 75% ≤ 100%	–	–	–	–	–	–
> 100% ≤ 650%	–	–	–	–	–	–
> 650% ≤ 1250%	–	–	–	–	–	–
Total	20,014	–	20,014	3,310	–	3,310

31 December 2022						
Risk Weight Band	Exposures		Total exposures	Risk Weighted Assets		Total RWA
	Securitisation	Resecuritisation		Securitisation	Resecuritisation	
	\$M	\$M	\$M	\$M	\$M	\$M
≤ 25%	20,962	–	20,962	3,486	–	3,486
> 25% ≤ 35%	285	–	285	78	–	78
> 35% ≤ 50%	18	–	18	7	–	7
> 50% ≤ 75%	16	–	16	9	–	9
> 75% ≤ 100%	–	–	–	–	–	–
> 100% ≤ 650%	–	–	–	–	–	–
> 650% ≤ 1250%	–	–	–	–	–	–
Total	21,281	–	21,281	3,580	–	3,580

30 June 2022						
Risk Weight Band	Exposures		Total exposures	Risk Weighted Assets		Total RWA
	Securitisation	Resecuritisation		Securitisation	Resecuritisation	
	\$M	\$M	\$M	\$M	\$M	\$M
≤ 25%	19,611	–	19,611	3,335	–	3,335
> 25% ≤ 35%	285	–	285	78	–	78
> 35% ≤ 50%	23	–	23	9	–	9
> 50% ≤ 75%	21	–	21	11	–	11
> 75% ≤ 100%	–	–	–	–	–	–
> 100% ≤ 650%	–	–	–	–	–	–
> 650% ≤ 1250%	–	–	–	–	–	–
Total	19,940	–	19,940	3,433	–	3,433

Credit Risk (continued)

8.7 Securitisation (continued)

Table 12I (ii) – Banking book exposure deducted entirely from capital

Total securitisation exposures deducted from Tier 1 capital had a nil movement during the half year ended 30 June 2023 and there was nil movement during the half year ended 31 December 2022.

Underlying Asset	Common Equity Tier 1 Capital		
	30 Jun 23	31 Dec 22	30 Jun 22
	\$M	\$M	\$M
Residential mortgage	–	–	–
Credit cards and other personal loans	–	–	–
Auto and equipment finance	–	–	–
Commercial loans	–	–	–
Other	–	–	–
Total	–	–	–

Table 12m – Banking book exposures subject to early amortisation

The Group has not undertaken any securitisation subject to early amortisation treatment.

Table 12n – Banking book resecuritisation exposures

The Group does not have any retained or repurchased banking book resecuritisation exposure.

Trading Book

Table 12o – Trading book exposures securitised

The Group has no traditional or synthetic securitisation exposures in the trading book.

Table 12p – Trading book exposures intended to be securitised

As at 30 June 2023, the Group does not have any outstanding trading book exposures that are intended to be securitised.

Table 12q – Trading book activity for the reporting period

The Group participated in third party securitisation in the trading book during the full year ended 30 June 2023, relating to nil residential mortgages (31 December 2022: nil, 30 June 2022: \$1 million), \$3 million auto and equipment finance (31 December 2022: nil, 30 June 2022: \$6 million), and nil personal finance (31 December 2022: nil, 30 June 2022: \$2 million) exposures.

Table 12r – Trading book exposures subject to APS 116

The aggregate amount of exposures securitised by the Group and subject to APS 116 *Capital Adequacy: Market Risk* (APS 116) was \$39 million as at 30 June 2023 (31 December 2022: \$37 million, 30 June 2022: \$33 million), all of which are traditional securitisations. This consists of:

- Securities held in the trading book subject to the Standard Method of Nil (31 December 2022: Nil, 30 June 2022: Nil); and
- Derivatives held in the trading book subject to the Internal Models Approach (IMA) of \$39 million (31 December 2022: \$37 million, 30 June 2022: \$33 million).

Credit Risk (continued)

8.7 Securitisation (continued)

Table 12s – Trading book exposures retained or purchased subject to APS 120

Securitisation Facility Type	As at 30 June 2023		Total exposures \$M
	On Balance Sheet \$M	Off Balance Sheet \$M	
Liquidity support facilities	–	–	–
Warehouse facilities	–	–	–
Derivative facilities	–	39	39
Holdings of securities	–	–	–
Other	–	–	–
Total securitisation exposures in the trading book	–	39	39

Securitisation Facility Type	As at 31 December 2022		Total exposures \$M
	On Balance Sheet \$M	Off Balance Sheet \$M	
Liquidity support facilities	–	–	–
Warehouse facilities	–	–	–
Derivative facilities	–	37	37
Holdings of securities	–	–	–
Other	–	–	–
Total securitisation exposures in the trading book	–	37	37

Securitisation Facility Type	As at 30 June 2022		Total exposures \$M
	On Balance Sheet \$M	Off Balance Sheet \$M	
Liquidity support facilities	–	–	–
Warehouse facilities	–	–	–
Derivative facilities	–	33	33
Holdings of securities	–	–	–
Other	–	–	–
Total securitisation exposures in the trading book	–	33	33

Table 12t (i) – Trading book exposures retained/purchased subject to IMA

The Group has \$39 million of derivative exposures held in the trading book subject to IMA (default risk) under APS 116 as at 30 June 2023 (31 December 2022: \$37 million, 30 June 2022: \$33 million).

Credit Risk (continued)

8.7 Securitisation (continued)

Table 12t (ii) – Trading book exposures subject to APS 120 by risk weighting

Risk Weight Band	30 June 2023		
	ERBA Approach	SFA Approach	Total exposures
	\$M	\$M	\$M
≤ 25%	15	24	39
> 25% ≤ 35%	–	–	–
> 35% ≤ 50%	–	–	–
> 50% ≤ 75%	–	–	–
> 75% ≤ 100%	–	–	–
> 100% ≤ 650%	–	–	–
> 650% ≤ 1250%	–	–	–
Total	15	24	39

Risk Weight Band	31 December 2022		
	ERBA Approach	SFA Approach	Total exposures
	\$M	\$M	\$M
≤ 25%	17	19	36
> 25% ≤ 35%	–	1	1
> 35% ≤ 50%	–	–	–
> 50% ≤ 75%	–	–	–
> 75% ≤ 100%	–	–	–
> 100% ≤ 650%	–	–	–
> 650% ≤ 1250%	–	–	–
Total	17	20	37

Risk Weight Band	30 June 2022		
	ERBA Approach	SFA Approach	Total exposures
	\$M	\$M	\$M
≤ 25%	17	15	32
> 25% ≤ 35%	–	1	1
> 35% ≤ 50%	–	–	–
> 50% ≤ 75%	–	–	–
> 75% ≤ 100%	–	–	–
> 100% ≤ 650%	–	–	–
> 650% ≤ 1250%	–	–	–
Total	17	16	33

Table 12u (i) – RWA of trading book exposures retained/purchased subject to IMA

The Group has \$1,765 million of RWA held in the trading book subject to IMA (default risk) under APS 116 as at 30 June 2023 (31 December 2022: \$1,650 million, 30 June 2022: \$1,741 million).

Credit Risk (continued)

8.7 Securitisation (continued)

Table 12u (ii) – Capital requirements (RWA) of trading book exposures subject to APS 120 by risk weighting

	30 June 2023							
	ERBA Approach		SFA Approach		Standardised Approach		Total Capital Requirements	
	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
≤ 25%	2	–	4	–	–	–	6	–
> 25% ≤ 35%	–	–	–	–	–	–	–	–
> 35% ≤ 50%	–	–	–	–	–	–	–	–
> 50% ≤ 75%	–	–	–	–	–	–	–	–
> 75% ≤ 100%	–	–	–	–	–	–	–	–
> 100% ≤ 650%	–	–	–	–	–	–	–	–
> 650% ≤ 1250%	–	–	–	–	–	–	–	–
Total	2	–	4	–	–	–	6	–

	31 December 2022							
	ERBA Approach		SFA Approach		Standardised Approach		Total Capital Requirements	
	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
≤ 25%	2	–	3	–	–	–	5	–
> 25% ≤ 35%	–	–	–	–	–	–	–	–
> 35% ≤ 50%	–	–	–	–	–	–	–	–
> 50% ≤ 75%	–	–	–	–	–	–	–	–
> 75% ≤ 100%	–	–	–	–	–	–	–	–
> 100% ≤ 650%	–	–	–	–	–	–	–	–
> 650% ≤ 1250%	–	–	–	–	–	–	–	–
Total	2	–	3	–	–	–	5	–

Credit Risk (continued)

8.7 Securitisation (continued)

Table 12u (ii) – Capital requirements (RWA) of trading book exposures subject to APS 120 by risk weighting (continued)

30 June 2022								
	ERBA Approach		SFA Approach		Standardised Approach		Total Capital Requirements	
	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
≤ 25%	3	–	3	–	–	–	6	–
> 25% ≤ 35%	–	–	–	–	–	–	–	–
> 35% ≤ 50%	–	–	–	–	–	–	–	–
> 50% ≤ 75%	–	–	–	–	–	–	–	–
> 75% ≤ 100%	–	–	–	–	–	–	–	–
> 100% ≤ 650%	–	–	–	–	–	–	–	–
> 650% ≤ 1250%	–	–	–	–	–	–	–	–
Total	3	–	3	–	–	–	6	–

Credit Risk (continued)

8.7 Securitisation (continued)

Table 12u (iii) – Trading book exposures entirely deducted from capital

The Group has no trading book exposures that are entirely deducted from CET1 capital.

The Group did not have any trading book exposures that are credit enhancements deducted from Total Capital or any other exposures deducted from Total Capital.

Table 12v – Trading book exposures subject to early amortisation

The Group has not undertaken any securitisation subject to early amortisation treatment.

Table 12w – Trading book resecuritisation exposures

The Group did not have any retained or repurchased trading book resecuritisation exposures.

Table 5a – Total securitisation activity for the reporting period

The Group disclosed the summary of the current period's securitisation activity including the total amount of exposures securitised and gain or loss recognised on sale by exposure type in Table 12j (banking book) and Table 12q (trading book).

The total exposures securitised in the full year to 30 June 2023 was \$1,599 million (30 June 2022: \$2,959 million). The total exposures securitised in the half year to 31 December 2022 was \$1,320 million.

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

Securitisation Facility Type	As at 30 June 2023		
	On Balance Sheet \$M	Off Balance Sheet \$M	Total exposures \$M
Liquidity support facilities	–	179	179
Warehouse facilities	11,041	5,519	16,560
Derivative facilities	–	188	188
Holdings of securities	3,114	–	3,114
Other	–	12	12
Total securitisation exposures	14,155	5,898	20,053

Securitisation Facility Type	As at 31 December 2022		
	On Balance Sheet \$M	Off Balance Sheet \$M	Total exposures \$M
Liquidity support facilities	–	172	172
Warehouse facilities	11,704	5,588	17,292
Derivative facilities	–	177	177
Holdings of securities	3,665	–	3,665
Other	–	12	12
Total securitisation exposures	15,369	5,949	21,318

Securitisation Facility Type	As at 30 June 2022		
	On Balance Sheet \$M	Off Balance Sheet \$M	Total exposures \$M
Liquidity support facilities	–	217	217
Warehouse facilities	11,168	4,305	15,473
Derivative facilities	–	225	225
Holdings of securities	4,043	–	4,043
Other	–	15	15
Total securitisation exposures	15,211	4,762	19,973

9 Equity Risk

Equity risk is the potential loss arising from price volatility in equity investments.

The Group holds equity investments in the banking book for strategic reasons. The Group has established policies and a governance framework for managing equity risk. Equity investments require approval by the Board or delegates in accordance with the Group Delegations Policy. The measurement of banking book securities is determined in accordance with the Group's accounting policies. The accounting treatment for equity investment depends on whether the Group has significant influence or joint control over the investee. Where significant influence or joint control exists, the investment is classified as an associate or joint venture and measured using the equity method. Under the equity method, investments are initially recorded at cost and adjusted for the Group's share of the post-acquisition profits or losses, and other comprehensive income, less any dividends received. Other investments which are not joint ventures or associates, are recognised at fair value through other comprehensive income or through profit or loss.

When an active market exists, fair value is determined using quoted market prices. When a quoted price in an active market is not available, fair value is determined using acceptable market valuation techniques. Key assumptions applied include trading multiples for businesses displaying similar characteristics to the equity investments being valued.

APRA requires that all these equity investments be fully deducted from CET1.

Table 16b to 16f – Equity investment exposures¹

Equity Investments	30 June 2023	
	Balance Sheet value	Fair value
	\$M	\$M
Value of listed (publicly traded) equities	2,760	2,649
Value of unlisted (privately held) equities	1,538	1,610
Total	4,298	4,259

Equity Investments	31 December 2022	
	Balance Sheet value	Fair value
	\$M	\$M
Value of listed (publicly traded) equities	2,734	2,615
Value of unlisted (privately held) equities	1,561	1,776
Total	4,295	4,391

Equity Investments	30 June 2022	
	Balance Sheet value	Fair value
	\$M	\$M
Value of listed (publicly traded) equities	2,786	2,834
Value of unlisted (privately held) equities	1,687	1,847
Total	4,473	4,681

Gains or Losses on Equity Investments	Half year ended		
	30 Jun 23	31 Dec 22	30 Jun 22
	\$M	\$M	\$M
Cumulative realised gains in reporting period	–	–	299
Total unrealised gains or losses ²	(86)	(206)	(1,805)

1 Equity investment exposures include non-traded equity investments as well as investments in associates that are treated as capital deductions and are not risk weighted at Level 2.

2 Includes the revaluation of an unlisted equity instrument measured at fair value on the Group's Balance Sheet at 30 June 2023 and 30 June 2022. For more details refer to the 2023 Annual Report Note 9.5.

Market risk is the potential adverse impact on the profitability and/or net worth of the Group from changes in interest rates, foreign exchange rates, equity and commodity prices, credit spreads, and the resale value of assets under residual value guarantees.

The Group makes a distinction between traded and non-traded market risk for the purposes of risk management, measurement and reporting. Traded market risk principally arises from the Group's trading book activities within the Institutional Banking and Markets business and its subsidiary financial institutions.

Non-traded market risk includes interest rate risk that arises from banking book activities, non-traded equity risk, structural foreign exchange risk and lease residual value risk.

Market Risk Management Governance Overview

The Group's appetite for market risk is determined by the Board and is expressed via the Group's Risk Appetite Statement and its framework of limits and policies. The limits are designed to manage the volatility in earnings and value due to market risk. The policies establish a sound operating environment for market risk, which is consistent with the governance and control standards of the Group and conform to prudential regulatory requirements.

The market risk profile of the Group is overseen by the Board Risk and Compliance Committee and senior executive management. The Market Risk Oversight area provides support to the Board Risk and Compliance Committee and ALCO in the performance of their market risk management accountabilities.

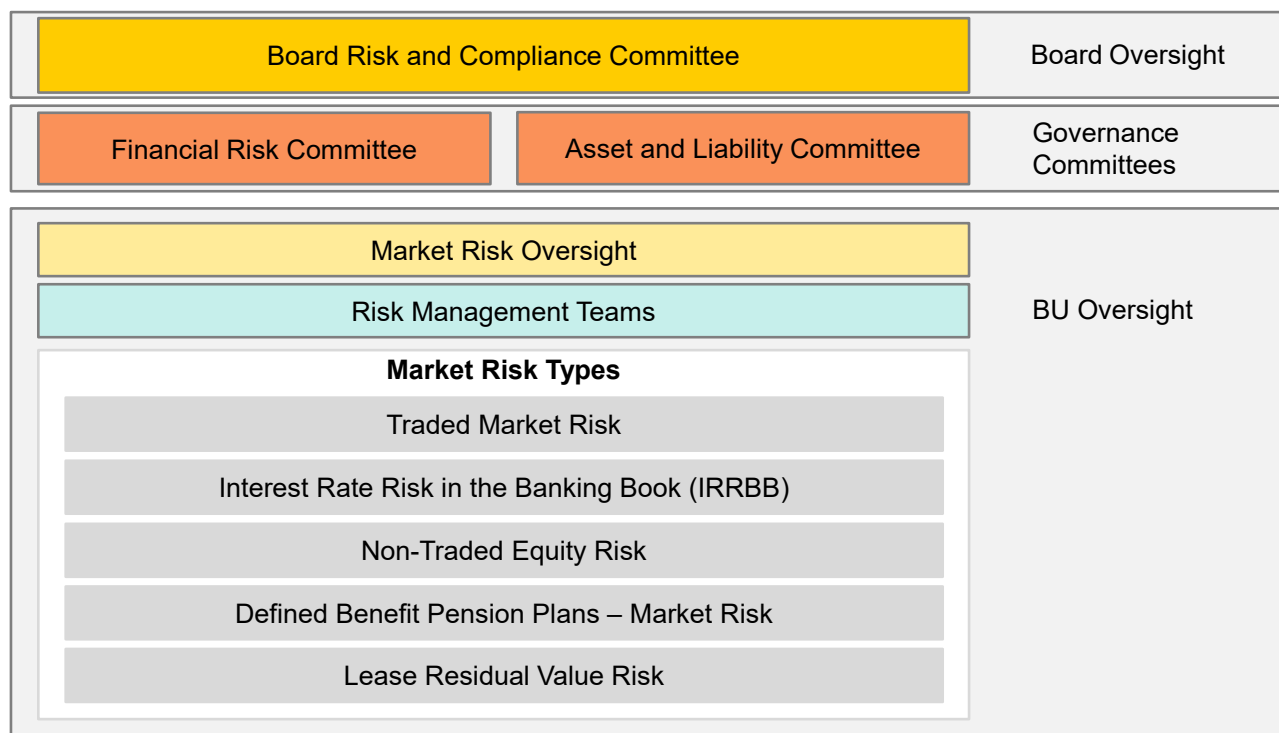
Market risk may only be generated by authorised business areas across the Group. The key functional areas that must be established to support market risk activity comprise:

- An approved Trading, Treasury or Origination function;
- An independent Market Risk Oversight area; and
- A Senior Management Oversight Committee.

The chart below summarises governance arrangements for market risk.

The Market Risk Oversight area supports the implementation of the Board approved policies through the establishment of Market Risk Standards and other documents that define the operational requirements for managing market risk, including details of sub-limits, stress testing, key controls, delegations, reporting and escalation requirements. The Market Risk Oversight area is responsible for the daily monitoring and analysis of risk positions. Senior management has oversight of market risk performance against risk and return expectations on a monthly basis. The Board Risk and Compliance Committee meets approximately six times each year and considers the operation of the Market Risk Management Framework together with any issues that may arise.

Market Risk Governance



Market Risk (continued)

Market Risk Measurement

The Group uses Value-at-Risk (VaR) as one of the measures of traded and non-traded market risk. VaR measures potential loss using historically observed market movements and correlation between different markets.

VaR is modelled at a 99.0% confidence level. This means that there is a 99.0% probability that the loss will not exceed the VaR estimate on any given day.

The VaR measured for traded market risk uses two years of daily movement in market rates. The VaR measure for non-traded banking book market risk uses six years of daily movement in market rates.

A 10-day holding period is used for trading book positions. A 20-day holding period is used for interest rate risk in the banking book.

VaR is driven by historical observations and is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, management also uses stress testing to measure the potential for economic loss at confidence levels significantly higher than 99.0%. Management then uses these results in decisions to manage the economic impact of market risk positions.

Stressed VaR (SVaR) is calculated for traded market risk using the same methodology as the regular traded market risk VaR except that the historical data is taken from a 1 year observation period of significant market volatility as seen during the Global Financial Crisis (GFC).

The stress events considered for market risk are extreme but plausible market movements, and have been back-tested against moves seen during 2008 and 2009 at the height of the Global Financial Crisis. The results are reported to the Board Risk and Compliance Committee and the Group's ALCO on a regular basis. Stress tests also include a range of forward looking macroeconomic scenario stresses.

10.1 Traded Market Risk

The Group trades and distributes financial market products and provides risk management solutions to customers on a global basis.

The objectives of the Group's financial markets activities are to:

- Provide risk management and capital market products and services to customers;
- Efficiently assist in managing the Group's own market risks; and
- Conduct profitable market making within a controlled framework to assist in the provision of products and services to customers.

The Group maintains access to markets by quoting bid and offer prices with other market makers and carries an inventory of treasury, capital market and risk management instruments, including a broad range of securities and derivatives.

The Group participates in all major markets across interest rate, foreign exchange, debt, equity and commodity products as required to provide treasury, capital markets and risk management services to customers of the Group.

Income is earned through market making and from warehousing market risk. Trading positions are valued at fair value and taken to profit and loss on a mark-to-market basis. Market liquidity risk is controlled by concentrating trading activity in highly liquid markets.

The Group measures and manages traded market risk through a combination of VaR and stress test limits, together with other key controls including permitted instruments, sensitivity limits and term restrictions. Thus traded market risk is managed under a clearly defined risk appetite within the Group Market Risk Policy and limit structure approved by the Board Risk and Compliance Committee. Risk is monitored by the independent Market Risk Oversight function.

Capital Calculation Methods

The Group is accredited by APRA as an Internal Model user for regulatory capital calculation for Group trading book activity.

Consequently, general market risk regulatory capital is calculated for interest rates (including credit spread), foreign exchange, equity and commodity risk using this model.

There are also a small number of products in the trading book for which regulatory capital is determined using the standard method. In accordance with the standard method, the Group applies the maturity method against these products for capital calculations, and a specific risk charge is calculated for debt specific and equity position risk. Inflation linked products and a small number of path dependent rates related products are managed in this manner.

The breakdown of RWA for traded market risk by modelling method is summarised in the table below.

	30 Jun 23	31 Dec 22	30 Jun 22
Traded Market Risk RWA by Modelling Approach ¹	\$M	\$M	\$M
Internal Model Approach	14,305	12,879	9,863
Standard Method	1,085	894	820
Total Traded Market Risk RWA	15,390	13,773	10,683

¹ Refer to page 14 for commentary.

The capital requirement for traded market risk under the standard method is disclosed in Table 13b.

Market Risk (continued)

10.1 Traded Market Risk (continued)

Table 13b – Traded Market Risk under the Standard Method

Exposure Type	30 Jun 23	31 Dec 22	30 Jun 22
	\$M	\$M	\$M
Interest Rate Risk	86.6	71.3	65.4
Equity Risk	-	-	-
Foreign exchange risk	0.2	0.2	0.2
Commodity risk	-	-	-
Total	86.8	71.5	65.6
Risk Weighted Asset equivalent ¹	1,085	894	820

¹ Risk Weighted Assets equivalent is the capital requirements multiplied by 12.5 in accordance with APS 110.

Traded Market Risk Internal Model

The VaR and SVaR results calculated under the internal model approach are summarised in Table 14f (i).

Table 14f (i) – Value-at-Risk and Stressed Value-at-Risk for Trading Portfolios under the Internal Model Approach

Average VaR ¹	Aggregate VaR Over the Reporting Period			As at balance date
	Mean value	Maximum value	Minimum value	
	\$M	\$M	\$M	\$M
Over the 6 months to 30 June 2023	109	177	73	109
Over the 6 months to 31 December 2022	79	88	71	71
Over the 6 months to 30 June 2022	74	120	54	76

¹ 10 day, 99% confidence interval over the reporting period.

Stressed VaR ¹	Aggregate SVaR Over the Reporting Period			As at balance date
	Mean value	Maximum value	Minimum value	
	\$M	\$M	\$M	\$M
Over the 6 months to 30 June 2023	168	257	99	144
Over the 6 months to 31 December 2022	154	179	123	154
Over the 6 months to 30 June 2022	132	214	82	134

¹ 10 day, 99% confidence interval over the reporting period.

Market Risk (continued)

10.1 Traded Market Risk (continued)

Internal Model Approach – Back-test results

The Internal model is subject to back-testing against hypothetical profit and loss. In the 6 months to 30 June 2023 there were six back test outliers. The back-test results are summarised in Table 14f (ii) and details of these are provided in Table 14f (iii). A comparison of VaR with actual gains or losses during the 6 months to 30 June 2023 is illustrated in Table 14f (iv).

APS 330 Table 14f (ii) - Summary Table of the Number of Back-Testing Outliers ¹

Over the 6 months to 30 June 2023	6
Over the 6 months to 31 December 2022	2
Over the 6 months to 30 June 2022	2

¹ 10 day, 99% confidence interval over the reporting period.

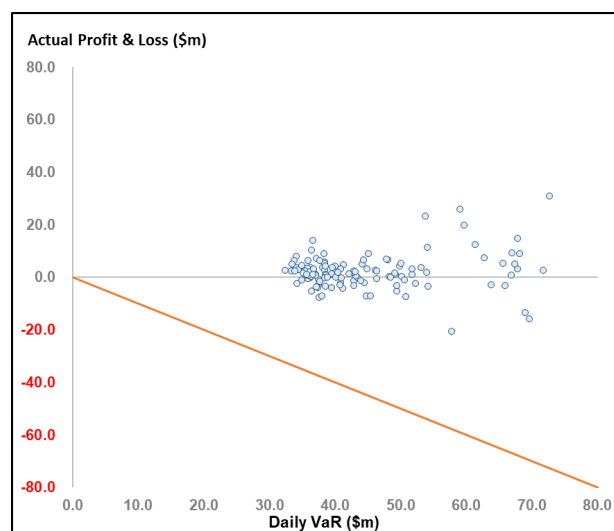
Table 14f (iii): Details of Back-Testing Outliers

Date	Over the Reporting Period 1 January 2023 to 30 June 2023	
	Hypothetical loss	VaR 99%
	\$M	\$M
06 January 2023	37	28
09 March 2023	52	46
10 March 2023	72	53
15 March 2023	102	65
02 May 2023	35	32
20 June 2023	30	29

Date	Over the Reporting Period 1 July 2022 to 31 December 2022	
	Hypothetical loss	VaR 99%
	\$M	\$M
21 October 2022	40	24
10 November 2022	67	25

Date	Over the Reporting Period 1 January 2022 to 30 June 2022	
	Hypothetical loss	VaR 99%
	\$M	\$M
13 June 2022	41	19
03 May 2022	20	17

Table 14f (iv): Comparison of VaR estimates outliers with actual gains/losses experiences for the 6 months ended 30 June 2023



Market Risk (continued)

10.2 Non-Traded Market Risk

Non-traded market risk activities are governed by the Group Market Risk Policy approved by the Board Risk and Compliance Committee. The policy describes the framework that governs all the activities performed in relation to non-traded market risk.

Interest Rate Risk in the Banking Book

Interest rate risk is the current and prospective impact to the Group's financial condition due to adverse changes in interest rates to which the Group's Balance Sheet is exposed. The maturity transformation activities of the Group create mismatches in the repricing terms of asset and liability positions. These mismatches may have undesired earnings and value outcomes depending on the interest rate movements.

The Group's New Zealand banking subsidiary, ASB, manages its own domestic IRRBB in accordance with its own risk management policies and the policies of the Group. The Group's smaller banking subsidiaries, PTBC and CBA Europe N.V. manage IRRBB on a similar basis.

The Group's objective is to manage interest rate risk to achieve stable and sustainable net interest income in the long term.

The Group measures and manages the impact of interest rate risk in two ways:

(i) Next 12 Months' Earnings

Interest rate risk from an earnings perspective is the impact based on changes to the net interest income over the next 12 months.

The risk to net interest income over the next 12 months from changes in interest rates is measured on a monthly basis.

Earnings risk is measured through a sensitivity analysis which applies an instantaneous 100 basis point parallel shock in interest rates across the yield curve.

The prospective change to net interest income is measured by using an Asset and Liability Management simulation model which incorporates both existing and anticipated new business in its assessment. The change to the Balance Sheet product mix, growth, funding and pricing strategies is incorporated.

Assets and liabilities that reprice directly from observable market rates are measured based on the full extent of the rate shock that is applied.

Products that are priced based on Group administered or discretionary interest rates and that are impacted by customer behaviour are measured by taking into consideration the historic repricing strategy of the Group and repricing behaviours of customers. In addition to considering how the products have repriced in the past, the expected change in price based on both the current and anticipated competitive market forces are also considered in the sensitivity analyses.

(ii) Economic Value

Interest rate risk from an economic value perspective is based on a 20-day, 99% VaR measure.

Measuring the change in the economic value of equity is an assessment of the long term impact to the earnings potential of the Group, present valued to the current date. The Group assesses the potential change in the economic value of equity through the application of the VaR methodology.

A 20-day 99% VaR measure is used to capture the net economic value for all Balance Sheet assets and liabilities due to adverse changes in interest rates.

The impact of customer prepayments on the contractual cash flows for fixed rate products is included in the calculation. Cash flows for discretionary priced products are behaviourally adjusted and repriced at the resultant profile.

Determining Interest Rate Risk in the Banking Book

APRA requires Australian banks accredited for the Advanced Approach under the Basel III framework to incorporate regulatory capital for IRRBB in their assessment of Total Capital. The capital requirement associated with IRRBB is measured by the Group's internal measurement model which incorporates the following risk calculations:

- Repricing and yield curve risks, which arise from repricing mismatches between assets and liabilities, are jointly determined from the distribution of changes in the economic value of the banking book as a consequence of interest rate changes (overall level of the yield curve and the shape of the yield curve). A historical simulation VaR approach is used, with IRRBB regulatory capital determined with respect to a one year holding period and a 99% level of confidence. Interest rate scenarios are constructed over a historical observation period of six years.
- Basis risk is measured as the risk of loss in earnings of the banking book arising from differences between the actual and expected interest margins on banking book items. The IRRBB regulatory capital requirement for basis risk is measured under a dynamic simulation approach, as the change in net interest income over a 12 month forecast period, in response to an adverse change to implied forward cash rates.
- Optionality risk is measured as the risk of loss in economic value owing to the existence of stand-alone or embedded options in the banking book, to the extent that such potential losses are not included in the measurement of repricing, yield curve or basis risks. Optionality risk arising from a departure from assumed prepayment behaviour is calculated from a stressed prepayment rate scenario by the VaR model. Optionality risk arising from the use of replicating portfolios for indeterminate maturity or discretionary rate items is measured by the VaR model under an applied mismatch between the underlying product balances and the unhedged term asset positions.
- The embedded loss or gain in banking book items not accounted for on a mark-to-market basis is measured and included in the regulatory capital for IRRBB. The embedded loss or gain measures the difference between the book value and economic value of banking book activities, based on transfer-priced assets and liabilities.

These interest rate risk calculations are summed (subject to the capital requirement not being less than zero in total) and multiplied by 12.5 to derive regulatory RWA for IRRBB in accordance with APS 110.

Stress Testing of Interest Rate Risk in the Banking Book

Stress testing of IRRBB measures the impact of extreme but plausible market movements on both an earnings and an economic value basis. The results are reported to the Board Risk and Compliance Committee and the Group ALCO on a regular basis.

The Stress Testing figures in Table 17b (below) represent expected net change in the economic value of assets and liabilities, held for purposes other than trading, based on a 200 basis point parallel rate shock. In addition Table 17b includes the regulatory RWA for IRRBB.

Market Risk (continued)

10.2 Non-Traded Market Risk (continued)

Table 17b – Interest Rate Risk in the Banking Book

Stress Testing: Interest Rate Shock Applied	Change in Economic Value		
	30 Jun 23	31 Dec 22	30 Jun 22
	\$M	\$M	\$M
AUD			
200 basis point parallel increase	(809)	(883)	(825)
200 basis point parallel decrease	848	922	867
NZD			
200 basis point parallel increase	(297)	(247)	(263)
200 basis point parallel decrease	308	257	272
USD			
200 basis point parallel increase	(33)	(21)	(106)
200 basis point parallel decrease	(38)	(9)	112
Other			
200 basis point parallel increase	20	16	81
200 basis point parallel decrease	(19)	(14)	(80)
	30 Jun 23	31 Dec 22	30 Jun 22
Regulatory RWA ¹	\$M	\$M	\$M
Interest rate risk in the banking book	46,578	47,850	47,640

1 Refer to page 14 for commentary.

Structural Foreign Exchange Risk

Structural foreign exchange risk is the risk that movements in foreign exchange rates may have an adverse effect on the Group's Australian dollar earnings and economic value when the Group's foreign currency denominated retained earnings and capital are translated into Australian dollars. The Group's material risk exposures to this risk arises from the following currencies: New Zealand Dollar, US Dollar, Euro and British Pound Sterling.

Lease Residual Value Risk

The Group takes lease residual value risk on assets such as industrial, mining, rail, aircraft and other equipment. A lease residual value guarantee exposes the Group to a potential fall in prices of these assets below the guarantee level at lease expiry. The lease residual value risk within the Group is

controlled through the Risk Management Framework approved by the Board Risk and Compliance Committee. Supporting this framework is an internal Market Risk Standard document, which has a risk limit framework that includes asset, geographic and maturity concentration limits, and stress testing that is performed by the Market Risk Oversight function. Regulatory capital is held under APS 112 (refer to Section 8.3).

Commonwealth Bank Group Super Fund

The Commonwealth Bank Group Super Fund (the Fund) has a defined benefit portion that creates market risk for the Group. Risk management provides oversight of the net asset position associated with the defined benefit portion of the Group Super Fund (refer to Section 10.2). Monthly updates are provided to the Fund Trustee and a committee chaired by Human Resources.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events. It includes legal, regulatory, fraud, business continuity and technology risks. Operational risk excludes strategic and reputational risks, however the impact to brand and reputation arising from operational risk failures are considered.

Operational Risk Objectives

The Group's operational risk objectives are:

- The maintenance of an effective internal control environment and system;
- The demonstration of effective governance, including a consistent approach across the Group;
- Transparency, escalation and resolution of risk and control incidents and issues; and
- Transparent risk reporting to inform quality decision making.

The objectives are designed to support the achievement of the Group's financial and business goals.

Operational Risk Management Framework

The Operational Risk Management Framework (ORMF) is integral to the achievement of the Group's operational risk objectives and is embedded within business practices across the Group. It comprises four core components to ensure sound management and measurement of the Group's operational risk:

- Governance;
- Management, Measurement and Systems;
- Analytics, Review and Reporting; and
- People and Culture.

The ORMF is supported by a single platform, internally referred to as RiskInSite, which enables consistent application of the ORMF across the Group. This includes the assessment of operational risks, monitoring and review activities, escalation and remediation of control weaknesses, loss incident management and reporting to management and the Board.

Compliance Risk Management

Compliance Risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Group may incur as a result of its failure to comply with its obligations. It includes the sub-risk types of Conduct risk, Financial Crime Compliance risk, Privacy risk and Regulatory and Licencing Obligations risk.

The Group's Compliance Management Framework (CMF) is broadly consistent with the Australian Standard on Compliance Programs. The CMF is made up of components that together help to identify, assess, manage and report on compliance obligations and compliance risks. The CMF provides for the identification and understanding of the Group's obligations,

implementation of controls, policies, processes and procedures to achieve compliance, monitoring and testing of framework effectiveness. It also provides for the escalation, remediation, and reporting of compliance incidents and compliance control weaknesses.

APRA Prudential Inquiry Report Findings

The APRA Prudential Inquiry report published on 1 May 2018 highlighted a number of areas for improvement in the ORMF and CMF. Following the report, the Group entered into an Enforceable Undertaking (EU) with APRA and undertook a Remedial Action Plan (RAP) which was endorsed by APRA.

As a result of CBA meeting its obligations under the EU, the remaining operational risk capital overlay of \$500m imposed on CBA was released effective 30 September 2022. The release of the operational risk capital overlay followed the completion of CBA's RAP in September 2021, further validation work undertaken by APRA and satisfactory final assessments by the Independent Reviewer.

Roles and Responsibilities

Every staff member has a responsibility for managing operational risk and compliance. Individual responsibilities are articulated within the position descriptions for each role.

Within the Group, accountability for operational risk and compliance has been structured into a Three Lines of Accountability model, as per section 7.

Risk Mitigation through Insurance

The Group insures against selected unexpected insurable operational risk losses. The Group's insurance program is structured based upon the Group's risk appetite. In designing the insurance program, the adequacy and appropriateness of cover are considered along with the Group's operational risk profile. The insurance program is reviewed by the Board.

Capital Measurement Approach

The Group calculated its operational risk regulatory capital using the APRA-approved Advanced Measurement Approach (AMA) until 31 December 2022. This approach combined internal and external loss data, and expert judgement based scenarios (called Quantitative Risk Assessments) into loss distributions using Monte Carlo simulations to calculate operational risk regulatory capital for the Group.

Since 1 January 2023, the Group has calculated its operational risk regulatory capital using the APRA-prescribed Standardised Measurement Approach (SMA). Under this approach, the Group calculates its operational risk regulatory capital based on its business indicator, a financial statement-based proxy for its operational risk exposure.

The transition of the capital measurement approach from AMA to SMA on 1 January 2023 was implemented in consultation with APRA.

Table 6e – Capital requirements for operational risk

	30 Jun 23 Revised Framework ¹	31 Dec 22 ²	30 Jun 22 ²
Regulatory RWA	\$M	\$M	\$M
Total operational risk RWA ³	43,155	40,740	45,922

¹ Determined in accordance with the standardised measurement approach as required by APS 115 effective from 1 January 2023.

² Determined in accordance with APRA's capital framework effective up until 31 December 2022.

³ Refer to page 14 for commentary.

12.1 Liquidity and Funding Risk

Overview

The Group's liquidity and funding policies are designed to ensure it will meet its obligations as and when they fall due by ensuring it is able to raise funding on an unsecured or secured basis, has sufficient liquid assets to borrow against under repurchase agreements or sell to raise immediate funds without adversely affecting the Group's net asset value.

The Group's liquidity policies are designed to ensure it maintains sufficient holdings of cash and liquid assets to meet its obligations to customers, in both ordinary market conditions and during periods of extreme stress. These policies are intended to protect the value of the Group's operations during periods of unfavourable market conditions.

The Group's funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type, investor location, currency and concentration, on a cost effective basis. This objective applies to the Group's wholesale and retail funding activities.

Liquidity and Funding Risk Management Framework

The CBA Board is responsible for the sound and prudent management of liquidity risk across the Group. The Group's liquidity and funding policies, structured under a formal Group Liquidity and Funding Risk Management Framework, are approved by the Board and agreed with APRA. The Group Asset and Liability Committee's (ALCO) responsibilities include asset and liability management, reviewing liquidity and funding policies and strategies and monitoring compliance with those policies across the Group. Group Treasury manages the Group's liquidity and funding positions in accordance with the Group's Liquidity Policy and supporting standards, and has ultimate authority to execute liquidity and funding decisions should the Group Contingency Funding Plan be activated. Risk Management provides oversight of the Group's liquidity and funding risks, compliance with Group policies and manages the Group's relationship with prudential regulators. Subsidiaries within the Group apply their own liquidity and funding strategies to address their specific needs. The Group's New Zealand banking subsidiary, ASB, manages its own domestic liquidity and funding needs in accordance with its own liquidity policy and the policies of the Group. ASB's liquidity policy is also overseen by the RBNZ.

Liquidity and Funding Policies and Management

The Group's liquidity and funding policies provide that:

- An excess of liquid assets over the minimum prescribed under APRA's Liquidity Coverage Ratio (LCR) requirement is maintained. Australian ADIs are required to meet a 100% LCR, calculated as the ratio of high quality liquid assets to 30 day net cash outflows projected under a prescribed stress scenario;
- A surplus of stable funding from various sources, as measured by APRA's Net Stable Funding Ratio (NSFR), is maintained. The NSFR is calculated by applying factors prescribed by APRA to assets and liabilities to determine a ratio of required stable funding to available stable funding which must be greater than 100%;
- Scenario analysis is central to the Group's liquidity management framework and the Group undertakes additional stress testing including market specific and idiosyncratic scenarios over and above the regulatory defined scenarios;
- Additional funding and liquidity metrics are calculated and monitored as early warning indicators of a potential stress event;
- Short and long-term wholesale funding limits are established, monitored and reviewed regularly;
- The Group's wholesale funding market capacity is regularly assessed and used as a factor in funding strategies;
- Group Treasury maintains a portfolio of highly liquid assets to meet liquidity requirements under a range of market conditions. The liquid asset portfolio includes cash and liquid assets, including government and Australian semi-government securities, meeting APRA's high quality liquid asset (HQLA) definition and other highly liquid assets which are repo-eligible with the Reserve Bank of Australia (RBA);
- Liquid assets are held in Australian dollar and foreign currency denominated securities in accordance with expected requirements;
- In line with APRA's requirements to hold adequate levels of self-securitised assets, the Group also holds internal RMBS (minimum value of 30% of Group net cash outflows as defined under the LCR), which are mortgages that have been securitised but retained by the Bank, that are repo-eligible with the RBA under the Exceptional Liquidity Assistance (ELA) arrangement; and
- Offshore branches and subsidiaries adhere to liquidity policies and hold appropriate foreign currency liquid assets to meet required regulations. Material banking subsidiaries are required to maintain an LCR of at least 100%.

The Group's key funding tools include:

- Consumer retail funding base, which includes a wide range of retail transaction accounts, savings accounts and term deposits for individual consumers;
- Small business customer and institutional deposit base; and
- Wholesale domestic and international funding programmes, which include Australian dollar Negotiable Certificates of Deposit, US and Euro Commercial Paper programmes, Australian dollar Domestic Debt Programme, US Medium-Term Note Programmes, Euro Medium-Term Note Programme, multi-jurisdiction Covered Bond programme and Medallion securitisation programmes. Additionally the Group has accessed the RBA's Term Funding Facility (TFF) and RBNZ term lending facilities.

Liquidity modelling and forecasting is undertaken on a daily basis to ensure the Group meets its internal and regulatory liquidity requirements at all times. A regulatory liquidity management reporting system models and reports regulatory liquidity outcomes. Additionally a comprehensive Funds Transfer Pricing framework is in place to attribute the cost of funding and liquidity to business units and to provide appropriate incentives to inform business decision making.

Liquidity Risk (continued)

Contingency Funding Plan

The Group maintains a Contingency Funding Plan (CFP) which details how the Group would respond to a liquidity stress event. The plan includes details of roles and responsibilities including the committee of responsible executives, early warning indicators and trigger events, potential contingent funding actions that could be undertaken to manage the Group's liquidity position as well as a communications strategy. The plan is regularly tested and is approved by the Board on an annual basis.

12.2 Liquidity Coverage Ratio

The Group calculates its LCR position on a daily basis, ensuring a buffer is maintained over the minimum regulatory requirement of 100% and the Board's risk appetite. Over the June 2023 quarter, excess liquid assets averaged \$44.8 billion and the average LCR decreased from 134% to 131%.

The Group's mix of liquid assets consists of HQLA, such as cash, deposits with central banks, Australian semi-government and Commonwealth government securities. Liquid assets also include securities classified as liquid assets by the RBNZ. Liquid assets are distributed across the Group to support regulatory and internal requirements and are consistent with the distribution of liquidity needs by currency. Average liquid assets decreased over the quarter.

NCO are modelled under an APRA prescribed 30 day severe liquidity stress scenario. The Group manages modelled NCO by maintaining a large base of low LCR outflow customer deposits and actively managing its wholesale funding maturity profile as part of its overall liquidity management strategy. Average NCO decreased over the quarter due to a reduction in deposit NCO, partly reflecting the shift in deposits from at-call to term.

Table 20 - LCR Disclosure Template

	30 Jun 23 ¹		31 Mar 23 ¹	
	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
	\$M	\$M	\$M	\$M
Liquid assets, of which:				
1 High-quality liquid assets (HQLA)		188,634		195,858
2 Alternative liquid assets (ALA)		–		–
3 Reserve Bank of New Zealand (RBNZ) securities		785		1,795
Cash outflows				
4 Retail deposits and deposits from small business customers, of which:	437,324	37,416	435,852	39,723
5 Stable deposits	253,997	12,700	239,222	11,961
6 Less stable deposits	183,327	24,716	196,630	27,762
7 Unsecured wholesale funding, of which:	188,654	82,444	192,178	84,080
8 Operational deposits (all counterparties) and deposits in networks for cooperative banks	90,542	22,219	90,468	22,188
9 Non-operational deposits (all counterparties)	87,123	49,236	90,737	50,919
10 Unsecured debt	10,989	10,989	10,973	10,973
11 Secured wholesale funding		6,839		3,635
12 Additional requirements, of which:	173,249	26,186	174,161	27,305
13 Outflows related to derivatives exposures and other collateral requirements	7,557	7,557	7,974	7,974
14 Outflows related to loss of funding on debt products	–	–	–	–
15 Credit and liquidity facilities	165,692	18,629	166,187	19,331
16 Other contractual funding obligations	–	–	–	–
17 Other contingent funding obligations	85,303	10,373	85,234	11,447
18 Total cash outflows		163,258		166,190
Cash inflows				
19 Secured lending	20,417	2,328	19,469	2,615
20 Inflows from fully performing exposures	14,180	9,520	12,817	8,384
21 Other cash inflows	6,753	6,753	7,405	7,405
22 Total cash inflows	41,350	18,601	39,691	18,404
23 Total liquid assets		189,419		197,653
24 Total net cash outflows		144,657		147,786
25 Liquidity Coverage Ratio (%)		131		134
Number of data points used (Business Days)		60		61

¹ The averages presented are calculated as simple averages of daily observations over the previous quarter.

Liquidity Risk (continued)

12.3 Net Stable Funding Ratio

The NSFR requires Australian ADIs to have sufficient Available Stable Funding (ASF) to meet their Required Stable Funding (RSF) over a one year horizon. The Group calculates its NSFR position daily, ensuring a buffer is maintained over the regulatory requirement of 100% and the Board's risk appetite. The ASF and RSF are calculated by applying factors prescribed by APRA, to liabilities, assets and off Balance Sheet commitments.

The Group's main sources of ASF are deposits from retail and SME customers, wholesale funding and capital. The main contributors to RSF are residential mortgages and loans to business and corporate customers.

The NSFR decreased from 126% at 31 March 2023 to 124% at 30 June 2023. Over the period, the Group's ASF decreased due to changes in the TFF maturity profile, partly offset by deposit growth and additional long-term wholesale funding. RSF increased due to growth in residential mortgage lending.

Table 21 - NSFR Disclosure Template

As at 30 June 2023					
	Unweighted value by residual maturity				Weighted value \$M
	No Maturity \$M	0 - 6 months \$M	7 - 12 months \$M	> 12 months \$M	
Available Stable Funding (ASF) Item					
1 Capital	72,116	–	–	36,871	108,987
2 Regulatory Capital	72,116	–	–	36,871	108,987
3 Other Capital Instruments	–	–	–	–	–
4 Retail deposits and deposits from small business customers	420,170	118,558	33	162	500,416
5 Stable deposits ¹	257,600	49,764	12	11	292,018
6 Less stable deposits ²	162,570	68,794	21	151	208,398
7 Wholesale funding	163,880	201,373	79,696	107,978	249,501
8 Operational deposits	95,138	–	–	–	47,569
9 Other wholesale funding	68,742	201,373	79,696	107,978	201,932
10 Liabilities with matching interdependent assets	–	–	–	–	–
11 Other liabilities	–	25,068	156	2,017	2,095
12 NSFR derivative liabilities	–	12,852	–	–	–
13 All other liabilities and equity not included in the above categories	–	12,216	156	2,017	2,095
14 Total ASF					860,999
Required Stable Funding (RSF) Item					
15 a) Total NSFR HQLA					4,717
15 b) ALA					4,964
15 c) RBNZ Securities					412
16 Deposits held at other financial institutions for operational purposes					–
17 Performing loans and securities	5,625	105,792	52,150	765,836	640,704
18 Performing loans to financial institutions secured by Level 1 HQLA	5,205	31,156	6,592	1,953	8,885
19 Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	420	22,604	11,158	25,958	34,990
20 Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs)	–	38,522	24,558	154,707	162,437
21 of which: with a risk weight of less than or equal to 35% under APS 112	–	540	492	3,023	2,481
22 Performing residential property loans	–	8,663	6,774	573,407	421,716
23 of which: are standard loans to individuals with a LVR of 80% or below	–	5,725	5,044	389,976	258,869
24 Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	4,847	3,068	9,811	12,676
25 Assets with matching interdependent liabilities	–	–	–	–	–
26 Other assets:	2,042	38,058	388	24,055	32,877
27 Physical traded commodities, including gold	2,042	–	–	–	1,735
28 Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)	–	1,097	–	–	932
29 NSFR derivative assets	–	10,993	–	–	–
30 NSFR derivative liabilities before deduction of variation margin posted	–	22,763	–	–	4,553
31 All other assets not included in the above categories	–	3,205	388	24,055	25,657
32 Off Balance Sheet items	–	194,410	–	–	9,779
33 Total RSF					693,453
34 Net Stable Funding Ratio (%)					124

1 Stable deposits are the portion of deposits that are protected under the Financial Claims Scheme where depositors have an established relationship with the Bank or the deposits are in transactional accounts.

2 Less stable deposits are the portion of deposits that do not meet the requirements of stable deposits.

Liquidity Risk (continued)

12.3 Net Stable Funding Ratio (continued)

Table 21 - NSFR Disclosure Template (continued)

		As at 31 March 2023				
		Unweighted value by residual maturity				Weighted
		No Maturity	0 - 6 months	7 - 12 months	> 12 months	value
		\$M	\$M	\$M	\$M	\$M
Available Stable Funding (ASF) Item						
1	Capital	76,164	–	–	30,953	107,117
2	Regulatory Capital	76,164	–	–	30,953	107,117
3	Other Capital Instruments	–	–	–	–	–
4	Retail deposits and deposits from small business customers	422,451	114,302	26	150	497,310
5	Stable deposits ¹	235,077	46,125	7	14	267,162
6	Less stable deposits ²	187,374	68,177	19	136	230,148
7	Wholesale funding	158,770	202,272	50,262	137,531	261,380
8	Operational deposits	86,801	–	–	–	43,400
9	Other wholesale funding	71,969	202,272	50,262	137,531	217,980
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	–	22,778	170	2,202	2,287
12	NSFR derivative liabilities	–	9,903	–	–	–
13	All other liabilities and equity not included in the above categories	–	12,875	170	2,202	2,287
14	Total ASF					868,094
Required Stable Funding (RSF) Item						
15 a)	Total NSFR HQLA					4,897
15 b)	ALA					5,114
15 c)	RBNZ Securities					458
16	Deposits held at other financial institutions for operational purposes					–
17	Performing loans and securities	1,939	102,507	46,453	764,198	634,331
18	Performing loans to financial institutions secured by Level 1 HQLA	1,939	30,326	4,704	–	5,578
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	22,621	10,938	26,844	35,707
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs)	–	37,936	23,775	153,657	161,041
21	of which: with a risk weight of less than or equal to 35% under APS 112	–	441	276	2,114	1,733
22	Performing residential property loans	–	8,187	6,267	570,908	418,731
23	of which: are standard loans to individuals with a LVR of 80% or below	–	5,588	4,863	391,837	259,920
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	3,437	769	12,789	13,274
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets:	1,927	36,616	1,911	22,566	33,418
27	Physical traded commodities, including gold	1,927	–	–	–	1,638
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)	–	1,378	–	–	1,172
29	NSFR derivative assets	–	10,628	–	–	725
30	NSFR derivative liabilities before deduction of variation margin posted	–	19,404	–	–	3,881
31	All other assets not included in the above categories	–	5,206	1,911	22,566	26,002
32	Off Balance Sheet items	–	195,607	–	–	11,090
33	Total RSF					689,308
34	Net Stable Funding Ratio (%)					126

1 Stable deposits are the portion of deposits that are protected under the Financial Claims Scheme where depositors have an established relationship with the Bank or the deposits are in transactional accounts.

2 Less stable deposits are the portion of deposits that do not meet the requirements of stable deposits.

13

Appendices

13.1 Detailed Capital Disclosures Template (APS 330 Attachment A)

The Group applies APRA's revised capital framework effective from 1 January 2023. These tables should be read in conjunction with Appendix 13.3 Regulatory Balance Sheet and Appendix 13.4 Reconciliation between Detailed Capital Disclosures Template and Regulatory Balance Sheet.

		30 Jun 23 Basel III %	
Summary Group Capital Adequacy Ratios (Level 2)			
CET1		12.2	
Tier 1		14.5	
Total Capital		20.0	
		30 Jun 23 Basel III \$M	
		Reconciliation Table Reference	
Common Equity Tier 1 Capital: instruments and reserves			
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	33,913	Table A
2	Retained earnings	39,752	
3	Accumulated other comprehensive income (and other reserves)	(1,710)	
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	–	
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	–	Table B
6	Common Equity Tier 1 Capital before regulatory adjustments	71,955	
Common Equity Tier 1 Capital: regulatory adjustments			
7	Prudential valuation adjustments	(10)	
8	Goodwill (net of related tax liability)	(5,295)	Table C
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	(2,042)	Table C
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	–	Table D
11	Cash flow hedge reserve	1,820	
12	Shortfall of provisions to expected losses ¹	–	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	(79)	
15	Defined benefit superannuation fund net assets ²	(453)	
16	Investments in own shares (if not already netted off paid-in capital on reported Balance Sheet)	–	
17	Reciprocal cross-holdings in common equity	–	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	–	
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	–	
20	Mortgage service rights (amount above 10% threshold)	–	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	Table D
22	Amount exceeding the 15% threshold		
23	of which: significant investments in the ordinary shares of financial entities	–	
24	of which: mortgage servicing rights	–	
25	of which: deferred tax assets arising from temporary differences	–	Table D

1 Represents the shortfall between the calculated Regulatory EL and Eligible Provisions (EP) with respect to credit portfolios which are subject to the AIRB approach. The adjustment is assessed separately for both defaulted and non-defaulted exposures. Where there is an excess of EL over EP in either assessments, the difference must be deducted from CET1. For non-defaulted exposures where the EL is lower than the EP, this may be included in Tier 2 capital up to a maximum of 0.6% of total Credit Risk RWA.

2 In accordance with APRA regulations, the surplus in the Group's defined benefit superannuation fund, net of any deferred tax liability, is deducted from CET1.

Appendices (continued)

13.1 Detailed Capital Disclosures Template (APS 330 Attachment A) (continued)

	30 Jun 23 Basel III \$M	Reconciliation Table Reference	
26	National specific regulatory adjustments (rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i, 26j)	–	
26a	of which: treasury shares	162	Table A
26b	of which: offset to dividends declared due to a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI	–	
26c	of which: deferred fee income	–	
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23	(3,865)	Table G
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	(3,281)	Table D
26f	of which: capitalised expenses	(1,230)	
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	(593)	Table G
26h	of which: covered bonds in excess of asset cover in pools	–	
26i	of which: undercapitalisation of a non-consolidated subsidiary	–	
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	(180)	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–	
28	Total regulatory adjustments to Common Equity Tier 1 ¹	(15,046)	
29	Common Equity Tier 1 Capital	56,909	
Additional Tier 1 Capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments	–	
31	of which: classified as equity under applicable accounting standards	–	
32	of which: classified as liabilities under applicable accounting standards	10,862	Table E
33	Directly issued capital instruments subject to phase out from Additional Tier 1	–	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in Group AT1)	–	
35	of which: instruments issued by subsidiaries subject to phase out	–	
36	Additional Tier 1 Capital before regulatory adjustments	10,862	Table E
Additional Tier 1 Capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	–	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	–	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	–	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
41	National specific regulatory adjustments (rows 41a, 41b, 41c)	–	
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	–	
41b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	–	
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	–	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	–	
43	Total regulatory adjustments to Additional Tier 1 capital	–	
44	Additional Tier 1 Capital (AT1)	10,862	
45	Tier 1 Capital (T1=CET1+AT1)	67,771	
Tier 2 Capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments	24,320	Table F
47	Directly issued capital instruments subject to phase out from Tier 2	–	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	–	
49	of which: instruments issued by subsidiaries subject to phase out	–	
50	Provisions	2,156	
51	Tier 2 Capital before regulatory adjustments	26,476	

1 Total regulatory adjustments to CET1 of \$15,046 million in Row 28 is net of APRA's allowance for treasury shares held by the Group's eligible employee share scheme arrangements of \$162 million as detailed in Row 26a.

Appendices (continued)

13.1 Detailed Capital Disclosures Template (APS 330 Attachment A) (continued)

	30 Jun 23 Basel III \$M	Reconciliation Table Reference
Tier 2 Capital: regulatory adjustments		
52	(30)	
53	–	
54	(437)	
55	–	
56	–	
56a	–	
56b	–	
56c	–	
57	(467)	
58	26,009	
59	93,780	
60	467,992	
Capital ratios and buffers		
61	12.2%	
62	14.5%	
63	20.0%	
64	10.07%	
65	4.75%	
66	0.82%	Table H
67	–	
68	12.2%	
National minima		
69	–	
70	–	
71	–	
Amount below thresholds for deductions (not risk weighted)		
72	1,286	Table G
73	2,579	Table G
74	–	
75	3,281	Table D
Applicable caps on the inclusion of provisions in Tier 2		
76	145	
77	305	
78	2,076	
79	2,011	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	–	
81	–	
82	–	
83	–	
84	–	
85	–	

1 Includes the Group's holdings of other banks' Total Loss Absorbing Capacity (TLAC) instruments which are required to be deducted from the Group's Tier 2 Capital under the revised APS 111 *Capital Adequacy: Measurement of Capital* effective from 1 January 2022.

2 Includes 1% Domestic Systematically Important Bank (D-SIB) requirement.

Appendices (continued)

13.2 Detailed Leverage Disclosures Template (APS 330 Attachment E)

Table 19 – Summary comparison of accounting assets vs leverage ratio exposure measure

		30 Jun 23
		Basel III
		\$M
1	Total consolidated assets as per published financial statements	1,252,845
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(3,101)
3	Adjustment for assets held on the Balance Sheet in a fiduciary capacity pursuant to the Australian Accounting Standards but excluded from the leverage ratio exposure measure	–
4	Adjustments for derivative financial instruments	7,255
5	Adjustment for SFTs (i.e. repos and similar secured lending)	5,081
6	Adjustment for off Balance Sheet exposures (i.e. conversion to credit equivalent amounts of off Balance Sheet exposures)	111,356
7	Other adjustments	(39,010)
8	Leverage ratio exposure	1,334,426

Table 18 – Leverage ratio disclosure template

		30 Jun 23
		Basel III
		\$M
On Balance Sheet exposures		
1	On Balance Sheet items (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,154,943
2	Asset amounts deducted in determining Tier 1 capital	(16,600)
3	Total On Balance Sheet exposures (excluding derivatives and SFTs)	1,138,343
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	8,927
5	Add-on amounts for potential future credit exposure (PFCE) associated with all derivatives transactions	18,489
6	Gross-up for derivatives collateral provided where deducted from the Balance Sheet assets pursuant to the Australian Accounting Standards	1,742
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	–
8	(Exempted central counterparty (CCP) leg of client-cleared trade exposures)	–
9	Adjusted effective notional amount of written credit derivatives	2,072
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(30)
11	Total derivative exposures	31,200
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	51,362
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(14,262)
14	CCR exposure for SFT assets	16,427
15	Agent transaction exposures	–
16	Total SFT exposures	53,527
Other Off Balance Sheet exposures		
17	Off Balance Sheet exposure at gross notional amount	198,871
18	(Adjustments for conversion to credit equivalent amounts)	(87,515)
19	Other Off Balance Sheet exposures	111,356
Capital and total exposures		
20	Tier 1 Capital	67,771
21	Total exposures	1,334,426
Leverage ratio		
22	Leverage ratio (%)	5.1

Appendices (continued)

13.3 Regulatory Balance Sheet

The following table provides details on the Group's Balance Sheet and the Level 2 Regulatory Balance Sheet as at 30 June 2023.

	Group		Level 2	Template/
	Balance	Adjustment ¹	Regulatory	Reconciliation
	Sheet		Balance	Table
	\$M	\$M	Sheet	Reference
	\$M	\$M	\$M	
Assets				
Cash and liquid assets	116,619	(1)	116,618	
Receivables due from other financial institutions	6,079	–	6,079	
Assets at fair value through Income Statement	67,627	–	67,627	Table G
Derivative assets	23,945	–	23,945	
Investment securities:				Table G
At amortised cost	2,032	–	2,032	
At fair value through Other Comprehensive Income	84,072	–	84,072	
Assets held for sale	5	–	5	
Loans, bills discounted and other receivables	926,082	(3,193)	922,889	
Investment in regulatory non-consolidated subsidiaries	–	89	89	Table G
Property, plant and equipment	4,950	–	4,950	
Investment in associates and joint ventures	2,848	–	2,848	Table G
Intangible assets	7,393	–	7,393	Table C
Deferred tax assets	3,811	–	3,811	Table D
Other assets	7,382	4	7,386	
Total assets	1,252,845	(3,101)	1,249,744	
Liabilities				
Deposits and other public borrowings	864,995	137	865,132	
Payables due to other financial institutions	21,910	–	21,910	
Liabilities at fair value through Income Statement	40,103	–	40,103	
Derivative liabilities	25,347	–	25,347	
Current tax liabilities	671	(2)	669	
Deferred tax liabilities	138	–	138	Table D
Provisions	3,013	–	3,013	
Term funding from central banks	54,220	–	54,220	
Debt issues	122,267	(3,272)	118,995	
Bills payable and other liabilities	15,578	81	15,659	
Loan capital	32,598	–	32,598	Table E
Total liabilities	1,180,840	(3,056)	1,177,784	
Net assets	72,005	(45)	71,960	
Shareholders' Equity				
Ordinary Share capital	33,913	–	33,913	Row 1, Table A
Reserves	(1,710)	–	(1,710)	Row 3
Retained profits	39,797	(45)	39,752	Row 2
Shareholders' Equity attributable to Equity holders of the Bank	72,000	(45)	71,955	
Non-controlling interests	5	–	5	Table B
Total Shareholders' Equity	72,005	(45)	71,960	

¹ Reflects the deconsolidation of an insurance entity and those entities through which securitisation of the Group's assets are conducted. These entities are classified as non-consolidated subsidiaries by APRA and are excluded from the Level 2 Regulatory Consolidated Banking Group.

Appendices (continued)

13.4 Reconciliation between Detailed Capital Disclosures Template and Regulatory Balance Sheet

The following tables provide additional information on the differences between the Detailed Capital Disclosures Template (Appendix 13.1) and the Regulatory Balance Sheet (Appendix 13.3).

Table A	30 Jun 23 \$M	Template Reference
Share Capital		Row 1
Total per Balance Sheet (Ordinary Share Capital) ¹	33,913	
Treasury Shares held by the Group's employee share scheme trusts (APRA specific adjustment)	162	Row 26a
Total Ordinary Share Capital and Treasury Shares	34,075	

Table B	30 Jun 23 \$M	Template Reference
Non-Controlling Interests		
Total per Balance Sheet ¹	5	
Less other non controlling interests not included in capital	(5)	
Total per Capital Template	–	Row 5

Table C	30 Jun 23 \$M	Template Reference
Goodwill and Other Intangibles		
Total per Balance Sheet ¹	7,393	
Less capitalised software and other intangibles separately disclosed in template	(2,098)	
Total per Capital Template - Goodwill	5,295	Row 8
Other intangibles (including capitalised software) per Balance Sheet	2,098	
Less deferred tax liability associated with other intangibles	(56)	
Total per Capital Template - Other Intangibles	2,042	Row 9

Table D	30 Jun 23 \$M	Template Reference
Deferred Tax Assets		
Deferred tax assets per Balance Sheet ¹	3,811	
Less deferred tax liabilities per Balance Sheet ¹	(138)	
Net Deferred Tax Assets ²	3,673	
Adjustments required in accordance with APRA prudential standards ³	(392)	
Total per Capital Template	3,281	Row 26e

¹ Represents the balance per Level 2 Regulatory Balance Sheet.

² Represents the balance of deferred tax assets net of deferred tax liabilities per Level 2 Regulatory Balance Sheet.

³ Represents the deferred tax balances associated with reserves ineligible for inclusion in regulatory capital, the general reserve for credit losses, intangibles, and the impact of limitations of netting of balances within the same geographic tax authority.

Appendices (continued)

13.4 Reconciliation between Detailed Capital Disclosures Template and Regulatory Balance Sheet (continued)

Table E	30 Jun 23	Template
	\$M	Reference
Additional Tier 1 Capital		
Total Loan Capital per Balance Sheet ¹	32,598	
Add fair value hedge adjustments ²	2,835	
Total Loan Capital net of issue costs at their contractual values	35,433	
Less amount related to Tier 2 Capital Instruments	(24,643)	
Total Tier 1 Loan Capital	10,790	
Add issue costs ³	72	
Total per Capital Template	10,862	Row 36
Additional Tier 1 Capital Instruments comprises		
Basel III Complying Instruments		
PERLS X	1,365	
PERLS XI	1,590	
PERLS XII	1,650	
PERLS XIII	1,180	
PERLS XIV	1,750	
PERLS XV	1,777	
PERLS XVI	1,550	
Total Additional Tier 1 Capital Instruments	10,862	Row 36

Table F	30 Jun 23	Template
	\$M	Reference
Tier 2 Capital Instruments		
Total included in Balance Sheet	24,643	
Less amount of Tier 2 debt issued by subsidiary ineligible for inclusion in the Group's Capital	–	
Add issue costs ³	38	
Less amortisation of instruments ⁴	(361)	
Total per Capital Template	24,320	Row 46, 47

1 Represents the balance per Level 2 Regulatory Balance Sheet.

2 For regulatory capital purposes, APRA requires these instruments to be included as if they were unhedged.

3 Unamortised issue costs relating to capital instruments are netted off against each instrument in the Balance Sheet. For regulatory capital purposes, these capital instruments are shown at face value. The unamortised issue costs are deducted from CET1 as part of capitalised expenses in Row 26f in the Detailed Capital Disclosures Template.

4 APRA requires these instruments to be amortised by 20% of the original amount during each of the last five years to maturity.

Details on the main features of Capital instruments included in the Group's regulatory capital (Ordinary Share Capital, Additional Tier 1 Capital and Tier 2 Capital) as required by APS 330 Attachment B can be found at Commbank.com.au/regulatorydisclosures

Appendices (continued)

13.4 Reconciliation between Detailed Capital Disclosures Template and Regulatory Balance Sheet (continued)

Table G	30 Jun 23 \$M	Template Reference
Equity Investments		
Investment in commercial entities	593	Row 26g
Investments in significant financial entities	2,490	Row 26d, 73
Investments in non-significant financial entities	1,286	Row 26d, 72
	4,369	
Equity investment in non-consolidated subsidiaries ¹	89	Row 26d, 73
Total per Capital Template ²	4,458	

1 Equity investments are classified in the Level 2 Regulatory Balance Sheet across assets at fair value through income statement, investment securities, investment in regulatory non-consolidated subsidiaries and investment in associates and joint ventures. In addition, the Group has loans and undrawn commitments (off Balance Sheet) which are deemed in the nature of equity for regulatory capital purposes.

2 The aggregate of investments in significant financial entities of \$2,490 million, investments in non-significant financial entities of \$1,286 million and equity investment in non-consolidated subsidiaries of \$89 million is a total of \$3,865 million and is included in Row 26d in the Detailed Capital Disclosures Template. The remaining balance of \$593 million related to investments in commercial entities.

Countercyclical Capital Buffer

The Countercyclical Capital Buffer (CCyB), which is effective for Australian ADIs from 1 January 2016, represents an extension to the capital conservation buffer and may require an ADI to hold additional CET1 of up to 3.5%. The CCyB is calculated as the sum of the specific buffer set by APRA with respect to Australian private sector exposures and the weighted average for offshore private sector exposures where the CCyB has been enacted.

Table H	RWA ¹ \$M	Jurisdictional Buffer %	ADI Specific Buffer ² %	Template Reference
Country ³				
Australia	286,125	1.000	0.803962	
United Kingdom	3,849	1.000	0.010816	
Denmark	196	2.500	0.001378	
Norway	103	2.500	0.000724	
Hong Kong	233	1.000	0.000656	
Netherlands	212	1.000	0.000595	
Luxembourg	314	0.500	0.000441	
Others	64,861	–	–	
Total	355,893		0.818572	Row 66

1 Represents total private sector (excludes Banks and Sovereigns) credit and specific market risk RWA.

2 Calculated as each country share of total private sector credit and specific market RWA multiplied by the CCyB applicable in each country.

3 Represents country of ultimate risk as at 30 June 2023.

Appendices (continued)

13.5 Entities excluded from Level 2 Regulatory Consolidated Group

The legal entities included within the accounting scope of consolidation, but excluded from the Level 2 Regulatory Consolidated Group are detailed below.

Entity name	Total Assets \$M	Total Liabilities \$M
(a) Securitisation		
Medallion Trust Series 2017-1	631	631
Medallion Trust Series 2017-2	774	774
Medallion Trust Series 2018-1	1,021	1,021
Medallion Trust Series 2018-1P	300	300
Medallion Trust Series 2019-1	571	571

Entity name	Total Assets \$M	Total Liabilities \$M
(b) Insurance		
CBA Captive Insurance Pte Ltd	140	18

Appendices (continued)

13.6 List of APRA APS 330 Tables

The following schedule lists the quantitative tables in this document as referenced in APS 330 paragraphs 13, 51 and Attachments A to H.

APS 330 Table	Title	Page No.
Para 13a	Regulatory Balance Sheet	91
Para 13b	Entities excluded from Level 2 Regulatory Consolidated Group	95
Para 13c and 13d	Reconciliation between Detailed Capital Disclosures Template and Regulatory Balance Sheet	92
Para 51 and 52	Summary Group Leverage Ratio	9
1	Detailed Capital Disclosures Template	87
1.2	Private sector credit exposures by geographic region (Countercyclical Capital Buffer)	94
2	Main features of capital instruments ¹	n/a
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¹ Details can be found at Commbank.com.au/regulatorydisclosures

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13.8 Glossary

Term	Definition
Additional Tier 1 Capital (AT1)	Additional Tier 1 Capital is a concept defined by APRA and consists of high quality capital that essentially provides a permanent and unrestricted commitment of funds, is freely available to absorb losses, ranks behind the claims of depositors and other senior creditors in the event of a wind-up, and provides for fully discretionary capital distributions.
Advanced Internal Ratings-based (AIRB) Approach	This approach is used to measure credit risk in accordance with the Group's Basel III accreditation. From 1 January 2023, this allows the Group to use internal estimates of PD and LGD (excluding senior unsecured and subordinated corporate exposures), with supervisory estimates to be used for EAD for the purposes of calculating regulatory capital. Prior to 31 December 2022, PD, LGD and EAD internal estimates could be used for the purposes of calculating regulatory capital.
Advanced Measurement Approach (AMA)	Up until 1 January 2023, the methodology 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. From 1 January 2023, the Standardised Measurement Approach is used.
Alternative Liquid Assets (ALA)	Assets that qualify for inclusion in the numerator of the LCR in jurisdictions where there is insufficient supply of HQLA. No ALA are recognised in the LCR following the reduction of the CLF to zero on 1 January 2023.
ASB	ASB Bank Limited – a subsidiary of the Commonwealth Bank of Australia that is regulated by the RBNZ.
Australian Accounting Standards	The Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB).
Australian Prudential Regulation Authority (APRA)	The Australian Prudential Regulation Authority is an independent statutory authority that supervises institutions across banking, insurance and superannuation, and is accountable to the Australian parliament. The regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia.
Authorised Deposit-taking Institution (ADI)	ADIs are corporations that are authorised under the Banking Act 1959 to carry on banking business in Australia.
Banking Book	The banking book is a term for assets on a bank's Balance Sheet that are expected to be held to maturity, usually consisting of customer loans to, and deposits from retail and corporate customers. The banking book can also include those derivatives that are used to hedge exposures arising from the banking book activity, including interest rate risk.
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 exposure and the Comprehensive Risk Measure (CRM) for certain correlation trading activities.
Basel III	Refers to the Basel Committee on Banking Supervision's framework for more resilient banks and banking systems issued in December 2010 (revised in June 2011), Capital requirements for bank exposures to central counterparties (July 2012), and the subsequent Basel III reforms finalised in December 2017.
APRA's Revised Capital Framework	Refers to APRA's revision to the ADI Capital Framework implemented from 1 January 2023.
Capital Floor	The capital floor is defined as the higher of total RWA as determined under the IRB approach, and 72.5% of total RWA as calculated under the standardised approach.
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.
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 reported in the Group's Financial Statements in accordance with Australian Accounting Standards (AASB 9 <i>Financial Instruments</i>).
Commercial Property	Basel asset class – a property exposure that is not a residential property or a land acquisition, development and construction exposure.
Committed Liquidity Facility (CLF)	The RBA provided the CLF to participating ADIs under the LCR, as a shortfall in Commonwealth government and semi-government securities existed in Australia. ADIs could draw under the CLF in a liquidity crisis against qualifying securities pledged to the RBA. APRA phased out sector-wide usage of the CLF to zero on 1 January 2023.
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.

Appendices (continued)

13.8 Glossary (continued)

Term	Definition
Corporate	Basel asset class – from 1 January 2023, this includes commercial credit risk where annual revenues are greater than or equal to \$75 million but less than \$750 million. Prior to this date annual revenues could be greater than or equal to \$50 million.
Corporate - Large	Basel asset class – applicable from 1 January 2023, and applies to commercial credit risk where annual revenues are more than \$750 million.
Credit Valuation Adjustment (CVA) Risk	The risk of mark-to-market losses related to deterioration in the credit quality of a derivative counterparty.
Domestic Public Sector Entity	Basel asset class – exposures that do not meet the definition of Sovereign exposures, but have a level of control or ownership by any level of the Australian Government or the RBA, including those which do not have specific revenue-raising powers.
Exposure at Default (EAD)	The extent to which the Group may be exposed upon default of an obligor.
Extended Licenced Entity (ELE)	An Extended Licensed Entity is comprised of an ADI and each subsidiary of an ADI as specified in any approval granted by APRA in accordance with Prudential Standard APS 222 <i>Associations with Related Entities</i> .
External Credit Assessment Institution (ECAI)	For example: Moody's Investor Services, S&P Global Ratings or Fitch Ratings.
Financial Institution	Basel asset class – primarily includes exposures which relate to: banking, the management of financial assets, lending, factoring, leasing, provision of credit enhancements, securitisation, investments, financial custody, central counterparty services, and proprietary trading.
Foundation Internal Ratings-based (FIRB) Approach	This approach is applicable from 1 January 2023, and is used to measure credit risk in accordance with the Group's Basel III accreditation that allows the Group to use internal estimates of PD and rely on supervisory estimates for LGD and EAD for the purposes of calculating regulatory capital.
General Provisions	Collective Provisions classified as Stage 1 and Stage 2 in accordance with Australian Accounting Standards (AASB 9 <i>Financial Instruments</i>). All Stage 2 provisions are held on a purely forward-looking basis for future losses presently unidentified; hence all Stage 2 provisions (together with Stage 1) are classified as General Provisions.
General Reserve for Credit Losses (GRCL)	The Group continued to disclose the GRCL, which was retired from 1 January 2022 under Prudential Standard APS 220 <i>Credit Risk Management</i> , until changes under APS 330 came into effect from 1 January 2023. The former APS 220 <i>Credit Quality</i> required the Group to establish a reserve that covered 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 GRCL. An excess of required GRCL over the Group's collective provisions was recognised as a deduction from CET1 under the former standard.
Group	Commonwealth Bank of Australia and its subsidiaries.
High Quality Liquid Assets (HQLA)	Assets are considered to be high quality liquid assets if they can be easily and immediately converted into cash at little or no loss of value.
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 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 9 <i>Financial Instruments</i>). Also known as individually assessed provisions or IAP.
Interest Rate Risk in the Banking Book (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 by 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 Net Interest Income earned over 12 months. This calculation is driven by APRA regulations – refer to section 10.2.
Land Acquisition Development or Construction (ADC)	Basel asset class – exposures secured by land acquired for development and construction purposes, or development and construction of any residential or commercial property.
Level 1	The Parent Bank (Commonwealth Bank of Australia), offshore branches (the Bank) and APRA approved Extended Licensed Entities.
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 business and certain 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 business (the Group).

Appendices (continued)

13.8 Glossary (continued)

Term	Definition
Leverage Ratio	Tier 1 Capital divided by total exposures, with this ratio expressed as a percentage.
Liquidity Coverage Ratio (LCR)	The LCR is a quantitative liquidity measure that is part of the Basel III reforms. It was implemented by APRA in Australia on 1 January 2015. It requires Australian ADIs to hold sufficient liquid assets to meet 30 day net cash outflows projected under an APRA-prescribed stress scenario.
Loss Given Default (LGD)	An estimate of the expected severity of loss for a credit exposure following a default event. LGD represents the fraction of EAD that is not expected to be recovered following default.
Monte Carlo simulation	A method of random sampling to achieve numerical solutions to mathematical problems.
Net Cash Outflows (NCO)	Net cash outflows in the LCR are calculated by applying prescribed run-off factors on liabilities and various off Balance Sheet exposures that can generate a cash outflow in the next 30 days.
Net Stable Funding Ratio (NSFR)	The NSFR more closely aligns the behaviour term of assets and liabilities. It is the ratio of the amount of available stable funding (ASF) to the amount of required stable funding (RSF). ASF is the portion of an ADI's capital and liabilities expected to be a reliable source of funds over a one year time horizon. RSF is a function of the liquidity characteristics and residual maturities of an ADI's assets and off Balance Sheet activities.
Non-performing	An exposure that is in default.
Operational Risk under the Standardised Measurement Approach	From 1 January 2023, the methodology used to measure operational risk, utilising an APRA prescribed formulaic approach which is largely dependent on profit or loss from ordinary banking activities.
Other Assets	Basel asset class – primarily includes Cash Items, Investments in Related Entities, Fixed Assets, Lease 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 when it is otherwise outside contracted arrangements.
Probability of Default (PD)	The PD reflects a borrower's ability to generate sufficient cash flows in the future to meet the terms of all of its credit obligations to the Group.
Prudential Capital Requirement (PCR)	The regulatory minimum CET1, Tier 1 and Total Capital ratios that the Group is required to maintain at all times.
Qualifying Revolving Retail (QRR)	Basel asset class – represents revolving exposures less than \$0.1 million to individuals, unsecured and unconditionally cancellable by the Group. Only Australian retail credit cards qualify for this asset class.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
RBNZ regulated entities	All references to RBNZ regulated entities refer to RBNZ regulated subsidiaries and include ASB exposures for which RWA are calculated using the RBNZ's prudential rules subject to certain APRA-prescribed adjustments.
Residential Mortgage	Basel asset class – retail exposures secured by residential mortgage property.
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.
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 RWA amounts for credit risk under the IRB Retail, AIRB and FIRB approaches of 1.10 (31 December 2022: 1.06). This is also applied to advanced exposures within RBNZ regulated entities.
Securities Financing Transactions (SFT)	APRA defines securities financing transactions as transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on the market valuation of securities and the transactions are typically subject to margin agreements.
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 – from 1 January 2023, Small and Medium Enterprise (SME) commercial credit risk where annual revenues are less than \$75 million. Prior to this date, this asset class was applicable to SME commercial credit risk where annual revenues were less than \$50 million.
SME Retail	Basel asset class – from 1 January 2023, Small and Medium Enterprise (SME) commercial credit risk where annual revenues are less than \$75 million and exposures are less than \$1.5 million (previously \$1.0 million).
Sovereign	Basel asset class – primarily claims on Australian and foreign governments, central banks (including the RBA), international banking agencies and regional development banks.

Appendices (continued)

13.8 Glossary (continued)

Term	Definition
Specialised Lending	Basel asset classes subject to the supervisory slotting approach which include: object finance, project finance and commodity finance. Prior to 1 January 2023, Income Producing Real Estate exposures were also subject to the supervisory slotting approach.
Specific Provisions	<p>All provisions, both collectively and individually assessed, classified as Stage 3 in accordance with Australian Accounting Standards (AASB 9 <i>Financial Instruments</i>).</p> <p>The Group continued to disclose Specific Provisions as required under the former Prudential Standard APS 220 <i>Credit Quality</i>, which was retired from 1 January 2022, until changes under APS 330 came into effect from 1 January 2023. The former APS 220 required 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 GRCL (which are primarily Collective Provisions on some defaulted assets).</p>
Stage 1	On origination, an impairment provision equivalent to 12 months expected credit losses (ECL) is recognised, reflecting the credit losses expected to arise from defaults occurring over the next 12 months.
Stage 2	Financial assets that have experienced a significant increase in credit risk (SICR) since origination are transferred to Stage 2 and an impairment provision equivalent to lifetime ECL is recognised. Lifetime ECL is the credit losses expected to arise from defaults occurring over the remaining life of financial assets. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer considered significant the exposure is reclassified to Stage 1 and the impairment provision reverts to 12 months ECL.
Stage 3	Non-performing (defaulted) financial assets are transferred to Stage 3 and an impairment provision equivalent to lifetime ECL is recognised.
Standardised Approach	An alternate approach to the assessment of credit, operational and traded market risk whereby an ADI uses external ratings agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine RWA.
Stressed Value-at-Risk (SVaR)	Stressed Value-at-Risk uses the same methodology as 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.
Term Funding Facility (TFF)	A facility provided by the RBA to certain ADIs to support lending to Australian businesses.
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 Capital	Comprises CET1, Additional Tier 1 Capital and Tier 2 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 <i>Capital Adequacy</i> (APS 110) Attachment D.
Trading Book	Exposures, including derivative products and other off Balance Sheet instruments that are held either with a trading intent or to hedge other elements of the trading book.
Value-at-Risk (VaR)	Value-at-Risk is a measure of potential loss using historically observed market volatility and correlation between different markets.