Commonwealth Bank of Australia
ACN 123 123 124

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Basel II Pillar 3 - Capital Adequacy and Risk Disclosures

Quarterly Update as at 30 September 2008

Background

The Commonwealth Bank of Australia (the Bank) is an Authorised Deposit-taking Institution ("ADI") subject to regulation by the Australian Prudential Regulation Authority ("APRA") under the authority of the Banking Act 1959.

This update of the Bank's capital adequacy and risk disclosures has been prepared primarily in accordance with APRA Prudential Standard APS 330 which requires the Bank to report its assessment of capital adequacy on a Level 2 basis. The Bank has sought and received approval from APRA for an exemption from making certain disclosures required by the standard. The exempted disclosures will be included with the Bank's 31 December 2008 Basel II Pillar 3 disclosure.

This document is unaudited, however it has been prepared consistent with information otherwise published or supplied to APRA.

More detailed qualitative and quantitative disclosure of the Bank's capital adequacy and risk disclosures for the year ended 30 June 2008 are available on the Bank's corporate website (www.commbank.com.au).

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1. Group Capital Ratios

	30 Sept 08 Actual		1 July 08 Proforma	30 June 08 Actual
	Including IRRBB(1) %	Excluding IRRBB(1) %	Including IRRBB(1) %	Excluding IRRBB(1) %
Tier One	7.54	8.05	7.58	8.17
Tier Two	3.52	3.76	3.16	3.41
Total Capital	11.06	11.81	10.74	11.58

(1) IRRBB (Interest rate risk in the banking book) was not effective until 1 July 2008. Comparatives are presented to allow readers to compare Sept 08 and June 08 results more directly.

The Bank continues to maintain a strong capital position with Tier One capital 7.54% and Total Capital 11.06% as at 30 September 2008, inclusive of Interest Rate Risk in the Banking Book (IRRBB). The Bank is continuing to discuss the parameters that drive the calculation of IRRBB with APRA. Excluding the impact of IRRBB, Tier One capital remained relatively stable during the quarter, whilst Total Capital was enhanced by the issue of $500 million of Lower Tier Two debt in September 2008.

Subsequent to 30 September 2008, the Bank issued $695 million shares in order to satisfy the Dividend Reinvestment Plan in respect of the final dividend for 2007/08 and undertook a $2 billion share placement as part of the BankWest acquisition.

The Australian Bankers Association (ABA) recently undertook a study of the key differences between APRA's and the UK Financial Services Authority's (FSA) method of calculating regulatory capital. If the FSA approach was applied to the Group's assessment of regulatory capital, Tier One and Total Capital ratios for the Group would be 11.0% and 13.7% respectively as at 30 September 2008. A more detailed comparison of the ABA study may be found at www.bankers.asn.au.

2. Credit Risk Exposure

Total Exposure[1]	As at 30 Sept 2008 $M	Average for the quarter ended 30 Sept 2008 $M	As at 30 June 2008 $M
Advanced IRB approach			
Corporate[2]	143,260	139,299	135,338
Sovereign	14,406	12,497	10,587
Bank	46,124	37,721	29,318
Residential mortgage	259,744	253,659	247,574
Qualifying revolving retail	10,932	10,909	10,886
Other retail	5,678	5,581	5,484
Total Advanced IRB approach	**480,144**	**459,666**	**439,187**
Specialised lending	25,790	24,551	23,312
Standardised approach[3]			
Corporate[2]	7,101	6,725	6,350
Sovereign	279	252	225
Bank	864	898	931
Residential mortgage	593	551	510
Other retail	352	352	351
Other assets	18,041	18,038	18,035
Total Standardised approach	**27,230**	**26,816**	**26,402**
Total exposure[1]	**533,164**	**511,033**	**488,901**

(1) Total exposure is calculated in accordance with APRA Prudential Standards APS 112 and APS 113. This includes the total of drawn loan facilities plus an assessment of exposure at default for undrawn credit risk commitments. Total exposure does not include equities or securitisation exposures.
(2) Corporate includes Basel II asset classes Corporate, SME Corporate and SME Retail.
(3) Exposures categorised under the Standardised approach includes Margin Lending (an APRA requirement), portfolios which are considered by the Bank as immaterial by size of exposure (e.g. Commonwealth Development Bank of Australia) and offshore entities including Commbank Europe Limited, National Bank of Fiji and PT Bank Commonwealth (Indonesia).

Total credit risk exposure increased by 9% in the September 2008 quarter. The primary areas of growth summarised as follows:

	$B
Increased retail lending	$ 12.5
Increased liquid assets	$ 13.5
Foreign exchange movements	$ 10.9
Non-retail & other exposure	$ 7.4
Total	**$ 44.3**

The "flight to quality" response to market conditions has seen a continued large increase in residential mortgages with home lending continuing to grow above system levels.

The significant growth in Bank exposures reflects the Bank's holding of additional liquidity with an increase in money market and repurchase agreement related transactions with well rated European banks and investment in European government paper.

The depreciation of the Australian dollar and market volatility has resulted in increased exposures for existing FX forward and swaps transactions and for those commercial loans denominated in foreign currency.

3. Past Due and Impaired Exposures

Past due loans ≥ 90 days by exposure type	As at 30 Sept 2008 $M	As at 30 June 2008 $M
Corporate[2]	183	141
Sovereign	-	-
Bank	-	1
Residential mortgage	905	846
Other retail	145	124
Total [1]	**1,233**	**1,112**

(1) Total credit risk exposures do not include equities or securitisation exposures.
(2) Corporate includes Basel II asset classes Corporate, SME Corporate and SME Retail.

Impaired loans by exposure type	As at 30 Sept 2008 $M	As at 30 June 2008 $M
Corporate[2]	650	470
Sovereign	-	-
Bank	32	-
Residential mortgage	184	195
Other retail	12	18
Total [1]	**878**	**683**

(1) Total credit risk exposures do not include equities or securitisation exposures.
(2) Corporate includes Basel II asset classes Corporate, SME Corporate and SME Retail.

Credit quality is being impacted by the slowing economic environment with a small number of large single name exposures being impacted by the continuing dislocation in the credit markets.

Total loans past due 90 days or more have increased by 10%. This has been driven by the sustained higher interest rate environment and slowing economic conditions during the September 2008 quarter impacting both our Retail and Corporate books.

Impaired assets have increased by 29% since June 2008 mainly due to Lehman Brothers seeking Chapter 11 bankruptcy protection in September 2008. Due to the nature of Lehman's exposure, $32 million is categorised under Basel II rules as Bank exposure and $121 million is categorised as Corporate exposure. Specific provisions have been raised appropriate to the expected loss.

Classification of exposures

Basel asset class	Definition
Bank	Bank includes claims on central banks, international banking agencies, regional development banks, ADI and overseas banks.
Corporate	Corporate includes commercial credit risk where annual revenues exceed $50 million, SME Corporate and SME Retail.
Other assets	Other Assets includes Cash, Investments in Related Entities, Fixed Assets and Margin Lending.
Qualifying revolving retail	Qualifying revolving retail represents revolving exposures to individuals less than $0.1m, unsecured and unconditionally cancellable by the Bank. Only Australian retail credit cards qualify for this asset class.
Residential mortgage	Residential Mortgages include retail and small and medium enterprise exposures up to $1 million that are secured by residential mortgage property.
Securitisation	Securitisation includes Bank-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities.
SME Corporate	SME Corporate includes small and medium enterprise commercial credit risk where annual revenues are less than $50 million and exposures are greater than $1 million.
SME Retail	SME Retail includes small and medium enterprise exposures up to $1 million that are not secured by residential mortgage property.
Sovereign	Sovereign includes claims on the Reserve Bank of Australia and on Australian and foreign governments.
Specialised lending	Specialised lending subject to the slotting approach includes Income Producing Real Estate and Project Finance.

Glossary

Term	Definition
ADI	Authorised Deposit-taking Institution includes banks, building societies and credit unions which are authorised by the APRA to take deposits from customers.
AIRB	Advanced Internal Ratings Based approach used to measure credit risk in accordance with the Bank’s Basel II accreditation approval provided by APRA 10 December 2007.
APRA	Australian Prudential Regulation Authority. The regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia.
Basel II	Refers to the Basel Committee on Banking Supervision revised framework for International Convergence of Capital Measurement and Capital Standards issued in June 2006.
IRB	Internal Ratings Based – The approach measuring credit risk focusing on SME and Retail exposures.
Level 2	The level at which the Bank reports its capital adequacy to APRA being the consolidated banking group comprising the ADI, its immediate locally incorporated non-operating holding company, if any, and all their subsidiary entities other than non-consolidated subsidiaries. This is the basis on which this report has been produced.