Determined to be better than we've ever been.

Basel II Pillar 3

Capital Adequacy and Risk Disclosures

as at 30 June 2010

CommonwealthBank

WINNER
Money
MAGAZINE
AWARDS
2010
BANK OF THE YEAR

Commonwealth Bank of Australia ACN 123 123 124

Table of Contents

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1 Introduction

The Commonwealth Bank of Australia 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.

An important component of the Basel Committee on Banking Supervision's (BCBS) revised framework of capital measurement and capital adequacy, known as Basel II, is the public disclosure of prudential information (referred to as "Pillar 3" within the framework). These requirements are outlined in APRA's ADI Prudential Standard APS 330 "Capital Adequacy: Public Disclosures of Prudential Information" (APS 330). The Standard aims to enhance transparency in Australian financial markets by setting minimum requirements for the disclosure of information on the risk management practices and capital adequacy of ADIs.

The Group is accredited with advanced Basel II status and is required to report its assessment of capital adequacy on a Level 2 basis. APS 330 defines "Level 2" as the consolidated banking group excluding the insurance and wealth management businesses.

This document has been prepared in accordance with a Board approved policy and the requirements set out in APS 330, and presents information on the Group's risk management, capital adequacy and Risk Weighted Assets (RWA) calculations for credit, market, securitisation, equity, interest rate risk in the banking book (IRRBB) and operational risks according to APRA requirements.

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

We would like to encourage and thank the ongoing commitment of our people across many areas of the Group including Business Units, Risk Management, Finance and Assurance, Group Treasury, Enterprise Services and Investor Relations in maintaining a strong risk management culture, which we believe is witnessed in the quality of financial results reported here and in other forms.

This document is available on the Group's corporate website www.commbank.com.au .

The Group in Review

It has been another challenging year but one which highlighted the strengths of the Group's risk and capital management culture. The Group's strong risk culture encourages business areas to sense they fully own their risk outcomes even as they engage risk professionals, embedded within their areas, early and often when assessing new business and on other risks facing the Group. The Group places a high reliance on considering the returns derived from all risks taken.

The strength of the Group's risk management in uncertain times has been reflected in the recognition of the Group's overall asset quality and capital position. In particular, the Group remains in a select group with an AA credit rating.

The Group's risk management policies, procedures, and processes helped guide the Group away from the global excesses affecting many of the world's major banks. To maintain this strength, the Group continues to invest in its risk systems and management processes.

The Group benchmarks and aligns its policy framework against existing prudential and regulatory standards as well as potential developments in Australian and international standards and best practice generally. In the past year, management have completed reviews of policies relating to Credit Risk, Market Risk, Operational Risk and Compliance Risk to maintain their effectiveness. Liquidity and Funding Risk policies were also reviewed and the main parameter settings confirmed as being appropriate for the current economic conditions. The review of key credit risk policies included those risks arising from large concentrations, industries, countries and international exposures.

The Board continues to demand that the Group maintain a Tier One Capital ratio that is in excess of 7.0% of RWA. The Group's capital position (refer below) remains strong and well in excess of this 7% minimum.

The Group's capital forecasting process ensures pro-active actions and plans are in place to ensure a sufficient capital buffer above minimum levels is in place 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, stress testing and the Group's bottom-up view of economic capital. These views then cascade into considerations on what capital level is targeted.

The Group's management of its capital adequacy is supported by robust capital management processes applied in each key Business Unit. The results are integrated into the Group's consolidated regulatory and economic capital requirements, and risk-adjusted performance and pricing processes.

	30 June 2010	31 December 2009	30 June 2009
Summary Group Capital Adequacy Ratios (Level 2)	%	%	%
Tier One	9.15	9.10	8.07
Tier Two	2.34	2.53	2.35
Total	**11.49**	**11.63**	**10.42**

Market Environment Review

The global economic outlook remains uncertain. While Asian economies are in reasonable shape, many northern hemisphere economies are struggling with the fallout from the Global Financial Crisis. Prospects for the Australian economy appear good, assisted by the strength of the Chinese economy and a sound banking and financial system. The Group manages with the view that uncertainty about the global economy will likely continue in the near term and that financial markets will remain volatile for some time.

Proposed Regulatory Changes

In the current environment, reform is expected to continue to evolve as global regulators seek to address risks highlighted during the Global Financial Crisis.

Basel Committee on Banking Supervision Proposals

On 17 December 2009, the BCBS released its consultation package of proposals to strengthen global capital and liquidity regulations. The capital proposals relate to the quality, consistency and transparency of capital, enhancing the risk coverage framework, introduction of a non-risk based leverage ratio, reducing pro-cyclicality, and addressing systemic risk. Subsequent to this, the BCBS has issued more details with respect to specific areas addressed in the original proposals. This includes a refinement of the definition of capital and the leverage ratio and a proposal for the introduction of a counter cyclical capital buffer.

Delivery of a fully calibrated and finalised package of capital reforms is expected by the end of 2010, with implementation due to commence in 2012. The leverage ratio is set to be phased in over a more extended time period including parallel reporting undertaken between 2013 and 2017 with a view to migrating to Pillar 1 in 2018.

Basel II enhancements announced in July 2009, relating to securitisation and market risk, intended for introduction by the end of 2010, have been deferred until the end of 2011.

To better understand the potential impact of these proposals the Group participated in a global Quantitative Impact Study (QIS) conducted by APRA for the BCBS. Global results for this study are expected to be released by the BCBS late in the 2010 calendar year.

Supervision of Conglomerate Groups

On 18 March 2010, APRA released a discussion paper titled “Supervision of Conglomerate Groups”. The proposal aims to extend APRA’s current prudential supervision framework to conglomerate groups that have material operations in more than one APRA-regulated industry and/or have one or more material unregulated entities. The aims of the Level 3 proposal are to ensure that a conglomerate group holds adequate capital to protect APRA-regulated entities from potential contagion and other risks within the group. APRA is expected to conduct a QIS in the second half of 2010, prior to finalising the standards in 2011 and implementation of the Level 3 supervision framework in 2012. (See section 3 for further details on the scope of application.)

Capital Standards for General Insurers and Life Insurers

On 13 May 2010, APRA released a discussion paper titled “Review of Capital Standards for General Insurers and Life Insurers” and more detailed technical papers in July 2010. APRA proposes introducing a common framework for required capital and eligible capital across general insurers and life insurers. APRA is conducting a QIS on the proposed changes in the second half of 2010 calendar year. The final capital standards are expected to be released in mid-2011 and to take effect in 2012.

Regulatory Capital Frameworks Comparison

Regulatory requirements are currently not harmonised. To facilitate comparisons of the Group's financial strength, the following disclosure should help interested parties understand the Group's relative capital strength versus financial institutions elsewhere.

The key in-principle differences between the APRA and UK Financial Services Authority (FSA) method of calculating regulatory capital are highlighted in the table below:

Item	Items impacting published total capital adequacy ratio	Impact on Group's Capital Ratios if FSA [1] rules applied
Mortgages	Under APRA rules, the **minimum Loss Given Default (LGD) for residential real estate** secured exposures is higher (20%) compared with 10% for FSA. This results in higher RWA under APRA rules.	Increase
Margin loans	Under APRA rules, **margin loans** attract a minimum risk weight (20%), compared to FSA where no minimum risk weight is applied.	Increase
IRRBB [2]	The APRA rules require the inclusion of **IRRBB** within RWA. This is not required by FSA.	Increase
Dividends	Under FSA rules, **dividends** should be deducted from regulatory capital when declared and/or approved, whereas APRA requires dividends to be deducted on an anticipated basis. This difference is partially offset by APRA making allowance for expected shares to be issued under a dividend reinvestment plan.	Increase
Equity investments	Under APRA rules, some **equity investments** are treated as a deduction 50% from Tier 1 Capital and 50% from Tier 2 Capital. Under the FSA, these equity investments are treated as Total Capital deductions or as RWA.	Increase
Deferred tax assets (DTA)	Under APRA rules, DTA, except those associated with Collective Provisions, are deducted from Tier 1 capital. The FSA treats the DTA as a 100% RWA.	Increase
Hybrid Limits	APRA imposes a Residual Capital limit of 25% of Tier 1 Capital. Under FSA rules this limit is 50%, with more flexible transition rules.	Increase Tier 1, Total Capital neutral
Value of in force (VIF)	VIF at acquisition is treated as goodwill and intangibles and therefore is deducted at Tier 1 by APRA. FSA allows VIF to be included in Tier 1 Capital but deducted from Total Capital.	Increase Tier 1, Total Capital neutral

1. FSA refers to the Financial Services Authority, the primary regulator of the financial services industry in the United Kingdom.

2. IRRBB refers to Interest Rate Risk in the Banking Book (refer to section 8 for further detail).

The following table estimates the impact on the Group's capital, as at 30 June 2010, of the differences between APRA's prudential requirements for calculating RWA and those of the FSA:

Regulatory capital frameworks comparison

	Net Fundamental Capital [1]	Tier One Capital	Total Capital
Reported risk weighted capital ratios at 30 June 2010	6.9%	9.2%	11.5%
RWA treatment – mortgages [2], margin loans	1.1%	1.4%	1.7%
IRRBB risk weighted assets	0.3%	0.3%	0.4%
Future dividends (net of Dividend Reinvestment Plan)	0.9%	0.9%	0.9%
Tax impact in EL v EP calculation	0.1%	0.1%	0.2%
Removal of Tier One Hybrid Limits [3]	0.0%	0.1%	0.0%
Equity investments	0.3%	0.3%	0.2%
Value of in force (VIF) deductions [4]	0.5%	0.5%	0.0%
Total adjustments	**3.2%**	**3.6%**	**3.4%**
30 June 2010 - normalised FSA equivalent	**10.1%**	**12.8%**	**14.9%**

1 Represents Fundamental Tier One Capital net of Tier One deductions.

2 Based on APRA 20% Loss Given Default (LGD) floor compared to FSA 10% and the Group's downturn LGD loss experience. For Standardised portfolio, based on APRA risk weights under APS 112 compared to FSA standard.

3 UKFSA provides larger Tier One Hybrid limits compared to APRA.

4 VIF at acquisition is treated as goodwill and intangibles and therefore is deducted at Tier One by APRA. FSA allows VIF to be included in Tier One Capital but deducted from Total Capital.

Tier One and Total Capital ratios as at 30 June 2010 under the FSA method of calculating regulatory capital as a percentage of RWA are 12.8% and 14.9% respectively.

Further details on the differences between APRA and the FSA are available on the Australian Bankers' Association web site.

2 Basel II Framework Overview

The Group is required to report the calculation of RWA and assessment of capital adequacy on a Level 2 basis (see section 3, page 5, for further details on the scope of application).

APRA has set minimum regulatory capital requirements for banks that are consistent with Basel II. 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 II Capital Framework is based on "three pillars" as summarised below.

Basel II 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) Operational Risk. Market 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).

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 uses the advanced internal ratings based approach (AIRB) for credit risk and the advanced measurement approach (AMA) for operational risk in the calculation of RWA. Portfolios which attract the Standardised approach are discussed in section 3 "Scope of Application" (page 5) and section 6.3 "Portfolios "Subject to Standardised and Supervisory Risk Weights" (page 37).

The Group's capital calculation framework includes an appropriate allowance for IRRBB in its regulatory capital calculations with effect from 1 July 2008, as required by APRA for Australian ADIs (this is not a requirement under Basel II - Pillar 1). The methodology for measuring market risk for traded assets remains unchanged from Basel I.

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

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

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

These Pillar 3 qualitative and quantitative disclosures are made in detail in this document as part of the Group's 30 June 2010 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 (www.commbank.com.au) within 40 business days of each quarter end.

The Group is not required to have its APS 330 disclosures audited by an external auditor. However, disclosures have been prepared consistent with information supplied to APRA or is otherwise published.

3 Scope of Application

This document has been prepared in accordance with Board approved policy and semi-annual reporting requirements set out in APRA Prudential Standard APS 330 "Capital Adequacy: Public Disclosures of Prudential Information" (APS 330).

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

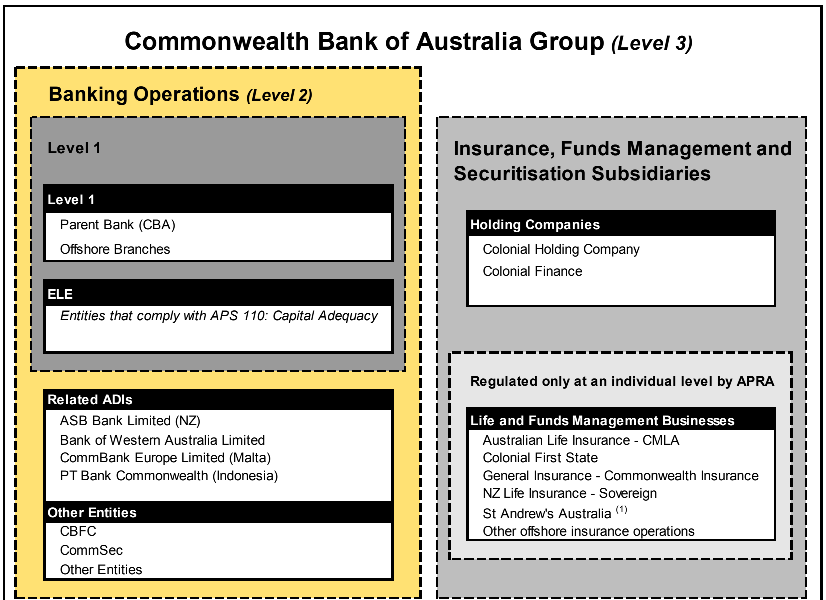
- Level 1 - the Bank and APRA approved Extended Licensed Entities (ELE);
- Level 2 - the consolidated banking group excluding the insurance and wealth management businesses and the entities through which securitisation of Group assets are conducted; and
- Level 3 - the conglomerate group including the Group's insurance and wealth management businesses (the Group).

The Group is required to report its assessment of capital adequacy on a Level 2 basis. Additional semi-annual disclosure of capital ratios relating to material ADIs within the Group together with CBA's own Level 1 capital ratios are included under APS 330 Table 3g (page 8).

The net tangible component of the investment in the insurance, funds management and securitisation activities are deducted from capital, 50% from Tier One and 50% from Tier Two.

These disclosures include consolidation of the Bank of Western Australia Limited (Bankwest), CommBank Europe Limited and PT Bank Commonwealth (Indonesia) which operate under Standardised Basel II approaches. There is a program to extend the Group's advanced accreditation to Bankwest.

ASB Bank Limited (ASB) is subject to regulation by the Reserve Bank of New Zealand (RBNZ). RBNZ applies a similar methodology to APRA in calculating regulatory capital requirements. ASB operates under Basel II advanced status and Level 2 reporting by the Group includes ASB.



(1) Subsequent to 30 June 2010, the Group sold the St Andrew's life and general insurance companies to the Bank of Queensland.

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 and the Group is in compliance with prudential requirements on the transfer of funds within the Group. There are no capital deficiencies in the non-consolidated subsidiaries.

APS 330 Table 1d – Capital deficiencies in non-consolidated subsidiaries

	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Aggregate amount of under capitalisation in non-consolidated subsidiaries of the ADI group	-	-	-

4 Capital and Risk Weighted Assets

The Group maintains a strong capital position with the capital ratios well in excess of APRA minimum capital adequacy requirements (Prudential Capital Ratio (PCR)) and the Board Approved minimum levels at all times throughout the year ended 30 June 2010.

The Tier One Capital and Total Capital ratios as at 30 June 2010 were 9.15% and 11.49% respectively.

Tier One Capital increased by five basis points over the prior half, reflecting strong profit growth and a net reduction in RWA, partially offset by the provision for final dividend. No allowance has been taken into account in the capital ratios for the Dividend Reinvestment Plan (DRP) as it has been assumed that the DRP is to be satisfied in full by an on-market purchase of shares.

The Group's Total Capital ratio decreased 14 basis points over the half to 11.49% with the benefits from the improvement in Tier One Capital offset by the planned redemptions of Lower Tier Two Capital.

RWA's decreased $7 billion since December 2009 to $291 billion at 30 June 2010, primarily influenced by a $6 billion decrease in IRRBB RWA, reflecting a change in repricing and yield curve risk. (Refer below and APS 330 Table 3b to 3f – page 10).

During the year ended 30 June 2010, Tier One Capital increased by 108 bps reflecting the impact of the strong profit performance and the issue of Perpetual Exchangeable Resalable Listed Securities (PERLS V). Total Capital increased by 107 bps since June 2009, benefiting from the improvement in Tier One and a major Lower Tier Two capital issue, partially offset by planned redemption of Lower Tier Two capital. Further details on the PERLS V and Lower Tier Two Capital are provided in the capital initiatives section (page 8) below.

Summary Group Capital Adequacy and RWA	30 June 2010	31 December 2009	30 June 2009
Total Risk Weighted Assets ($M)	290,821	297,449	288,836
Tier One Capital ($M)	26,601	27,065	23,311
Total Capital ($M)	33,420	34,594	30,095
Tier One Ratio (%)	9.15	9.10	8.07
Total Capital Ratio (%)	11.49	11.63	10.42

4.1 Regulatory Capital

Regulatory capital is divided into Tier One and Tier Two Capital. Tier One Capital primarily consists of Shareholders' Equity plus other capital instruments acceptable to APRA, less goodwill and other prescribed deductions. Tier Two Capital is comprised primarily of subordinated debt instruments acceptable to APRA less any prescribed deductions. Total Capital aggregates Tier One and Tier Two Capital.

Tier One capital instruments comprise the highest quality components of capital and satisfy the following criteria:

- Provide a permanent and unrestricted commitment of funds;
- Are freely available to absorb losses;
- Do not impose any unavoidable servicing charge against earnings; and
- Rank behind the claims of depositors and other creditors in the event of winding-up.

The primary Tier One capital instruments of the Group include:

- Ordinary share capital;
- Preference shares; and
- Other hybrid securities.

Tier Two capital instruments represent those instruments that, to varying degrees, fall short of the quality of Tier One capital but nonetheless contribute to the overall strength of the Group.

Tier Two capital is comprised of:

- Upper Tier Two capital – instruments that are essentially permanent in nature; and
- Lower Tier Two capital – comprising components of capital that are not permanent i.e. dated or limited life instruments.

A detailed breakdown of the Group's Tier One and Tier Two capital including capital instruments used by the Group is provided in APS 330 Table 2b to 2d "Group regulatory capital position" (page 9) and Appendix "Detailed Capital Disclosures" (page 76).

This information is consistent with the information provided in the Group's June 2010 Profit Announcement and 2010 Annual Report.

The Board has set the Group's Tier One minimum to be 7.0% of RWA.

The amount of capital above this minimum level is managed to vary over the economic cycle, recognising that regulatory capital requirements have a pro-cyclical nature and the Group may or may not feel it appropriate to immediately respond to the pro-cyclical requirement. At present, the Group wishes to hold a conservative buffer of excess capital to the Board's 7% minimum objective.

Due to a number of differences between accounting and regulatory capital, a reconciliation of the key items has been provided in Appendix "Detailed Capital Disclosures".

Capital Adequacy

The Group actively manages its capital to balance the requirements of various stakeholders (regulators, rating agencies and shareholders etc.). This is achieved by selecting the best mix of capital instruments while attaining selected capital ratios throughout the financial year.

APRA advises the Group of its PCR which represents the regulatory minimum Tier One 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 on-going review by APRA and is formally reassessed on an annual basis. While APRA have advised that the PCR not be publicly disclosed under any circumstances, the Board's minimum 7% Tier One Capital ratio is well above the Group's PCR.

The Group has a range of instruments and methodologies available to effectively manage capital including share issues and buybacks, dividend and dividend reinvestment plan policies, hybrid capital raising and dated and undated subordinated debt issues. All major capital-related initiatives require approval by the Board.

The Group manages its capital within a framework which is integral to its ICAAP. The Group's ICAAP is an integration of risk, financial and capital management processes.

The Group's capital positions are monitored on a continuous basis and reported monthly to the Board's Risk Committee and to the Asset and Liability Committee of the Group. Three-year capital forecasts are conducted on a quarterly basis and a detailed capital and strategy plan is presented to the Board annually.

The Group is required to inform APRA immediately of any breach or potential breach of the minimum prudential capital adequacy requirements imposed on the Group, including details of remedial action taken or planned to be taken. Throughout the 2010 financial year, the Group's capital ratios were well in excess of both APRA minimum capital adequacy requirements and the Board's (higher) minimum 7% capital level.

Capital Initiatives

The following significant initiatives were undertaken during the financial year to actively manage the Group's capital.

Tier One Capital:

- The allocation of $685 million ordinary shares in order to satisfy the DRP for the final dividend for the 2009 financial year representing a DRP participation rate of 39%, inclusive of DRP discount of 1.5%;
- The allocation of $772 million ordinary shares in order to satisfy the DRP, in respect of the interim dividend for the 2010 financial year, representing a participation rate of 42%, inclusive of DRP discount of 1.5%; and
- The Group issued $2 billion ($1,964 million net of issue costs) PERLS V securities in October 2009 which qualify as Non-Innovative Tier One Capital.

Tier Two Capital:

- The issue of $1.7 billion (EUR 1 billion) subordinated Lower Tier Two debt in August 2009; offset by
- Redemption of subordinated Lower Tier Two debt; $615 million (USD 500 million) in August 2009, $300 million in February 2010 and a further $450 million (EUR 300 million) in March 2010.

Regulatory Capital Requirements for Other Significant ADIs in the Group

ASB Bank Limited

ASB 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. ASB operates under advanced Basel II status.

At 30 June 2010 ASB had a Tier One ratio of 10.85% and a Total Capital ratio of 13.20%.

ASB was in compliance with regulatory capital requirements at all times throughout the 2010 financial year.

Bank of Western Australia Limited

Bankwest operates as a separate ADI and is separately regulated by APRA. Bankwest uses the standardised Basel II methodology. There is a program to extend the Group's advanced accreditation to determine regulatory capital to Bankwest.

As at 30 June 2010, Bankwest had Tier One ratio is 8.59% and Total Capital 12.39%. Bankwest's capital ratios were in excess of both APRA minimum requirements and Board approved minimum levels at all times during the 2010 financial year.

Regulatory Capital Requirements for Insurance and Funds Management Business

The Group's life insurance business in Australia is regulated by APRA. The Life Insurance Act 1995 includes a two tiered framework for the calculation of regulatory capital requirements for life insurance companies – "solvency" and "capital adequacy". The capital adequacy test for statutory funds is always equal to or greater than the solvency test [1].

There are no regulatory capital requirements for life insurance companies in New Zealand, though the directors of any Company must certify its solvency under the Companies Act 1993. The Group determines the minimum capital requirements for its New Zealand life insurance business according to the professional standard "Solvency Reserving for Life Insurance Business", issued by the New Zealand Society of Actuaries.

The Group's general insurance businesses are regulated by APRA under the Insurance Act 1973. The Group determines capital requirements for general insurance businesses in accordance with APRA Prudential Standards.

Fund managers in Australia are subject to "Responsible Entity" regulation by the Australian Securities and Investment Commission (ASIC). The regulatory capital requirements vary depending on the type of Australian Financial Services licence or Authorised Representatives' licence held, but a requirement of up to $5 million of net tangible assets applies.

APRA supervises approved trustees of superannuation funds and requires them to maintain net tangible assets of at least $5 million. These requirements are not cumulative where an entity is both an approved trustee for superannuation purposes and a responsible entity.

The Group's insurance and funds management companies held assets in excess of regulatory capital requirements at 30 June 2010. The Group's Australian and New Zealand insurance and funds management businesses held $1,007 million of assets in excess of regulatory solvency requirements at 30 June 2010 (30 June 2009: $1,036 million).

APS 330 Table 3g - Capital ratios

Significant Group ADIs	30 June 2010 %	31 December 2009 %	30 June 2009 %
CBA Level 2 Tier One Capital ratio	9.15	9.10	8.07
CBA Level 2 Total Capital ratio	11.49	11.63	10.42
CBA Level 1 Tier One Capital ratio	9.92	9.84	8.81
CBA Level 1 Total Capital ratio	11.32	11.53	10.51
ASB Tier One Capital ratio [1]	10.85	10.03	10.18
ASB Total Capital ratio [1]	13.20	12.38	12.41
Bankwest Tier One Capital ratio [2]	8.59	9.02	7.32
Bankwest Total Capital ratio [2]	12.39	12.80	11.19

1 *Calculated under advanced Basel II methodology.*

2 *Calculated under the standardised Basel II methodology.*

[1] The Shareholders' Fund is subject to a separate capital requirement.

APS 330 Table 2b to 2d – Group regulatory capital position

	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Tier One Capital			
Paid-up ordinary share capital	23,379	22,606	21,920
Reserves	1,022	901	1,223
Retained earnings and current period profits	7,645	8,748	7,156
Non-controlling interests less ASB perpetual preference shares	18	16	15
Total Fundamental Capital	32,064	32,271	30,314
Residual Capital			
Innovative Tier One Capital	3,469	3,429	3,515
Non-innovative Tier One Capital	3,407	3,407	1,443
Less residual capital in excess of prescribed limits transferred to Upper Tier Two Capital	(225)	(73)	-
Total Residual Capital	6,651	6,763	4,958
Gross Tier One Capital	**38,715**	**39,034**	**35,272**
Deductions from Tier One Capital			
Goodwill	(8,470)	(8,523)	(8,572)
Other deductions from Tier One Capital	(1,645)	(1,527)	(1,534)
50/50 deductions from Tier One Capital	(1,999)	(1,919)	(1,855)
Total Tier One Capital only deductions	(12,114)	(11,969)	(11,961)
Net Tier One Capital	**26,601**	**27,065**	**23,311**
Tier Two Capital			
Upper Tier Two Capital	1,380	1,166	1,097
Lower Tier Two Capital	7,438	8,282	7,542
Gross Tier Two Capital	8,818	9,448	8,639
Deductions from Tier Two Capital			
50/50 deductions from Tier Two Capital	(1,999)	(1,919)	(1,855)
Total Tier Two Capital only deductions	**(1,999)**	**(1,919)**	**(1,855)**
Net Tier Two Capital	**6,819**	**7,529**	**6,784**
Total Capital base	**33,420**	**34,594**	**30,095**

4.2 Risk Weighted Assets

RWA are calculated in accordance with the AIRB approach for the majority of the Group's credit risk exposures.

Internal assessment and supervisory formula approaches are used where relevant for non-rated securitisation exposures and the ratings-based approach is used for securitisation exposures rated by external credit assessment institutions (ECAI).

There is an agreed methodology for measuring market risk for traded assets, which was unchanged from Basel I. APRA introduced a requirement to calculate a capital charge for IRRBB, which was effective from 1 July 2008. The RWA equivalent of IRRBB risk has been included in the Group's disclosures with effect from 30 September 2008.

The advanced measurement approach (AMA) for operational risk has been adopted in the calculation of RWA.

RWA for certain entities and product categories within the Group are calculated under the standardised approach, including Bankwest, CommBank Europe Limited and PT Bank Commonwealth (Indonesia).

A detailed breakdown of the Group's RWA is provided in APS 330 Table 3b to 3f - Capital adequacy (risk weighted assets).

APS 330 Table 3b to 3f - Capital adequacy (risk weighted assets)

	30 June 2010	31 December 2009	Change in RWA	
Asset Category	**$M**	**$M**	**$M**	**%**
Credit risk				
Subject to advanced IRB approach				
Corporate	44,252	43,031	1,221	2.8%
SME corporate	26,216	25,322	894	3.5%
SME retail	5,170	4,765	405	8.5%
Sovereign	2,800	1,956	844	43.1%
Bank	7,492	6,745	747	11.1%
Residential mortgage	55,882	56,909	(1,027)	(1.8%)
Qualifying revolving retail	6,772	6,292	480	7.6%
Other retail	6,322	6,315	7	0.1%
Impact of the Basel II scaling factor [1]	9,294	9,079	215	2.4%
Total RWA subject to advanced IRB	**164,200**	**160,414**	**3,786**	**2.4%**
Specialised lending	**35,483**	**38,678**	**(3,195)**	**(8.3%)**
Subject to standardised approach				
Corporate	8,872	10,053	(1,181)	(11.7%)
SME corporate	7,746	7,540	206	2.7%
SME retail	4,684	4,505	179	4.0%
Sovereign	215	233	(18)	(7.7%)
Bank	1,136	1,206	(70)	(5.8%)
Residential mortgage	22,436	22,531	(95)	(0.4%)
Other retail	2,530	2,411	119	4.9%
Other assets	5,472	6,405	(933)	(14.6%)
Total RWA subject to standardised approach	**53,091**	**54,884**	**(1,793)**	**(3.3%)**
Securitisation	**1,569**	**1,962**	**(393)**	**(20.0%)**
Equity exposures	**2,420**	**2,528**	**(108)**	**(4.3%)**
Total RWA for credit risk exposures	**256,763**	**258,466**	**(1,703)**	**(0.7%)**
Traded market risk	**3,503**	**4,033**	**(530)**	**(13.1%)**
Interest rate risk in the banking book	**10,272**	**16,601**	**(6,329)**	**(38.1%)**
Operational risk	**20,283**	**18,349**	**1,934**	**10.5%**
Total risk weighted assets	**290,821**	**297,449**	**(6,628)**	**(2.2%)**

1 *APRA requires RWA that are derived from the IRB risk-weight functions to be multiplied by a scaling factor of 1.06 (refer glossary).*

APS 330 Table 3b to 3f - Capital adequacy - risk weighted assets (continued)

Asset Category	31 December 2009 $M	30 June 2009 $M	Change in RWA $M	Change in RWA %
Credit risk				
Subject to advanced IRB approach				
Corporate	43,031	54,242	(11,211)	(20.7%)
SME corporate	25,322	31,222	(5,900)	(18.9%)
SME retail	4,765	4,925	(160)	(3.2%)
Sovereign	1,956	1,713	243	14.2%
Bank	6,745	8,040	(1,295)	(16.1%)
Residential mortgage	56,909	54,841	2,068	3.8%
Qualifying revolving retail	6,292	5,698	594	10.4%
Other retail	6,315	6,336	(21)	(0.3%)
Impact of the Basel II scaling factor [1]	9,079	10,021	(942)	(9.4%)
Total RWA subject to advanced IRB	**160,414**	**177,038**	**(16,624)**	**(9.4%)**
Specialised lending	**38,678**	**22,627**	**16,051**	**70.9%**
Subject to standardised approach				
Corporate	10,053	11,094	(1,041)	(9.4%)
SME corporate	7,540	7,455	85	1.1%
SME retail	4,505	4,469	36	0.8%
Sovereign	233	282	(49)	(17.4%)
Bank	1,206	170	1,036	Large
Residential mortgage	22,531	20,576	1,955	9.5%
Other retail	2,411	2,398	13	0.5%
Other assets	6,405	7,517	(1,112)	(14.8%)
Total RWA subject to standardised approach	**54,884**	**53,961**	**923**	**1.7%**
Securitisation	**1,962**	**2,724**	**(762)**	**(28.0%)**
Equity exposures	**2,528**	**2,103**	**425**	**20.2%**
Total RWA for credit risk exposures	**258,466**	**258,453**	**13**	**0.0%**
Traded market risk	**4,033**	**3,450**	**583**	**16.9%**
Interest rate risk in the banking book	**16,601**	**8,944**	**7,657**	**85.6%**
Operational risk	**18,349**	**17,989**	**360**	**2.0%**
Total risk weighted assets	**297,449**	**288,836**	**8,613**	**3.0%**

1 *APRA requires RWA that are derived from the IRB risk-weight functions to be multiplied by a scaling factor of 1.06 (refer glossary).*

Risk Weighted Assets

RWA decreased by $7 billion during the half to $291 billion. The overall decrease was driven by a decrease in Credit, IRRBB and Traded market RWA, partially offset by an increase in Operational RWA.

Credit Risk exposure and RWA

Credit Risk RWA decreased over the half by $2 billion or 1% to $257 billion. The decrease came despite an overall $10 billion increase in credit exposure and the negative influence of credit risk factors. This was offset by improved credit quality of new business and reviewing data issues that have in the past modestly increased calculated RWA.

The increase in exposure was largely due to Residential Mortgages which increased by over $12 billion during the half. Despite this increase, RWA decreased by over $1 billion. The decrease in mortgage RWA reflected the improved quality of new business.

For the non-retail book, the loan portfolio growth was relatively stagnant during the half and overall portfolio quality under the AIRB approach remained relatively stable with RWA increases primarily due to changes to probability of default (PD) estimates.

An update to PDs for an extra year's experience resulted in slightly higher internal PD estimates being used for RWA calculations. The impact was seen mostly in investment grades (BBB and above quality assets as measured on an S&P grading scale) as a result of higher default rates. This change to estimates resulted in an extra $3 billion of RWA, primarily across Corporate and Bank clients.

Specialised Lending exposures also decreased during the prior half as the property portfolio had experienced a net run-off and identification of Specialised Lending (SL) exposures improved.

Data review, including the disaggregation of Residential Mortgage, Corporate and Other Asset categories from a Standardised treatment to an Advanced treatment, resulted in an extra $2 billion RWA reduction.

Details of exposure movements (see also APS Table 4i – Total Credit Exposure, page 23) over the prior half are as follows:

Asset Category	Regulatory Exposure change $M	Regulatory Exposure driver
AIRB Corporate (including SME) and Specialised Lending	(1,465)	Reduction in Corporate including Specialised Lending reflects net run-off of these portfolios as the Bank has been more selective in the business it originates and refinances whilst economic uncertainty remains.
AIRB Bank	(1,131)	A reduction in money market and swap activity.
AIRB Sovereign	1,844	Increase from the additional holding of government and treasuries paper.
AIRB Consumer Retail	12,496	Continued growth in the home loan book albeit at a slower pace as rising interest rates start to take effect. The Wizard home loan book was also moved from Standardised to Advanced treatment.
Total Advanced and Specialised Lending	11,744	
Standardised including Other Assets	(1,998)	Data review, including the move from Standardised to Advanced treatment of the Wizard Home Loan portfolio (acquired in February 2009) together with some corporate merchant exposures, decreased RWA. This was offset by growth largely in the Bankwest retail portfolio.
Total excluding Securitisation and Equity exposures	9,746	**Aligns to exposure movement disclosed in APS 330 Table 4i.**
Equities and Securitisation exposures	(633)	Run-off of securitisation exposures.
Total Credit Exposure	9,113	**Total including equities and securitisation exposures**

The composition of the movement in Credit RWA over the prior half is reflected below.

Asset Category	Total Credit RWA movement $M	Credit RWA driven by volume changes $M	Credit RWA driven by credit risk factor changes $M	Credit RWA driven by data quality improvements $M	Credit RWA driven by change in quality $M
AIRB Corporate including SME and Specialised Lending	(675)	(1,938)	1,852	290	(879)
AIRB Bank	747	(242)	999	-	(10)
AIRB Sovereign	844	77	295	51	421
AIRB Consumer Retail	(540)	1,940	-	428	(2,908)
Standardised including Other Assets	(1,793)	498	-	(2,291)	-
Equities and Securitisation exposures	(501)	(501)	-	-	-
Impact of Basel II scaling factor	215	215	-	-	-
Total	(1,703)	49	3,146	(1,522)	(3,376)

Interest Rate Risk in the Banking Book RWA

IRRBB RWA decreased $6.3 billion on the prior half to $10.3 billion, mainly attributable to the reduction in the structural interest rate risk position of the balance sheet and increased hedging of IRRBB exposures. This resulted in the regulatory capital charge for repricing and yield curve risk reducing in June 2010 due to a more matched asset and liability profile of the balance sheet.

Traded Market Risk RWA

Traded Market Risk RWA decreased by $0.5 billion or 13% on the prior half to $3.5 billion. This decrease was a result of generally lower Value-at-Risk (VaR) due to a reduction in trading and equity underwriting activity.

Operational Risk RWA

Operational Risk RWA increased by $1.9 billion on the prior half to $20.3 billion. Of this increase, $1.4 billion was due to an increase in risks associated with Transaction Execution, Delivery and Process Management as well as an increase in fraud risk reflecting the external environment. The remaining increase of $0.5 billion was due to increased revenue within Bankwest whose RWA is calculated under the Standardised approach.

5 Risk Management

5.1 Risk Governance

Risk Management governance originates at Board level, and cascades through to the CEO and businesses via a risk management framework that includes policies and delegated authorities. The Board and its Risk Committee operate under the direction of their respective charters.

The Group's Board has a comprehensive framework of Corporate Governance Guidelines (the Guidelines), which are designed to properly balance performance and conformance and thereby allow the Group to undertake prudent risk-taking activities that are the basis of its business. The Guidelines and the practices of the Group comply with the "Corporate Governance Principles and Recommendations" published by the Australian Securities Exchange (ASX) Limited's Corporate Governance Council.

The Board's responsibility in terms of risk governance and systems is illustrated in the diagram "Risk Governance Structure" (page 14).

The Risk Committee oversees credit, market (including traded, IRRBB, lease residual values, non-traded equity and structural foreign exchange risks), liquidity and funding, operational, regulatory and compliance, insurance, and reputational risks assumed by the Group in the course of carrying on its business. Strategic risks are governed by the full Board with input from the various Board sub-committees. Tax and accounting risks are governed by the Audit Committee.

A primary purpose of the Risk Committee is to help formulate the Group's risk appetite for consideration by the Board, and agreeing and recommending a risk management framework to the Board that is consistent with the approved risk appetite. This framework, which is designed to achieve portfolio outcomes consistent with the Group's risk/return expectations, includes:

- High-level risk management policies for each of the risk areas it is responsible for overseeing; and
- A set of risk limits to manage exposures and risk concentrations.

The Risk Committee also makes recommendations on the key policies relating to capital, liquidity and funding that underpin the ICAAP, which is overseen and reviewed by the Board on at least an annual basis.

In overseeing the risk framework, and through its dialogues with the risk leadership team and executive management, the Risk Committee also monitors the health of the Group's risk culture, and reports any significant issues to the Board. To allow it to form a view on the independence of the function, the Risk Committee meets with the Group Chief Risk Officer (CRO) in the absence of other management, at least annually or at the will of the Committee or the CRO.

The Risk Committee meets quarterly and as it otherwise deems to be needed. The Chairman of the Risk Committee provides a report to the Board following each Risk Committee meeting.

Risk Management Organisation

The Group has in place a risk management framework to identify, assess, manage and report risks and risk-adjusted returns on a consistent and reliable basis.

Accountability for risk management is structured by a "Three Lines of Defence" model as follows:

- Line 1 - Business Managers - responsible for ensuring appropriate controls are in place to manage all of the related risks of their operations;
- Line 2 - Risk Management and Compliance - responsible for developing the risk management framework, monitoring of implementation, and provision of advice regarding its application, with in some cases the exercise of vetoes in appeal processes; and
- Line 3 - Internal and External Audit - independent review of the risk management framework and internal control environment; hence, the framework requires business ownership of risk.

This risk management framework requires each business to manage the outcome of its risk-taking activities and benefit from the resulting risk-adjusted returns. Risk management professionals deployed in each Business Unit measure risks and assist the business in making decisions that optimise risk-adjusted returns. They also take actions to ensure businesses adhere to risk policies and procedures.

The independent risk management function is undertaken by the Group CRO, who uses a matrix management approach within the Risk Management Business Unit. This Unit is comprised of risk management teams embedded in the businesses and Group functional teams that develop controls for each type of risk and who help the Group understand risk aggregation to support enterprise wide risk management. Employees within these risk teams report to the Group CRO who in turns reports to the CEO and who also has direct reporting requirements to the Risk Committee.

Whilst the independent risk management function is an important component of the risk management framework, business managers are the consequential owners of the risks taken within their Business Units. As such owners, they are expected to support their businesses with employees who are appropriately knowledgeable about risk and its management.

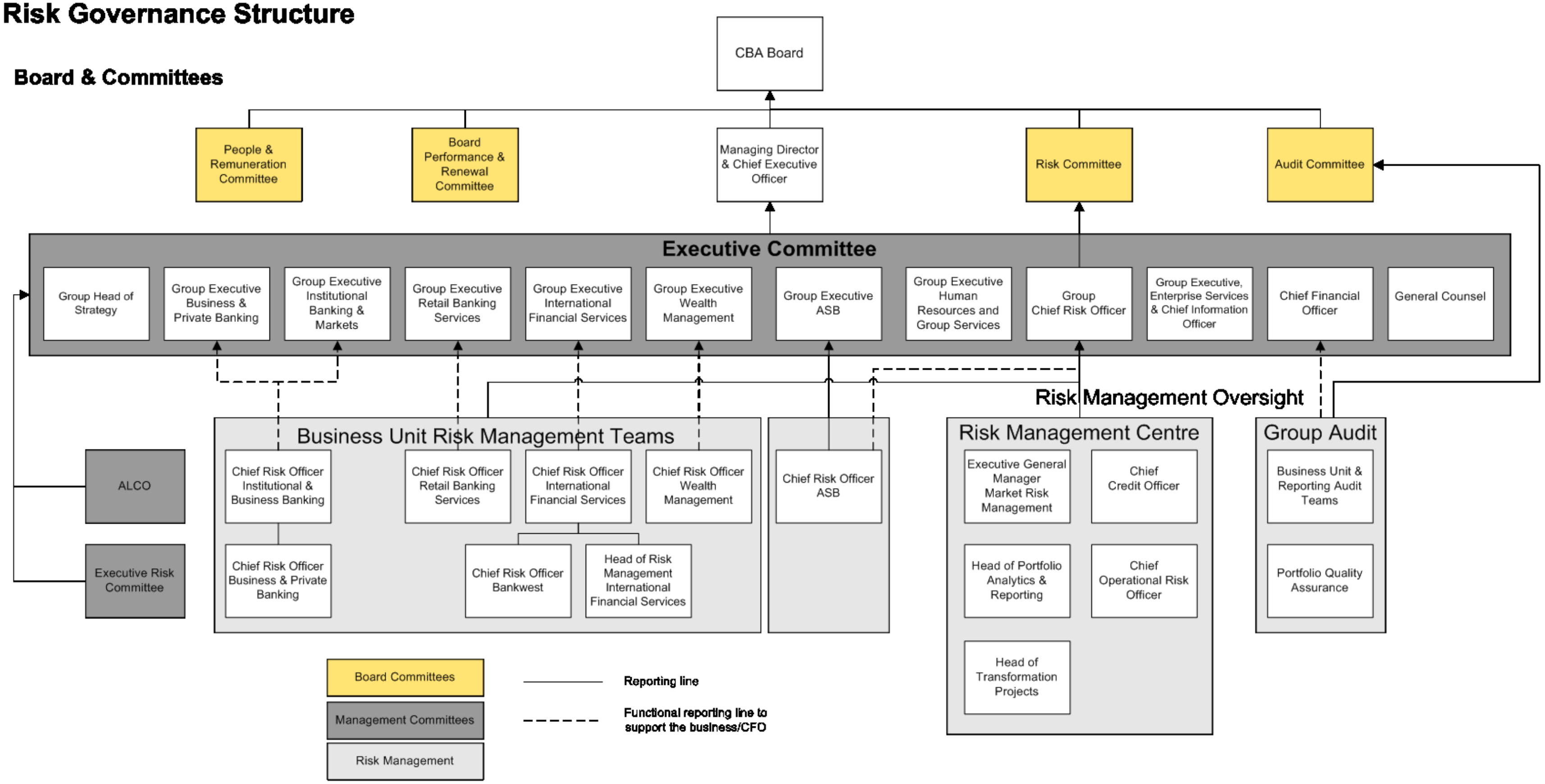
Governance processes and disciplines based on the risk appetite framework help to protect the Group from control and other operational failures, creating transparency over risk management and strategy decisions and, in turn, promote a strong risk culture. Furthermore, governance processes and disciplines create independence of the risk management function from the Group's Business Units and internal audit function, as well as encourage and protect whistle blowing actions when required.

Independent review of the risk management framework is carried out through Group Audit and external auditors through audits of the actions of business and risk management teams. In addition, risk management and audit support "whistle blower" protocols to encourage employees to raise issues they believe reveal weaknesses in the Group's risk undertakings.

Determined to be different

Risk Governance Structure

Board & Committees



5.2 Risk Appetite

Risk Appetite Concept and Framework

The risk appetite of the Group represents the types and degree of risk that it is willing to accept for its shareholders. Fundamentally it guides the Group's risk culture and sets out quantitative and qualitative boundaries on risk-taking activities which apply Group wide.

The Board is of the view that a well articulated risk appetite is important in giving the Group's stakeholders a clear expectation as to how the Group will operate from a risk taking perspective.

This expectation is defined by a number of principles and metrics which are aligned to the Board's risk philosophy and sets minimum standards for shareholder value; allowing for resiliency factors in capital, funding, asset/liability management, our liquidity, risk culture, and other risk mitigants.

Risk appetite is dynamic in nature and is reviewed on a regular basis in conjunction with the Group's strategic plans and business actions. The validation of strategic plans against the Risk Appetite ensures that the assessment of the adequacy of capital and contingent capital plans into the future are also aligned with the Risk Appetite. This interaction with strategy is central to a consistent approach to risk and strategic management across the Group, creating transparency over risk management and strategy decisions and, in turn, promoting a strong risk culture.

A Risk Appetite Framework has been established which includes the key elements of risk appetite, namely the Board approved Risk Appetite Statement and the related Risk Policies and Risk Tolerances, as well as the interaction of these elements with other key processes within the organisation. The framework is illustrated below.

Risk Appetite Statement

The Risk Appetite Statement establishes the philosophy and the high-level boundaries for risk-taking activities across the Group. Risk Policies and Tolerances give more specific guidance/limits for particular risks, providing clarity for management in making day-to-day risk-return decisions.

The Group's risk culture is to take risks that are adequately rewarded and that support its aspiration of achieving solid and sustainable growth in shareholder value at a rate equal to or above the best of the major banking groups in Australia.

Supporting this culture, the Group will:

- Operate responsibly; meet the financial service needs of its customers, provide excellent customer service and maintain impeccable professional standards and business ethics;
- Make business decisions only after careful recognition, assessment, management and pricing of risk;
- Understand the risks it takes on; increasing exposure to new strategic initiatives/products only as sufficient experience and insight is gained;
- Exercise disciplined moderation in risk taking; underpinned with strength in capital, funding and liquidity;
- Diligently strive to protect and enhance its reputation whilst being intolerant of a wide range of actions including regulatory and compliance breaches, and risks associated with health and safety of employees;
- Maintain a control environment that, within practical constraints, minimises risks; and
- Promote a culture aimed at the achievement of best practice, quality outcomes.

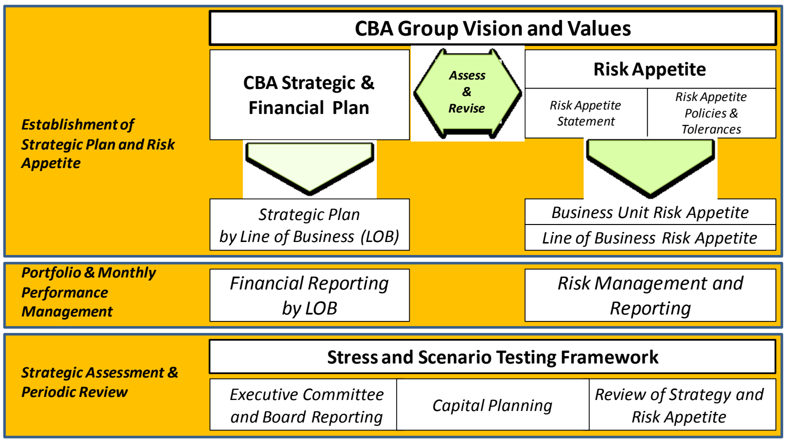
The Group willingly accepts risks that are aligned with its risk culture and are contained within defined boundaries covering areas such as risks to which the Group is intolerant, capital resilience, debt rating, funding risk, asset/liability management, liquidity risk and profit volatility.

In conjunction with its risk culture and boundaries, the Group has a moderate appetite for each of the major risk types to which it is exposed, so as not to have an over concentration in any one area. It also requires operational and compliance risks to be kept at low absolute levels. The specific appetite for each risk type is implemented and enforced by an extensive set of codified specific limits, controls, delegations and governance processes.

From a strategic perspective, extensive planning processes, conducted at least annually, are used to reassess the Group's views on strategic initiatives, assess potential changes in the business environment, identify emerging risks for the Group and provide an understanding of the trade-offs being made between risk and potential returns. The insights provided are central to the review of the Group's Risk Appetite Statement.

Risk Policies, Tolerance & Management

Risks that are readily quantifiable, such as credit, market and liquidity risks have their risk profiles restricted by limits. Other significant risk categories are not managed in terms of defined financial limits, but via comprehensive



qualitative management standards and procedures.

Tolerances are designed to be practical, relevant and capable of being aggregated across the Group. Some tolerances are explicitly contained in risk policies.

Risk policies and tolerances are reviewed and endorsed annually by the Executive Committee and the Risk Committee.

The principal risk types, their relevant governing policies and how they support risk appetite are outlined in the table "Principal Risk Type/Governance Framework" below.

Credit Risk

Credit risk is the potential of loss arising from failure of a debtor or counterparty to meet their contractual obligations. At a portfolio level, credit risk includes concentration risk arising from interdependencies between counterparties (large credit exposures), and concentrations of exposure to countries, industry sectors and geographical regions. Exposure to credit risk also arises through securitisation activities.

The Group has various policies and reporting frameworks in place to monitor and safeguard against excessive risk concentrations to specific counterparties, industries, countries and asset classes.

These policies have been developed as a matter of sound risk management practice and in accordance with the expectations regulators' prudential standards as well as legal requirements.

The measurement of credit risk is based on an internal credit risk rating system, which uses analytical tools to estimate expected and unexpected loss within the credit portfolio.

The program to align Bankwest's credit practices to the Group-wide risk framework continues. This process gives due consideration to local business strategies and systems differences. In addition, a program is underway to extend the Group's accreditation to use the Advanced Internal Ratings Based approach to determine regulatory capital to Bankwest.

Further information on credit risk is included in section 6 of this report (page 22).

Principal Risk Type / Governance Framework

Risk Type	Governing Policies	How Policy Supports Risk Appetite
Credit Risk including Concentration Risk	Group Credit Policy; Country Risk Policy; Aggregation Policy; Large Credit Exposure Policy; Industry Sector Concentration Policy; and Securitisation Policy.	**Quantitative limits/tolerances:** Control Country Risk through a limits structure that captures cross-border credit risk exposures to other countries or entities based overseas; Set industry limits for exposures; Govern the authority of management with regard to the amount of credit provided to any single counterparty after applying the aggregation policy within the Credit Risk Rated segment; and Govern all Securitisation activities undertaken by the Group.
Market Risk	Group Market Risk Policy; and Funds Management and Insurance Market Risk Policy.	**Quantitative limits/tolerances:** Traded Market Risk (Total VaR and Stress Testing limits); Non-Traded Market Risk (Market Value Sensitivity and Net Interest at Risk limits for interest rate risk in the banking book); Seed Trust Market Risk limits; Lease Residual Value Risk limits; Investment mandates for insurance Asset and Liability Management risk (including VaR and stress testing limits); and Non-Traded Equity Investment limits.
Liquidity & Funding Risk	Group Liquidity and Funding Policy.	**Quantitative limits/tolerances:** Liquid asset holdings under name crisis scenario; and Wholesale funding limits.
Operational Risk	Operational Risk Policy and Framework.	**Management via:** A suite of risk mitigating policies; Reporting and case management of loss and near loss incidents; Comprehensive risk assessment and control assurance processes; Quantitative Risk Assessment Framework and Capital modelling; and Support from skilled risk professionals embedded throughout the Group.
Strategic Business Risk	Strategic Framework.	**Management via a suite of management controls including:** Strategic planning; Strategic implementation; and Financial management.
Reputational Risk	Ethics Framework; Cultural Framework; and Statement of Professional Practice.	**Management via:** Support from risk professionals embedded throughout the Group; and Crisis management testing of leadership team.
Insurance Risk	Risk Management Framework.	**Management via:** Risk Management Strategy and Risk Statement; Underwriting and claims standards; Retaining the right to amend premiums on risk policies; and Re-insurance purchase under policy guidance.
Compliance Risk	Compliance Risk Management Framework (CRMF) document.	**Management via:** The CRMF Minimum Group standards for compliance; Obligations Register and Guidance Notes that detail specific requirements and accountabilities for each Business Unit; Business Unit compliance frameworks; and Support from skilled compliance professionals embedded throughout the Group.

Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates, foreign exchange prices, commodity and equity rates, credit spreads, lease residual values, and implied volatility levels.

Further information on market risk is included in section 8 of this report (page 67).

Liquidity and Funding Risk

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. Funding risk is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds.

Operational Risk

Operational Risk is defined as the risk of economic loss resulting from:

- Inadequate or failed internal;
- People and systems; or
- External events.

It includes: legal, regulatory, fraud, business continuity and technology risks.

The Group's operational risk management framework supports the achievement of its financial and business goals. Framework objectives approved by the Risk Committee are:

- Maintenance of an effective internal control environment and system of internal control;
- Demonstration of effective governance, including a consistent approach to operational risk management across the Group;
- Transparency, escalation and resolution of risk and control incidents and issues; and
- Making decisions based upon an informed risk-return analysis and appropriate standards of professional practice.

The Group's security risk management framework forms part of the operational risk framework and sets out the key roles, responsibilities and processes for security risk management across the Group. Security risk is defined as threats associated with theft and fraud, information and IT security, protective security and crisis management.

The Group benchmarks and monitors its insurance risk transfer program for efficiency and effectiveness. This is primarily achieved through a methodology that determines the most appropriate blend of economic capital coverage and insurance risk transfer.

Further information on operational risk is included in section 9 of this report (page 74).

Strategic Business Risk

Strategic Business Risk is defined as the risk of economic loss resulting from changes in the business environment caused by the following factors:

- Macroeconomic conditions;
- Competitive forces at work; or
- Social trends.

Strategic business risk is taken into account when defining business strategy and objectives. The Risk Committee receives reports on business plans, major projects and change initiatives. The Risk Committee monitors progress and reviews successes compared to plans. The full Board accepts or amends the Group's overall strategy and each key Business Unit's strategic plans.

Reputational Risk

Reputational risk can be defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, regulators and other relevant parties.

This risk can adversely affect the Group's ability to maintain existing, or establish new, business relationships and access to sources of funding. Reputational risk is multidimensional and reflects the perception of other market participants. Furthermore, it exists throughout the organisation and exposure to reputational risk is essentially a function of the adequacy of the Group's internal risk management processes, as well as the manner and efficiency with which management responds to external influences on Group-related transactions. In many respects, adverse reputational risk outcomes flow from poor outcomes from the failure of other types of risk.

Insurance Risk

Insurance risk is the risk of loss due to increases in policy benefits arising from variations in the incidence or severity of insured events.

Insurance Risk exposure arises in insurance business as the risk that claims payments are greater than expected. In the life insurance business this arises primarily through mortality (that is, death) or morbidity (that is, illness or injury) risks being greater than expected, whereas for the general insurance business variability arises mainly through weather related incidents and similar calamities, as well as general variability in home, motor and travel insurance claim amounts.

The management of insurance risk is an integral part of the operation of the insurance business and is essential in the control of claims on an end-to-end basis (from underwriting to claim termination or payment) without which significant potential for negative financial results arises.

The Group mitigates insurance risk by:

- Sound product design and pricing, to ensure that robust procedures are in place to ensure that there are no risks which have not been priced into contracts;
- Regular review of insurance experience, to ensure that product design and pricing remains sound;
- Carrying out underwriting, so that the level of risk associated with an individual contract can be accurately assessed, charged for through premium rates, and reserved for;
- Claims management, where an assessment is made such that only genuinely insured claims are admitted and paid, and only paid to the insured extent; and
- Transferring a proportion of the risk carried to reinsurers.

The insurance risk management framework is subject to a process of regular review and enhancement.

Compliance Risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Group may suffer as a result of its failure to comply with the requirements of relevant laws, regulatory bodies, industry standards and codes.

The Group’s Compliance Risk Management Framework (CRMF) is a key element of the Group’s integrated risk management framework. The CRMF is designed to meet the Group’s obligations under relevant financial services laws and industry standards. It incorporates a number of components including Group Policies and Guidance Notes that detail specific requirements and accountabilities. These are complemented by Business Unit compliance frameworks including obligations registers, standards and procedures.

The CRMF provides for the assessment of compliance risks, implementation of controls, monitoring and testing of framework effectiveness and the escalation, remediation and reporting of compliance incidents and control weaknesses.

The Group's compliance strategy is based on two fundamental principles:

- Line management in each Business Unit have the responsibility to ensure their business is and remains compliant with legislative, regulatory, industry code and organisational requirements; and
- Group and Business Unit Regulatory Risk and Compliance teams work together to monitor, overview and report on compliance to management, compliance committees and the Board.

5.3 Stress Testing

Stress testing is used by the Group to understand, manage and quantify risks in the Group, by investigating potential losses from material risks in a stressed environment against the Group's Risk Appetite. Stress testing is also used within the Group to identify and assess the risk profile of the Group and to set risk tolerances.

The stress testing framework includes:

- Group-wide stress scenarios, which are embedded in the strategic planning process, informs and engages the Board in assessing capital adequacy under various adverse operating circumstances. These tests are conducted across risk types with the results aggregated to the Group level. These stress tests, therefore, provide the most comprehensive view of the potential capital requirements of the Group under each specific stress test scenario and are of primary importance in assessing future capital needs; and
- Risk management related stress testing, which supports enhanced risk identification, assessment and management within the Group's risk appetite. Such stress testing facilitates a more robust understanding of the Group's risks, and facilitates better management policies and predictability of capital requirements.

Stress testing also provides an input into the development of Capital Contingency Plans which detail how the Group would respond to the need for increases in capital held to cover the potential for surprising future outcomes.

The Group regularly carries out stress testing across its various businesses, as part of:

- Formal business/strategic planning and capital assessment at Board level;
- Regular risk management stress testing exercises; and
- Business contingency planning; and
- In response to requests from regulators or external agencies.

Specific risk types for which stress tests are regularly conducted, for business risk management purposes, include: credit risk; market risk; liquidity and funding risk and operational risk.

Credit Risk

Business Units conduct various credit risk stress tests on a number of retail portfolios in conjunction with Group-wide stress tests.

Business Units also conduct stress testing of the commercial loan portfolio based on migration rates as part of their input to Group-wide stress tests.

Market Risk

Stress testing is performed on the traded market risk, non-traded interest rate risk, non-traded equity risk and non-traded insurance risk portfolios. Stress testing is undertaken on a frequency from daily to monthly for a holding period consistent with the appropriateness of the risks being considered.

The stress events considered are extreme but plausible market movements and have been backtested against moves seen during 2008 and 2009 at the height of the Global Financial Crisis. The results are reported to the Risk Committee and the Group ALCO on a regular basis. Stress tests also include a range of forward looking macro scenario stresses.

Stress testing in the Wealth Management business is part of the risk and governance framework of Colonial Mutual Life Assurance Society Limited (CMLA). Stress testing is undertaken as part of the annual review of the CMLA Capital Management Policy.

Liquidity and Funding Risk

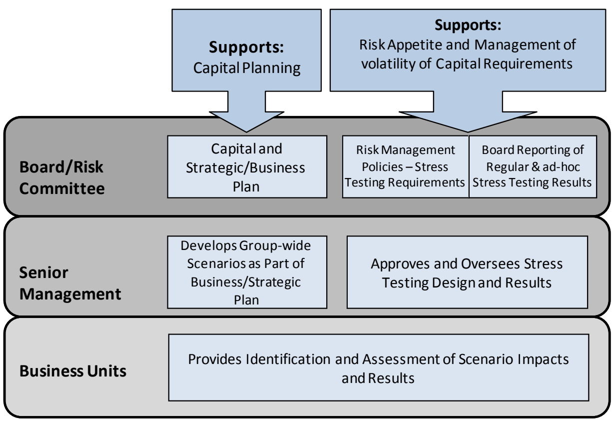
Formal liquidity stress testing is incorporated into the Group's Funding and Liquidity Policy approved by the Risk Committee. The key component is a "Name Crisis" stress test with additional stress tests performed by Market Risk Management.

Operational Risk

The Group has a framework for operational risk stress testing. The purpose of this framework is to assess the potential for operational risk outcomes. In addition, crisis management exercises are undertaken to test Executive leadership team preparedness to handle a large, surprising operational risk failure.

Operational risk stress tests are undertaken at least annually. Crisis management exercises are more frequent.

The diagram below illustrates the Group's general stress testing approaches and accountabilities.



5.4 Capital Management

The Group manages its capital within a framework which is integral to its ICAAP. The Group's ICAAP is an integration of risk, financial and capital management processes. These processes work towards meeting the capital objectives of the Group as prescribed in the Group's Capital Policy. The diagram below illustrates the key components that operate on a dynamic basis to ensure effective and efficient capital management.

There are five different views the Group takes in assessing the level of capital and the use of the capital to maintain strength and drive performance. They are listed below, but please note that there are differences in the definitions, applications and methodologies of these measures that mean that they are not directly comparable or reconcilable:

- Regulatory capital - (protects deposit and policy holders). The capital ratio, for the banking group, is based on a prescriptive calculation set by APRA under the Basel II framework. APRA requires a minimum PCR for total Tier One and Tier Two Capital. The life and general insurance businesses also maintain regulatory capital as required by APRA to protect policy holders. The Group holds buffer layers to these regulatory requirements;
- Ratings capital - (protects debt holders). These are ratings agency views of capital required to support the Group's AA debt rating;
- Market response to capital - (supports investors). Market participants implicitly provide the Group with a consensus assessment of capital required to maximise return for equity investors. The market's view of capital strength and efficiency is critical for the Group to access equity and hybrid capital markets, as well as wholesale and liquidity funding markets. The Group also takes a pro-active position by forecasting capital requirements and accessing capital instruments within its "capital toolkit";
- Stress tests - (protects shareholders). The Group's assessment of capital required based on regularly stress testing potential sudden losses or systemic losses over a period of time; and
- Economic capital - (protects shareholders).

Economic capital is an internal assessment of capital required based on the risks across the entire Group. The approach is model based and includes a capital allocation to cover for modelling errors. This capital perspective is updated most often and evolves more quickly as the Group's risks change. This view is also consistent with capital allocation processes used in:

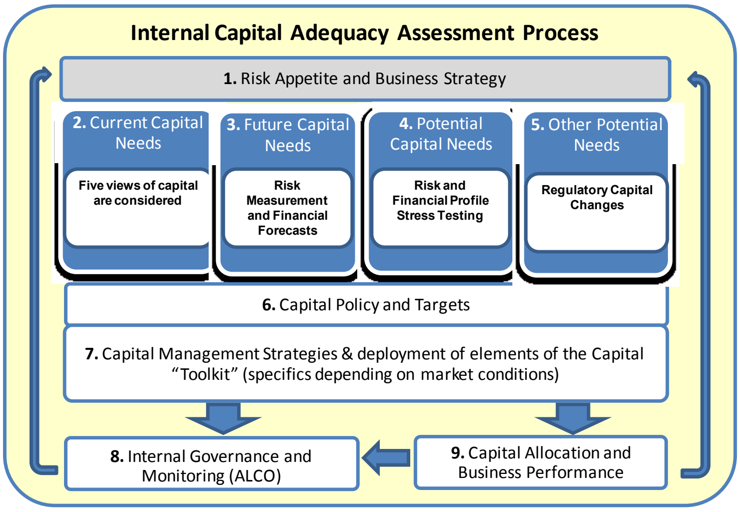
- Pricing of products;
- Performance Management; and
- Understanding the change to the risk intensity within the Group.

These five views of capital requirements all factor into the Group's selection of its minimum capital and on actions the Group takes upon sensing the actual capital at hand is in excess or deficit. At any time one of the five specific approaches to capital requirements can exceed the others. This need not always trigger immediate action by the Group to meet this single view of what is "needed".

Capital Management of Subsidiaries

The regulatory capital minimum levels are set on a Level 2 basis for the banking group. The major subsidiaries of the Group, including the non-consolidated subsidiaries, are all well capitalised and have their own specific regulatory requirements to meet; they also have internal targets and buffers which are well in excess of these regulatory requirements.

The Group's management of its capital adequacy is supported by robust capital management processes applied at the key subsidiary level, including both regulatory and economic frameworks. The major Group subsidiaries are integrated into the risk-adjusted performance and pricing processes within the Group's economic capital framework.



Different Measures of Capital

There are a number of different ways the capital of the Group is measured and reviewed:

- Accounting;
- Regulatory; and
- Economic.

Each of these measures and definitions of capital performs a different function (as summarized in table "Types of Capital" below), dependent on the governance involved and the key stakeholder and users of the information.

The principal differences between accounting and regulatory capital are the allowance within regulatory capital for hybrid securities and subordinated debt, less specific deductions for certain asset items including goodwill and other intangibles.

Economic Capital

Economic capital is an internal bottom-up estimate of the capital required to cover unexpected losses from the risk profile of the Group at a confidence interval that aligns with the Board's risk appetite. Economic capital measures for each risk type are based on risk measures and models owned by the independent risk management function of the Group.

The economic capital measurement methodologies for APRA's "Pillar 1" risk types utilise the internal risk measurement models and/or risk factors that are used for Regulatory Capital measures.

The Group uses economic capital to drive delivery of shareholder value-added (SVA) results. Business Units are required to achieve minimum returns on their allocated economic capital, based on a uniform cost of capital which is set from time-to-time based on market conditions. SVA is maximised through the use of two measures of risk-adjusted performance – Profit After Capital Charge (PACC) and Return on Target Equity (ROTE) – to measure internal business performance. These measures of profit and return reflect the amount of economic capital used in achieving business outcomes.

Economic versus Regulatory Capital

Whilst regulatory capital under Basel II and economic capital are both risk-based measures of capital requirements, there are differences in the definitions, applications and methodologies of these measures that mean that they are not directly comparable or reconcilable.

Both regulatory and economic capital are used directly in physical capital management in the Group; economic capital is also used for allocation of an appropriate level of risk-based capital to the business to generate shareholder value.

	Types of Capital		
	Accounting	**Regulatory**	**Economic**
Governance set by:	Accounting Standards.	APRA	Internal Management.
Methodology is:	Prescriptive, Externally advised.	Prescriptive, Externally advised.	Internally developed.
Objective is to:	Assess profitability (return on equity, EPS) and gearing levels (debt/equity).	Maintain adequate capital to protect the depositor base and prescribed minimums.	Align the Group's risk-adjusted capital usage with the creation of shareholder value.
Key Stakeholders include:	Shareholders, investment analysts and other readers of financial statements.	Shareholders, debt investors, depositors, other counterparties and investment analysts.	Internal Management.

6 Credit Risk

Credit risk is the potential of loss arising from failure of a debtor or counterparty to meet their contractual obligations. It arises primarily from lending activities, the provision of guarantees including letters of credit and commitments to lend, investments in bonds and notes, financial markets transactions and other associated activities. In the insurance business, credit risk arises from investment in bonds and notes, loans, and from reliance on reinsurance.

Credit Risk Management is one of the key inputs into the Group's integrated risk management framework. The Group maintains a robust system of controls and processes to optimise the Group's credit risk taking activities.

Credit risk is taken by business areas across the Group and is managed at both a Group and Business Unit level. The key Business Unit credit risk related functions support the overall risk management responsibilities of the Risk Committee and senior management as discussed in section 5 "Risk Management" of this document (page 13).

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

- Credit Risk Management Principles and Portfolio Standards below; and
- Credit Risk Rating and Measurement (pages 39 and 41).

Credit Risk Management Principles and Portfolio Standards

The Risk Committee operates under a Charter by which it oversees the Group's credit risk management policies and portfolio standards. These are designed to achieve credit portfolio outcomes that are consistent with the Group's risk and return expectations. The Risk Committee meets at least quarterly and more often if required.

The Group has clearly defined credit policies for the approval of credit and management of risk. Formal credit standards apply to all credit risks, with specific portfolio standards applying to all major lending areas. The portfolio standards incorporate income and repayment capacity, acceptable terms and security and loan documentation tests.

The Group uses a Risk Committee approved diversified portfolio approach for the management of credit risk concentrations comprised of the following:

- A large credit exposure policy, which sets limits for aggregate lending or lending equivalent exposures to individual, commercial, industrial, financial institutions, sovereign and other customer groups;
- An industry sector concentration policy that defines a system of limits for exposures by industry sector; and
- A system of country limits for managing sovereign and geographic exposures.

In addition, experts in each Business Unit search for ways to diversify credit risk exposure in the business, all within the limit framework boundaries.

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

The Group assesses the ability of debtors or counterparties to meet their contracted financial obligations for repayment. Collateral security, usually in the form of real estate or charge over income or assets, is generally taken for business credit except for major sovereign, bank and corporate counterparties that are externally risk-rated and are of strong financial standing. Longer term consumer finance (e.g. housing loans) is generally secured against real estate while short term revolving consumer credit is generally not secured by formal collateral.

While the Group applies policies, standards and procedures in governing the credit process, the management of credit risk also relies on the application of judgment and the exercise of good faith and due care of relevant staff within their delegated authority.

A centralised exposure management system is used to record all significant credit risks borne by the Group. The credit risk portfolio has two major segments - Risk-Rated and Retail (refer to section 6.4 "Portfolios subject to Internal Ratings Based approaches" for further detail, page 39).

Determined to be different

6.1 Credit Risk Exposure - Excluding Equities and Securitisation

The following tables detail credit risk exposures (excluding Equity and Securitisation exposures) subject to AIRB and Standardised approaches.

APS 330 Table 4i - Total credit exposure (excluding equities and securitisation) by portfolio type and modelling approach

Portfolio Type	30 June 2010 On Balance Sheet $M	Off Balance Sheet Non- Market Related $M	Off Balance Sheet Market Related $M	Total $M	Average [2] Exposure for June 2010 Half $M	Change [3] in Exposure for June 2010 Half $M	%
Subject to advanced IRB approach							
Corporate	37,592	23,621	5,667	66,880	66,977	(194)	(0.3%)
SME corporate	33,340	5,445	665	39,450	38,941	1,018	2.6%
SME retail	7,466	1,651	11	9,128	9,026	203	2.3%
Sovereign	26,253	1,587	2,048	29,888	28,966	1,844	6.6%
Bank	15,759	2,192	12,379	30,330	30,896	(1,131)	(3.6%)
Residential mortgage	280,928	52,000	-	332,928	326,864	12,128	3.8%
Qualifying revolving retail	8,306	4,387	-	12,693	12,535	316	2.6%
Other retail	4,976	1,017	-	5,993	5,967	52	0.9%
Total advanced IRB approach	**414,620**	**91,900**	**20,770**	**527,290**	**520,172**	14,236	2.8%
Specialised lending	31,561	**6,961**	**851**	**39,373**	**40,619**	**(2,492)**	**(6.0%)**
Subject to standardised approach							
Corporate	8,026	905	44	8,975	10,036	(2,122)	(19.1%)
SME corporate	7,054	857	44	7,955	7,780	351	4.6%
SME retail	4,098	1,375	-	5,473	5,367	212	4.0%
Sovereign	1,249	1	-	1,250	918	664	Large
Bank	5,799	51	53	5,903	5,958	(110)	(1.8%)
Residential mortgage	46,957	485	20	47,462	47,344	237	0.5%
Other retail	2,475	100	1	2,576	2,515	122	5.0%
Other assets	14,297	-	-	14,297	14,973	(1,352)	(8.6%)
Total standardised approach	**89,955**	**3,774**	**162**	**93,891**	**94,890**	**(1,998)**	**(2.1%)**
Total credit exposures [1]	**536,136**	**102,635**	**21,783**	**660,554**	**655,681**	**9,746**	**1.5%**

1 Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
2 The simple average of balances as at 30 June 2010 and 31 December 2009.
3 Change, as at 30 June 2010, of exposures compared to balances at 31 December 2009.

Portfolio Type	31 December 2009 On Balance Sheet $M	Off Balance Sheet Non- Market Related $M	Off Balance Sheet Market Related $M	Total $M	Average [2] Exposure for December 2009 Half $M	Change [3] in Exposure for December 2009 Half $M	%
Subject to advanced IRB approach							
Corporate	37,787	25,016	4,271	67,074	77,493	(20,837)	(23.7%)
SME corporate	32,410	5,615	407	38,432	43,380	(9,896)	(20.5%)
SME retail	7,324	1,596	5	8,925	8,910	29	0.3%
Sovereign	25,122	1,547	1,375	28,044	25,840	4,408	18.7%
Bank	19,160	1,788	10,513	31,461	32,257	(1,592)	(4.8%)
Residential mortgage	268,153	52,647	-	320,800	313,206	15,187	5.0%
Qualifying revolving retail	8,154	4,223	-	12,377	11,977	801	6.9%
Other retail	4,940	1,001	-	5,941	5,926	29	0.5%
Total advanced IRB approach	**403,050**	**93,433**	**16,571**	**513,054**	**518,990**	(11,871)	(2.3%)
Specialised lending	**33,140**	**7,893**	**832**	**41,865**	**31,663**	**20,404**	**95.1%**
Subject to standardised approach							
Corporate	8,688	2,366	43	11,097	11,857	(1,521)	(12.1%)
SME corporate	6,780	781	43	7,604	7,563	82	1.1%
SME retail	3,942	1,319	-	5,261	5,277	(32)	(0.6%)
Sovereign	585	1	-	586	443	286	95.3%
Bank	5,785	182	46	6,013	3,311	5,404	Large
Residential mortgage	46,234	971	20	47,225	45,045	4,359	10.2%
Other retail	2,356	97	1	2,454	2,440	29	1.2%
Other assets	15,649	-	-	15,649	16,255	(1,212)	(7.2%)
Total standardised approach	**90,019**	**5,717**	**153**	**95,889**	**92,191**	**7,395**	**8.4%**
Total credit exposures [1]	**526,209**	**107,043**	**17,556**	**650,808**	**642,844**	**15,928**	**2.5%**

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

APS 330 Table 4i – Total credit exposure (continued)

	30 June 2009			
		Off Balance Sheet		
Portfolio Type	On Balance Sheet $M	Non- Market Related $M	Market Related $M	Total $M
Subject to advanced IRB approach				
Corporate	55,362	27,763	4,786	87,911
SME corporate	40,839	6,797	692	48,328
SME retail	7,339	1,547	10	8,896
Sovereign	21,597	1,193	846	23,636
Bank	20,977	2,537	9,539	33,053
Residential mortgage	252,921	52,692	-	305,613
Qualifying revolving retail	7,475	4,101	-	11,576
Other retail	4,893	1,019	-	5,912
Total advanced IRB approach	**411,403**	**97,649**	**15,873**	**524,925**
Specialised lending	**17,286**	**3,763**	**412**	**21,461**
Subject to standardised approach				
Corporate	9,497	3,054	67	12,618
SME corporate	6,624	836	62	7,522
SME retail	3,893	1,400	-	5,293
Sovereign	299	1	-	300
Bank	475	45	89	609
Residential mortgage	42,242	591	33	42,866
Other retail	2,321	102	2	2,425
Other assets	16,861	-	-	16,861
Total standardised approach	**82,212**	**6,029**	**253**	**88,494**
Total credit exposures [1]	**510,901**	**107,441**	**16,538**	**634,880**

1 *Total Credit Risk Exposures (calculated as EAD) do not include equity or securitisation exposures.*

APS 330 Table 4b - Credit risk exposure by portfolio type

Portfolio Type	As at 30 June 2010 EAD $M	Half Year Average [3] EAD $M
Corporate	75,855	77,013
SME corporate	47,405	46,721
SME retail	14,601	14,394
Sovereign	31,138	29,884
Bank	36,233	36,854
Residential mortgage [1]	380,391	374,208
Qualifying revolving	12,693	12,535
Other retail	8,568	8,482
Specialised lending	39,373	40,619
Other assets	14,297	14,973
Total credit exposures [2]	**660,554**	**655,681**

1 *Residential mortgages include SME Retail secured by residential property.*
2 *Total credit risk exposures do not include equity or securitisation exposures.*
3 *The simple average of closing balances of each half year.*

Portfolio Type	As at 31 December 2009 EAD $M	Half Year Average [3] EAD $M
Corporate	78,171	89,351
SME corporate	46,036	50,943
SME retail	14,186	14,188
Sovereign	28,630	26,283
Bank	37,474	35,568
Residential mortgage [1]	368,025	358,252
Qualifying revolving	12,377	11,977
Other retail	8,395	8,366
Specialised lending	41,865	31,663
Other assets	15,649	16,255
Total credit exposures [2]	**650,808**	**642,844**

1 *Residential mortgages include SME Retail secured by residential property.*
2 *Total credit risk exposures do not include equity or securitisation exposures.*
3 *The simple average of closing balances of each half year.*

Portfolio Type	As at 30 June 2009 EAD $M	Half Year Average [3] EAD $M
Corporate	100,530	96,143
SME corporate	55,849	54,721
SME retail	14,189	13,422
Sovereign	23,936	25,416
Bank	33,662	49,884
Residential mortgage [1]	348,479	312,218
Qualifying revolving	11,576	11,387
Other retail	8,337	7,212
Specialised lending	21,461	24,929
Other assets	16,861	17,994
Total credit exposures [2]	**634,880**	**613,323**

1 *Residential mortgages include SME Retail secured by residential property.*
2 *Total credit risk exposures do not include equity or securitisation exposures.*
3 *The simple average of closing balances of each half year.*

APS 330 Table 4c - Credit risk exposure by portfolio type and geographic distribution

	30 June 2010			
Portfolio Type	Australia $M	New Zealand $M	Other $M	Total $M
Corporate	56,169	5,909	13,777	75,855
SME corporate	39,170	7,447	788	47,405
SME retail	12,606	1,965	30	14,601
Sovereign	20,852	1,509	8,777	31,138
Bank	14,091	1,218	20,924	36,233
Residential mortgage [1]	345,606	34,367	418	380,391
Qualifying revolving	12,693	-	-	12,693
Other retail	7,159	1,407	2	8,568
Specialised lending	33,412	4,106	1,855	39,373
Other assets	10,614	1,318	2,365	14,297
Total credit exposures [2]	**552,372**	**59,246**	**48,936**	**660,554**

1 *Residential mortgages include SME Retail secured by residential property.*

2 *Total credit risk exposures do not include equity or securitisation exposures.*

	31 December 2009			
Portfolio Type	Australia $M	New Zealand $M	Other $M	Total $M
Corporate	57,421	6,618	14,132	78,171
SME corporate	37,464	7,758	814	46,036
SME retail	12,198	1,961	27	14,186
Sovereign	17,046	2,318	9,266	28,630
Bank	12,843	1,344	23,287	37,474
Residential mortgage [1]	333,051	34,260	714	368,025
Qualifying revolving	12,377	-	-	12,377
Other retail	6,988	1,399	8	8,395
Specialised lending	36,666	3,639	1,560	41,865
Other assets	11,777	1,064	2,808	15,649
Total credit exposures [2]	**537,831**	**60,361**	**52,616**	**650,808**

1 *Residential mortgages include SME Retail secured by residential property.*

2 *Total credit risk exposures do not include equity or securitisation exposures.*

	30 June 2009			
Portfolio Type	Australia $M	New Zealand $M	Other $M	Total $M
Corporate	74,062	6,984	19,484	100,530
SME corporate	44,342	10,717	790	55,849
SME retail	12,228	1,910	51	14,189
Sovereign	15,209	1,800	6,927	23,936
Bank	8,552	2,242	22,868	33,662
Residential mortgage [1]	313,938	33,628	913	348,479
Qualifying revolving	11,576	-	-	11,576
Other retail	6,944	1,385	8	8,337
Specialised lending	17,432	1,177	2,852	21,461
Other assets	12,708	492	3,661	16,861
Total credit exposures [2]	**516,991**	**60,335**	**57,554**	**634,880**

1 *Residential mortgages include SME Retail secured by residential property.*

2 *Total credit risk exposures do not include equity or securitisation exposures.*

APS 330 Table 4d - Credit risk exposure by portfolio type and industry sector [1]

30 June 2010

Portfolio Type	Residential Mortgage $M	Other Personal $M	Asset Finance $M	Sovereign $M	Bank $M	Other Finance $M	Agriculture $M	Mining $M
	Industry Sector							
Corporate	-	-	1,198	-	-	12,484	1,844	3,793
SME corporate	-	978	3,251	-	-	3,007	11,584	414
SME retail	-	1,321	3,807	-	-	468	1,554	29
Sovereign	-	-	-	31,138	-	-	-	-
Bank	-	-	-	-	36,233	-	-	-
Residential mortgage [2]	364,193	-	1	-	-	431	836	76
Qualifying revolving	-	12,693	-	-	-	-	-	-
Other retail	-	8,568	-	-	-	-	-	-
Specialised lending	-	-	1	-	-	97	80	398
Other assets	-	4,822	-	-	-	-	-	-
Total credit exposures [1]	364,193	28,382	8,258	31,138	36,233	16,487	15,898	4,710

Portfolio Type	Manufacturing $M	Energy $M	Construction $M	Retail/ Wholesale Trade $M	Transport & Storage $M	Property [3] $M	Other $M	Total $M
	Industry Sector							
Corporate	10,884	4,163	634	6,782	7,247	13,369	13,457	75,855
SME corporate	2,617	234	1,155	5,879	1,463	1,666	15,157	47,405
SME retail	369	14	586	1,037	215	1,282	3,919	14,601
Sovereign	-	-	-	-	-	-	-	31,138
Bank	-	-	-	-	-	-	-	36,233
Residential mortgage [2]	628	36	1,576	2,182	437	4,312	5,683	380,391
Qualifying revolving	-	-	-	-	-	-	-	12,693
Other retail	-	-	-	-	-	-	-	8,568
Specialised lending	199	2,336	2,565	179	3,825	28,243	1,450	39,373
Other assets	-	-	-	-	-	-	9,475	14,297
Total credit exposures [1]	14,697	6,783	6,516	16,059	13,187	48,872	49,141	660,554

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

2 Business lending identified as secured by residential property have been allocated by industry.

3 Property includes REITs and excludes Business Services.

APS 330 Table 4d continued - Credit risk exposure by portfolio type and industry sector [1]

	31 December 2009							
	Industry Sector							
Portfolio Type	Mortgage $M	Other Personal $M	Asset Finance $M	Sovereign $M	Bank $M	Other Finance $M	Agriculture $M	Mining $M
Corporate	-	-	1,145	-	-	13,137	1,733	3,732
SME corporate	-	967	3,351	-	-	3,015	11,272	346
SME retail	-	1,308	3,851	-	-	443	1,541	23
Sovereign	-	-	-	28,630	-	-	-	-
Bank	-	-	-	-	37,474	-	-	-
Residential mortgage [2]	361,689	-	-	-	-	224	274	13
Qualifying revolving	-	12,377	-	-	-	-	-	-
Other retail	-	8,395	-	-	-	-	-	-
Specialised lending	-	-	-	-	-	723	287	484
Other assets	-	5,071	-	-	-	-	-	-
Total credit exposures [1]	361,689	28,118	8,347	28,630	37,474	17,542	15,107	4,598

	Industry Sector							
Portfolio Type	Manufacturing $M	Energy $M	Construction $M	Retail/ Wholesale Trade $M	Transport & Storage $M	Property [3] $M	Other $M	Total $M
Corporate	11,345	4,625	729	7,462	6,804	11,867	15,592	78,171
SME corporate	2,498	193	870	5,648	1,450	1,766	14,660	46,036
SME retail	360	12	572	1,023	191	1,235	3,627	14,186
Sovereign	-	-	-	-	-	-	-	28,630
Bank	-	-	-	-	-	-	-	37,474
Residential mortgage [2]	246	14	547	826	196	175	3,821	368,025
Qualifying revolving	-	-	-	-	-	-	-	12,377
Other retail	-	-	-	-	-	-	-	8,395
Specialised lending	464	2,865	2,623	387	3,886	27,943	2,203	41,865
Other assets	-	-	-	-	-	-	10,578	15,649
Total credit exposures [1]	14,913	7,709	5,341	15,346	12,527	42,986	50,481	650,808

1 Total credit risk exposures do not include equities or securitisation exposures.
2 Business lending identified as secured by residential property have been allocated by industry.
3 Property includes REITs and excludes Business Services.

APS 330 Table 4d continued - Credit risk exposure by portfolio type and industry sector [1]

	30 June 2009							
	Industry Sector							
Portfolio Type	Residential Mortgage $M	Other Personal $M	Asset Finance $M	Sovereign $M	Bank $M	Other Finance $M	Agriculture $M	Mining $M
Corporate	-	-	1,085	2	-	14,920	1,915	5,288
SME corporate	-	887	3,203	-	-	3,529	11,212	425
SME retail	-	1,367	3,731	1	-	674	1,799	32
Sovereign	-	-	39	23,897	-	-	-	-
Bank	-	-	-	-	33,662	-	-	-
Residential mortgage [2]	348,479	-	-	-	-	-	-	-
Qualifying revolving	-	11,576	-	-	-	-	-	-
Other retail	-	8,336	1	-	-	-	-	-
Specialised lending	-	-	-	-	-	271	103	990
Other assets	-	4,633	-	-	-	-	-	-
Total credit exposures [1]	348,479	26,799	8,059	23,900	33,662	19,394	15,029	6,735

	Industry Sector							
Portfolio Type	Manufacturing $M	Energy $M	Construction $M	Retail/ Wholesale Trade $M	Transport & Storage $M	Property [3] $M	Other $M	Total $M
Corporate	13,083	5,644	2,008	7,427	7,293	21,229	20,636	100,530
SME corporate	2,756	343	1,937	5,562	1,311	10,091	14,593	55,849
SME retail	583	23	1,108	1,803	375	1,326	1,367	14,189
Sovereign	-	-	-	-	-	-	-	23,936
Bank	-	-	-	-	-	-	-	33,662
Residential mortgage [2]	-	-	-	-	-	-	-	348,479
Qualifying revolving	-	-	-	-	-	-	-	11,576
Other retail	-	-	-	-	-	-	-	8,337
Specialised lending	144	3,079	505	187	3,719	11,557	906	21,461
Other assets	-	-	-	-	-	-	12,228	16,861
Total credit exposures [1]	16,566	9,089	5,558	14,979	12,698	44,203	49,730	634,880

1 Total credit risk exposures do not include equity or securitisation exposures.
2 Residential mortgages include SME Retail secured by residential property.
3 Property includes REITs and excludes Business Services.

APS 330 Table 4e - Credit risk exposure by portfolio type and contractual maturity

	30 June 2010				
	≤ 12 months	1 ≤ 5 years	> 5 years	No specified maturity	Total
Portfolio Type	**$M**	**$M**	**$M**	**$M**	**$M**
Corporate	10,065	58,838	5,424	1,528	75,855
SME corporate	5,958	28,019	12,387	1,041	47,405
SME retail	2,164	6,665	5,592	180	14,601
Sovereign	4,513	16,680	9,944	1	31,138
Bank	17,091	17,785	1,357	-	36,233
Residential mortgage [1]	10,024	10,664	306,058	53,644	380,391
Qualifying revolving	-	-	-	12,693	12,693
Other retail	59	3,720	2,083	2,707	8,569
Specialised lending	14,240	22,212	2,916	5	39,373
Other assets	5,582	51	7	8,657	14,297
Total credit exposures [2]	**69,696**	**164,634**	**345,768**	**80,456**	**660,554**

1 *Residential mortgages include SME Retail secured by residential property.*
2 *Total credit risk exposures do not include equity or securitisation exposures.*

	31 December 2009				
	≤ 12 months	1 ≤ 5 years	> 5 years	No specified maturity	Total
Portfolio Type	**$M**	**$M**	**$M**	**$M**	**$M**
Corporate	6,953	64,499	5,349	1,370	78,171
SME corporate	3,551	29,750	12,020	715	46,036
SME retail	1,226	7,682	5,116	162	14,186
Sovereign	5,972	16,497	6,160	1	28,630
Bank	20,781	15,533	1,160	-	37,474
Residential mortgage [1]	11,204	12,786	293,383	50,652	368,025
Qualifying revolving	-	-	-	12,377	12,377
Other retail	45	3,225	2,610	2,515	8,395
Specialised lending	11,691	27,311	2,863	-	41,865
Other assets	5,702	92	5	9,850	15,649
Total credit exposures [2]	**67,125**	**177,375**	**328,666**	**77,642**	**650,808**

1 *Residential mortgages include SME Retail secured by residential property.*
2 *Total credit risk exposures do not include equity or securitisation exposures.*

	30 June 2009				
	≤ 12 months	1 ≤ 5 years	> 5 years	No specified maturity	Total
Portfolio Type	**$M**	**$M**	**$M**	**$M**	**$M**
Corporate	15,606	77,797	5,928	1,199	100,530
SME corporate	7,146	34,869	13,003	831	55,849
SME retail	467	8,215	5,332	175	14,189
Sovereign	9,408	11,400	3,126	2	23,936
Bank	19,000	13,480	1,182	-	33,662
Residential mortgage [1]	15,219	15,064	269,431	48,765	348,479
Qualifying revolving	-	-	-	11,576	11,576
Other retail	106	2,721	2,558	2,952	8,337
Specialised lending	1,593	17,937	1,931	-	21,461
Other assets	5,865	77	13	10,906	16,861
Total credit exposures [2]	**74,410**	**181,560**	**302,504**	**76,406**	**634,880**

1 *Residential mortgages include SME Retail secured by residential property.*
2 *Total credit risk exposures do not include equity or securitisation exposures.*

6.2 Past Due and Impaired Exposures, Provisions and Reserves

Provisioning for Impairment

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

Accounting Standard AASB 139 "Financial Instruments: Recognition and Measurement" requires the Group to assess whether a financial asset or a group of financial assets is impaired. Impairment losses are recognised if there is objective evidence of impairment. Separate accounting provisions are also raised under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets" and AASB 136 "Impairment of Assets" for assets other than recognised financial instruments.

The Group assesses its provisioning for impairment in accordance with AASB 139 and recognises both individually assessed provisions and collectively assessed provisions.

This is done by a monthly assessment of the quality of the credit portfolio to determine the loan loss expense and provisions.

APRA Prudential Standard APS 220 "Credit Quality" (APS 220) requires the Group to report Specific Provisions and a General Reserve for Credit Losses (GRCL) and requires that impairment be recognised for both on and off balance sheet items, including financial guarantees, for the expected life of the loan.

From 30 June 2010, any shortfall of the Group's provisions eligible for inclusion in the GRCL are deducted from Tier One Capital on an after-tax basis.

APRA Prudential Standard APS 111 "Capital Adequacy: Measurement of Capital" requires the Group to reduce Tier One and Tier Two capital (on a 50/50 basis) when the amount of regulatory expected losses (before any tax effects) is in excess of APRA defined eligible provisions (net of deferred tax assets).

Individually Assessed and Collective Provisions

The Group assesses at each balance date whether there is any objective evidence of impairment.

If there is objective evidence of impairment on loans, bills discounted and other receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short-term balances are not discounted. Individually assessed provisions are made against individual risk-rated credit facilities where a loss of $20,000 or more is expected.

All other loans and advances that do not have an individually assessed provision are assessed collectively for impairment. Collective provisions are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts.

The evaluation process for these collective provisions is subject to a series of estimates and judgments depending on how the portfolio is managed:

- Risk-rated segment - the risk rating, including the frequency of default and loss given default (LGD) rates, and loss history are considered; or
- Retail-managed segment - the history of arrears and losses are reviewed for the various portfolios and average loss experience is applied.

Current developments in portfolios including performance, quality and economic conditions are also considered as part of the collective provisioning process. Changes in these estimates can have a direct impact on the level of provisions determined.

General Reserve for Credit Losses

All provisions for impairment assessed on an individual basis in accordance with AIFRS are classified as specific provisions. Most of the collective provisions raised under AIFRS are included in the GRCL, however, since 31 December 2009, certain collective provisions not eligible for inclusion in the GRCL are classified as specific provisions. For example, this includes collective provisions on unsecured retail products 90 days or more past due.

Reconciliation of AIFRS and APS220 based credit provisions and APS 330 Table 4f - General reserve for credit losses

	30 June 2010		
	General Reserve for Credit Losses [2]	Specific Provisions [2]	Total Provisions
	$M	$M	$M
Collective provision [1]	3,311	150	3,461
Individual provisions [1]	-	1,992	1,992
Total provisions	**3,311**	**2,142**	**5,453**
Additional GRCL requirement [3]	124	-	124
Total regulatory provisions	**3,435**	**2,142**	**5,577**

1 *Provisions as reported in financial statements according to AIFRS.*
2 *Provisions classified according to APS 220 "Credit Quality".*
3 *The Group has recognised an after tax deduction from Tier 1 Capital of $90 million in order to maintain the required minimum GRCL.*

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

1 *Provisions as reported in financial statements according to AIFRS.*
2 *Provisions classified according to APS 220 "Credit Quality".*

	30 June 2009		
	General Reserve for Credit Losses	Specific Provisions	Total Provisions
	$M	$M	$M
Collective provision [1]	3,225	-	3,225
Individual provisions [1]	-	1,729	1,729
Total regulatory provisions [2]	**3,225**	**1,729**	**4,954**

1 *Provisions as reported in financial statements according to AIFRS.*
2 *Provisions classified according to APS 220 "Credit Quality".*

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

APS 330 Table 4f (i) - Impaired, past due, specific provisions and write-offs charged by industry sector

	30 June 2010				
Industry Sector	Impaired Assets $M	Past Due Loans ≥ 90 Days $M	Specific Provision Balance [1] $M	Net Full Year Charges for Individual Provisions $M	Full Year Actual Losses [2] $M
Home loans	836	2,666	200	157	117
Other personal	19	245	131	30	604
Asset finance	81	27	17	53	69
Sovereign	-	1	-	-	-
Bank	103	-	66	71	74
Other finance	344	13	189	61	359
Agriculture	439	52	90	28	17
Mining	88	2	21	27	8
Manufacturing	197	24	62	12	33
Energy	134	-	21	66	39
Construction	271	34	132	97	72
Wholesale / retail trade	150	30	85	43	51
Transport and storage	57	5	34	32	4
Property	1,678	129	683	580	341
Other	819	122	411	221	208
Total	**5,216**	**3,350**	**2,142**	**1,478**	**1,996**

1 *Specific Provision Balance includes certain AIFRS collective provisions on some past due loans ≥ 90 days.*

2 *Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the year ended 30 June 2010.*

	31 December 2009				
Industry Sector	Impaired Assets $M	Past Due Loans ≥ 90 Days $M	Specific Provision Balance [1] $M	Net Half Year Charges for Individual Provisions $M	Half Year Actual Losses [2] $M
Home loans	858	2,393	216	146	41
Other personal	22	243	130	5	243
Asset finance	84	35	19	29	41
Sovereign	-	-	-	-	-
Bank	89	-	65	69	73
Other finance	520	30	277	79	314
Agriculture	256	33	72	(7)	2
Mining	64	2	20	21	4
Manufacturing	191	10	88	12	5
Energy	355	-	124	124	-
Construction	187	21	72	30	12
Wholesale / retail trade	225	34	101	31	20
Transport and storage	18	11	6	5	1
Property	1,180	123	432	225	204
Other	774	91	333	116	158
Total	**4,823**	**3,026**	**1,955**	**885**	**1,118**

1 *Specific Provision Balance includes certain AIFRS collective provisions on some past due loans ≥ 90 days.*

2 *Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the half year ended 31 December 2009.*

	30 June 2009				
Industry Sector	Impaired Assets $M	Past Due Loans ≥ 90 Days $M	Specific Provision Balance $M	Net Full Year Charges for Individual Provisions $M	Full Year Actual Losses [1] $M
Home loans	477	1,820	92	50	53
Other personal	29	238	23	16	455
Asset finance	72	58	31	85	53
Sovereign	-	-	-	-	-
Bank	246	-	75	98	26
Other finance	740	14	476	460	169
Agriculture	315	47	86	60	1
Mining	6	17	2	2	-
Manufacturing	158	15	81	38	104
Energy	-	-	-	-	-
Construction	239	38	104	21	8
Wholesale / retail trade	160	44	88	79	36
Transport and storage	5	9	3	2	1
Property	964	202	364	254	57
Other	800	108	304	342	107
Total	**4,210**	**2,609**	**1,729**	**1,507**	**1,070**

1 *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 2009.*

Determined to be different

APS 330 Table 4f (ii) - Impaired, past due, specific provisions and write-offs charged by portfolio type

	30 June 2010				
Portfolio	Impaired Assets $M	Past Due Loans ≥ 90 Days $M	Specific Provision Balance [1] $M	Net Full Year Charges for Individual Provisions $M	Full Year Actual Losses [2] $M
Corporate including SME and specialised lending	4,258	439	1,745	1,220	1,201
Sovereign	-	-	-	-	-
Bank	103	-	66	71	74
Residential mortgage	836	2,666	200	157	117
Qualifying revolving retail	-	100	54	-	262
Other retail	19	145	77	30	342
Total	**5,216**	**3,350**	**2,142**	**1,478**	**1,996**

1 *Specific Provision Balance includes certain AIFRS collective provisions on some past due loans ≥ 90 days.*

2 *Actual Losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the year ended 30 June 2010.*

	31 December 2009				
Portfolio	Impaired Assets $M	Past Due Loans ≥ 90 Days $M	Specific Provision Balance [1] $M	Net Half Year Charges for Individual Provisions $M	Half Year Actual Losses [2] $M
Corporate including SME and specialised lending	3,853	391	1,544	666	760
Sovereign	-	-	-	-	-
Bank	89	-	65	69	73
Residential mortgage	858	2,393	216	146	41
Qualifying revolving retail [3]	-	116	62	-	118
Other retail [3]	23	126	68	4	126
Total	**4,823**	**3,026**	**1,955**	**885**	**1,118**

1 *Specific Provision Balance includes certain AIFRS collective provisions on some past due loans ≥ 90 days.*

2 *Actual Losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the half year ended 31 December 2009.*

3 *The impaired assets, specific provisions balance and half-year actual losses for Qualifying Revolving Retail and Other Retail have been restated, to better align with the category. Totals have not changed.*

	30 June 2009				
Portfolio	Impaired Assets $M	Past Due Loans ≥ 90 Days $M	Specific Provision Balance $M	Net Full Year Charges for Individual Provisions $M	Full Year Actual Losses [1] $M
Corporate including SME and specialised lending	3,458	552	1,539	1,343	536
Sovereign	-	-	-	-	-
Bank	246	-	75	98	26
Residential mortgage	477	1,819	92	50	53
Qualifying revolving retail [2]	-	89	-	-	201
Other retail [2]	29	149	23	16	254
Total	**4,210**	**2,609**	**1,729**	**1,507**	**1,070**

1 *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 2009.*

2 *The impaired assets, specific provisions balance and half-year actual losses for Qualifying Revolving Retail and Other Retail have been restated, to better align with the category. Totals have not changed.*

APS 330 Table 4g (i) - Impaired, past due and specific provisions by geographic region

	30 June 2010		
Geographic Region [1]	Impaired Assets $M	Past Due Loans ≥ 90 Days $M	Specific Provisions Balance $M
Australia	4,589	3,039	1,969
New Zealand	432	299	67
Other	195	12	106
Total	**5,216**	**3,350**	**2,142**

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

	31 December 2009		
Geographic Region [1]	Impaired Assets $M	Past Due Loans ≥ 90 Days $M	Specific Provisions Balance $M
Australia	4,158	2,756	1,762
New Zealand	509	258	107
Other	156	12	86
Total	**4,823**	**3,026**	**1,955**

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

	30 June 2009		
Geographic Region [1]	Impaired Assets $M	Past Due Loans ≥ 90 Days $M	Specific Provisions Balance $M
Australia	3,364	2,263	1,470
New Zealand	331	300	101
Other	515	46	158
Total	**4,210**	**2,609**	**1,729**

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

Bankwest impaired loans have continued to increase during the half, with further issues in the acquired east coast property book. Apart from Bankwest, there was only a slight increase in impaired loans with increases in property and agriculture offset by decreases in energy and finance. The Group believes it has adequately provided for these impaired loans. The GRCL has also increased due to the downgrade of Bankwest loans to troublesome but not yet impaired.

The increase in 90 days past due home loans over the half reflects the rises in interest rates and the time it takes to move our customers on repayment holidays under the "Customer Assist" program back to repaying within normal terms. A focus on more intensive and effective collections effort has had a positive impact on reducing arrears rates in recent months and this is expected to continue.

The Group's GRCL (before tax) by geographic region is distributed as follows:

APS 330 Table 4g (ii) - GRCL by geographic region

Geographic Region	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Australia	3,098	2,987	2,919
New Zealand	187	218	170
Other	150	114	136
Total GRCL	**3,435**	**3,319**	**3,225**

APS 330 Table 4h (i) – Movement in collective and other provisions

	30 June 2010		
Movement in Collective Provisions and Other Provisions	Collective Provisions $M	Other Credit Related Provisions $M	Total Collective and Other Provisions $M
Balance at 31 December 2009	3,452	-	3,452
Acquisitions	-	-	-
Net charge against profit and loss	403	-	403
Recoveries	36	-	36
Other	(4)	-	(4)
Write-offs	(426)	-	(426)
Total collective and other provisions	**3,461**	**-**	**3,461**
Less collective provisions transferred to specific provisions	(150)	-	(150)
General reserve for credit losses	**3,311**	**-**	**3,311**
Additional GRCL requirement [1]	124	-	124
General reserve for credit losses	**3,435**	**-**	**3,435**

1 The Group has recognised an after tax deduction from Tier 1 Capital of $90 million in order to maintain the required minimum GRCL.

	31 December 2009		
Movement in Collective Provisions and Other Provisions	Collective Provisions $M	Other Credit Related Provisions $M	Total Collective and Other Provisions $M
Balance at 30 June 2009	3,225	-	3,225
Acquisitions	-	-	-
Net charge against profit and loss	498	-	498
Recoveries	41	-	41
Other	(4)	-	(4)
Write-offs	(308)	-	(308)
Total collective and other provisions	**3,452**	**-**	**3,452**
Less collective provisions transferred to specific provisions	(133)	-	(133)
General reserve for credit losses	**3,319**	**-**	**3,319**

	30 June 2009		
Movement in Collective Provisions and Other Provisions	Collective Provisions $M	Other Credit Related Provisions $M	Total Collective and Other Provisions $M
Balance at 31 December 2008	2,474	4	2,478
Acquisitions	135	-	135
Net charge against profit and loss	575	-	575
Recoveries	34	-	34
Other [1]	274	(4)	270
Write-offs	(267)	-	(267)
Total collective and other provisions	**3,225**	**-**	**3,225**
Less collective provisions transferred to specific provisions	-	-	-
General reserve for credit losses	**3,225**	**-**	**3,225**

1 Includes a fair value adjustment relating to Bankwest of $273 million .

APS 330 Table 4h (ii) – Movement in individual provisions

Movement in Individual Provisions	30 June 2010 Total $M	31 December 2009 Total $M	30 June 2009 Total $M
Opening balance for the period	1,822	1,729	1,134
Acquisitions	-	-	142
Net new and increased provisioning	873	989	948
Net write back of provisions no longer required	(280)	(104)	(80)
Discount unwind to interest income	(85)	(84)	(37)
Other [1]	150	143	227
Write-offs	(488)	(851)	(605)
Individual provisions	**1,992**	**1,822**	**1,729**
Add collective provisions transferred to specific provisions	150	133	-
Specific provisions	**2,142**	**1,955**	**1,729**

1 Includes a fair value adjustment related to the Bankwest acquisition of $180 million in the year ended 30 June 2009. Nil remained as at 31 December 2009 and 30 June 2010.

6.3 Portfolios Subject to Standardised and Supervisory Risk-Weights

Bankwest, CommBank Europe Limited and PT Bank Commonwealth (Indonesia) operate under the Standardised Basel II approach and are consolidated at level 2.

The Standardised approach has also been used by the Group where portfolios or segments are considered as immaterial by the size of exposure. APS 330 Table 4i details total exposures by portfolio type (page 23).

Portfolios where the Standardised approach has been taken include:

- Commonwealth Bank of Australia:
  - Some Retail SMEs (Overdrawn Accounts); and
  - Some Corporate and SME Corporate (Non-rated / Non-scored).
- ASB Bank Limited:
  - Personal Loans.
- All exposures in the following entities:
  - Bank of Western Australia Limited;[2]
  - Commbank Europe Limited; and
  - PT Bank Commonwealth (Indonesia).

The Group will continue to review portfolios that receive the Standardised approach in calculating RWA. Approval to apply the advanced approach will be sought from APRA when the volume of exposure and number of customers within these portfolios are sufficient to qualify for advanced approach calculation of RWA.

Risk weights pertaining to Retail and SME Corporate standardised portfolios have been applied in accordance with APRA Prudential Standard APS 112 "Capital Adequacy: Standardised Approach to Credit Risk" and with consideration to the type of collateral held and past due status. In respect of loans secured by residential mortgages, consideration is given with respect to the loan to value ratio (LVR) and whether mortgage insurance is held.

The Group's definition of internal risk ratings has been aligned to recognised long-term ratings and equivalent rating grades provided by ECAI including Standard & Poor's, Moody's Investors Services for larger Corporate, Bank and Sovereign exposures in Group offshore entities (including Commbank Europe Limited and PT Bank Commonwealth (Indonesia)).

Margin loans, specialised lending and equity exposures are subject to specified supervisory risk weights.

APS 330 Table 5b - Exposures subject to standardised and supervisory risk-weights

	Exposure After Risk Mitigation [1]		
Standardised Approach Exposures [1]	**30 June 2010 $M**	**31 December 2009 $M**	**30 June 2009 $M**
Risk weight			
0%	7,529	6,946	6,666
20%	10,590	12,815	7,122
35%	32,466	32,268	29,383
50%	7,921	7,170	6,117
75%	876	1,062	2,478
100%	33,399	34,818	35,245
150%	1,059	1,491	1,401
>150%	1	4	-
Capital Deductions	-	-	-
Total	**93,841**	**96,574**	**88,412**

1 *Exposure after credit risk mitigation does not include equity or securitisation exposures.*

[2] *There is a program to extend the Group's advanced accreditation to Bankwest.*

APS 330 Table 5b - Exposures subject to standardised and supervisory risk-weights – continued

	Other Assets[1] 30 June 2010		
Asset	Exposure $M	Risk Weight %	RWA $M
Cash	4,553	0	-
Cash items in	518	20	104
Margin	4,822	20	964
Fixed assets	1,405	100	1,405
Other	2,999	100	2,999
Total	**14,297**	**38**	**5,472**

1 *Other Assets are included in Standardised Approach table above.*

	Other Assets[1] 31 December 2009		
Asset	Exposure $M	Risk Weight %	RWA $M
Cash	5,050	0	-
Cash items in	171	20	34
Margin	5,071	20	1,014
Fixed assets	1,631	100	1,631
Other	3,726	100	3,726
Total	**15,649**	**41**	**6,405**

1 *Other Assets are included in Standardised Approach table above.*

	Other Assets[1] 30 June 2009		
Asset	Exposure $M	Risk Weight %	RWA $M
Cash	5,425	0	-
Cash items in	266	20	53
Margin	4,633	20	927
Fixed assets	2,333	100	2,333
Other	4,204	100	4,204
Total	**16,861**	**45**	**7,517**

1 *Other Assets are included in Standardised Approach table above.*

	Specialised Lending Exposures Subject to Supervisory Slotting[1]		
	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Risk weight			
0%	1,000	693	265
70%	14,080	15,665	9,829
90%	16,014	15,386	4,593
115%	7,025	8,472	3,943
250%	1,254	1,649	2,831
Total	**39,373**	**41,865**	**21,461**

1 *APRA requires certain Specialised Lending exposures including Income Producing Real Estate, Object and Project Finance to be assigned specific risk weights according to "slotting" criteria defined by the regulator.*

	Equity Exposures		
	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Risk weight			
300%	147	147	132
400%	495	522	427
Total	**642**	**669**	**559**

6.4 Portfolios Subject to Internal Ratings Based Approaches

The Group is accredited to use advanced internal ratings based approaches to calculate its capital requirements under APRA Prudential Standard APS 113 "Capital Adequacy: Internal Ratings-based Approach to Credit Risk".

The measurement of credit risk is based on an internal credit risk rating system which uses expert judgement and analytical tools to calculate IRB risk components, expected loss (EL) and unexpected loss (UL) for the credit portfolio.

Credit Risk Ratings System

A credit risk rating system for corporate customer exposures was first introduced in the Group in mid 1994, and an enhanced version of the rating system was applied in 1995 to allow operation on a two-dimensional basis (PD and LGD). The five pass grade rating scale was expanded to sixteen in 1998: to cater for the more sophisticated end of the corporate curve; to provide greater granularity for risk management; and for origination and pricing purposes.

This system has subsequently been enhanced as the result of reviewing outcomes against projections and the alignment of internal ratings with external rating agency grades.

The Group has also been using scorecards to "auto-decision" loan applications for over 16 years in its Consumer Retail business and more recently for small and medium enterprise (SME) Retail applications. These are auto-decisioned 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 customer's behaviour.

The Group has developed robust credit policies, procedures, rules, credit underwriting standards, counterparty standards, and credit product standards, and uses its credit risk components to price transactions, measure performance and help determine the amount of capital required to support business activities.

The Group's risk-rating system is subject to annual review in accordance with a Risk Committee approved Model Policy to ensure independent validation and testing of assigned risk ratings.

PD Ratings

The credit risk portfolio has two major PD rating segments, (i) Risk-Rated and (ii) Retail Managed.

(i) Risk-Rated Segment

The risk-rated segment comprises commercial exposures to bank, sovereign and corporate obligors. Commercial exposures less than $1 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.

Obligors that are risk-rated have their PD rating assigned via expert judgement and/or by using the appropriate PD Rating Calculator. Obligors whose PD ratings are assigned via expert judgement include banks, sovereigns and large corporate customers of the Institutional Banking business. 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, including internal ratings and the ratings assigned by an external rating agency, benchmark rating criteria, market or other relevant information to assist with the rating decision.

For Corporate Financial Services and Local Business Banking segments, PD calculators are the primary method of assigning a PD rating. PD calculators are statistical models designed to replicate the rating process under expert judgement. 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 rating is determined.

The PD rating reflects the statistical probability of default for that grade over a one-year horizon. The Group's rating approach reflects features of through-the-cycle (TTC) approach rather than a point-in-time (PIT) approach to rating assignment. This is because PIT estimates could result in significant variances in risk estimates across the credit cycle.

Under a PIT approach, ratings translate into PDs that are conditioned on how the industry and the economy are currently performing.

A TTC approach is best exemplified by the rating agencies, where ratings are based on longer term considerations to capture a company's ability to perform through a credit cycle.

The Group's rating criteria reflect both long-run and current considerations of the financial health of an obligor.

PD ratings fall within the following categories:

1. Exceptional - (A0 through to A3) - a strong profit history with principal and interest repayments covered by large stable surpluses.
2. Strong - (B1 through to C3) - a strongly performing business with principal and interest payments well protected by stable cash operating surpluses.
3. Pass - (D1 through to E3) - a soundly performing business with sufficient operating cash surpluses to meet all principal and interest repayments.
4. Weak - (F, G) - profitability has been weak and the capacity to meet principal and interest payments is declining.
5. Default - (H) - the obligation is in default (see below).

A PD rating of "Pass" grade or above qualifies the obligor for approval of new facilities or increased exposure on normal commercial terms. An obligor whose PD rating is "Weak" (excluding F grade - well secured) or "Default" is not eligible for new facilities or increased exposure unless it will protect or improve the Group's position by maximising recovery prospects or to facilitate rehabilitation.

Assignments of obligor PD ratings are reviewed annually with higher risk exposures being reviewed more frequently. Rating reviews are also initiated when material new information on an obligor comes to light. The Portfolio Quality Assurance unit reviews credit portfolios and receives reports covering Business Unit compliance with policies, portfolio standards, application of credit risk ratings and other key practices and policies on a regular basis. The Portfolio Quality Assurance unit reports its findings to the Board Audit and Risk Committees as appropriate.

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

- A contractual payment is overdue by 90 days or more;
- An approved overdraft limit has been exceeded for 90 days or more;
- A credit officer becomes aware that the customer will not be able to meet future repayments or service alternative acceptable repayment arrangements e.g. the customer has been declared bankrupt;
- A credit officer has determined that full recovery of both principal and interest is unlikely. This may be the case even if all the terms of the customer's credit facilities are currently being met; and
- A credit obligation is sold at a material credit related economic loss.

Material deviations from the reference default definition are not permitted.

Both the expert judgement and PD calculator rating methods target a common rating descriptor for each risk grade. The rating descriptors are the same, regardless of how the rating is assigned and all ratings map to the same PD masterscale which allocates probabilities of default to each PD grade. For ratings assigned by expert judgement, there are eighteen non-default grades (A0 through to G) and one default grade (H) as shown in APS 330 Table 6b. PD calculators are used to inform the rating process and are based on customer financials and a number of management related questions.

The Group's mapping of internal rating scales for risk-rated exposures to external rating agencies is detailed in APS 330 Table 6b.

(ii) Retail Managed Segment

The Retail Segment covers a number of sub-segments including housing loan, credit card, personal loan facilities, some leasing products and most secured commercial lending up to $1 million. These portfolios are managed on 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 Business Credit Support and Monitoring Unit. Commercial lending up to $1 million is reviewed as part of the Client Quality Review process and oversight is provided by the independent Portfolio Quality Assurance unit. Facilities in the Retail segment become classified for remedial management by centralised units based on delinquency band.

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

Any facilities not written off at 180 days are considered impaired. Secured facilities (e.g. home loans) are classified as impaired when an assessment is made that the security does not cover the facility and all outstanding interest and fees.

Common PD, Exposure at Default (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, 90 days over limit or a write-off amount exists against the facility.

LGD Ratings

For Corporate and SME Corporate customers, 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. A rating of A is applied only to very well secured exposures where the security cover exceeds 140%. A rating of F applies where the security cover is less than 40%. An LGD rating of C reflects a security cover of 100%. Unsecured large corporate customers, banks and sovereigns receive an LGD rating of J-N, depending on their PD rating and the existence of covenants.

For retail exposures, accounts are segmented into homogeneous pools based on secured/unsecured status, balance, product/loan type and, for residential mortgages, whether lender's mortgage insurance is provided.

The Group has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be taken and what types are acceptable and appropriate in order to mitigate credit risk, including valuation parameters, review frequency and independence of valuation. In some instances such as certain types of consumer loans (e.g. credit cards), a customer's facilities may not be secured.

Main collateral types include:

- Residential mortgages;
- Charges over other properties (including commercial and broad-acre);
- Cash (usually in the form of a charge over a term deposit);
- Guarantees by company directors supporting commercial lending;
- A floating charge over a company's assets, including stock and work in progress; and
- A charge over bonds, stock or scrip.

APS 330 Table 6b - Internal ratings structure for credit risk exposures

Description	Internal rating	Probability of default
Exceptional	A0, A1, A2, A3	0.00% - 0.05%
Strong	B1, B2, B3, C1, C2, C3	0.05% - 0.46%
Pass	D1, D2, D3, E1, E2, E3	0.46% - 4.30%
Weak/Doubtful	F, G	> 4.30%
Default	H	100%

Description	S&P rating	Moody's rating
Exceptional	AAA, AA+, AA, AA-	Aaa, Aa1, Aa2, Aa3
Strong	A+, A, A-, BBB+, BBB, BBB-	A1, A2, A3, Baa1, Baa2, Baa3
Pass	BB+, BB, BB-, B+, B, B-	Ba1, Ba2, Ba3, B1, B2, B3
Weak/Doubtful	CCC, CC, C	Caa, Ca
Default	D	C

Collateral types are discussed further detail in section 6.5 "Credit Risk Mitigation" (page 51).

Credit Risk Measurement

The measurement of credit risk is based on the use of analytical tools to calculate three risk components: PD; EAD and LGD.

PD, EAD and LGD estimates are based on the average for the Group's historical data, scaled where appropriate, to reflect a central tendency measure over a full economic cycle.

The Credit Rating Governance Committee oversees Group credit rating models and processes to ensure appropriately predictive credit rating models are developed, model performance is reviewed on a regular basis and that there is consistency across Business Unit credit models as appropriate.

Probability of Default

The PD, expressed as a percentage, is the estimate of the probability that an obligor will default within the next twelve months. It reflects an obligor's ability to generate sufficient cash flows into 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 APS 330 Table 6c.

PD estimates are based on a long-run average default rate for the Group's historical data. Decision trees are used to define retail risk pools which are based on statistically significant attributes. 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 in addition, confidence intervals are calculated to statistically demonstrate that retail pools meaningfully differentiate risk. Model results are calibrated to obtain long-run PDs that reflect the central tendency over a full economic cycle.

Exposure at Default

The EAD, expressed as a dollar amount, is the estimate of the amount of a facility that will be outstanding in the event of default. EAD for committed facilities is measured as a dollar amount based on the drawn and undrawn components twelve months prior to default. It comprises the drawn balance plus a proportion of the undrawn amount that is expected to convert to drawn in the period leading up to default.

The proportion of the undrawn amount that is converted is termed the credit conversion factor. For most committed facilities, the Group applies a credit conversion factor of 100%. For uncommitted facilities the EAD will generally be the outstanding balance only. For retail exposures, a modeling approach based on limit utilization, arrears and loan type is used to segment accounts into homogeneous pools for the calculation of EAD.

Loss Given Default

LGD and EAD are derived using data from accounts that were in default during any given month within the modeling observation period.

LGD is estimated as the net present value of the post default cash flows, 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;
- Loan workout costs (effectively the costs of providing a facility that is not generating an interest return) and management expenses (realisation costs);
- Time estimated to achieve all possible payments; and
- The discount factor applied to reflect the time value of money and the uncertainty of future cash flows.

It is recognised that some accounts will cure after entering default and cure rates are an important aspect of estimating a downturn LGD that is consistent with economic recession conditions. The downturn LGD is applied to the calculation of regulatory capital only.

For calculating regulatory capital an estimated downturn LGD is used that reflects likely recovery rates under stressed economic conditions. Downturn LGD estimates for commercial exposures are based on the long-run estimates calibrated to a 99.9% confidence level. For retail exposures, downturn LGDs are adjusted for expected recovery rates in stressed conditions except for residential mortgages, where a 20% floor has been determined by APRA.

APS 330 Table 6c – PD rating methodology by portfolio segment

Portfolio Segment	PD Rating Methodology
Bank, sovereign and large corporate exposures	Expert Judgement assigned risk rating, informed but not driven by rating agency views.
Middle market and local business banking exposures	PD Calculator(s) assigned risk rating.
SME retail exposures < $1m	SME Behaviour Score assigned PD pools.
Consumer retail exposures	For some products PD pools are assigned using product specific Application Scorecards for 3 to 9 months (depending on the product). Behavioural Scorecards are then used to assign PD pools. For other products PD pools are assigned based on facility characteristics including time on books, utilisation, turnover etc.

Expected Loss

Expected Loss (EL) is calculated as the product of PD, EAD and LGD.

Group internal EL is a forward estimate of the loss rate given the quality (grade distribution) of the non-defaulted assets at a point in time based on the Group's estimated long run PDs and LGDs. It is a cost associated with granting credit and is priced into the interest margin charged to our customers.

Regulatory EL is reported for both defaulted and non-defaulted exposures. For non-defaulted exposures, Regulatory EL is based on the quality of exposures at a point in time using long run PDs and downturn LGDs as required by APRA. Regulatory EL for Specialised Lending exposures is determined by the Supervisory Slotting approach.

For defaulted exposures, Regulatory EL is based on the best estimate of loss. For the non-retail portfolios, this is the individually assessed provisions. For retail exposures, this is the downturn LGD.

Regulatory EL is not required to be calculated on Standardised portfolios.

Unexpected Loss

The Unexpected Loss (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 not be exceeded. The Group holds capital to cover the unexpected loss.

There are two measures of UL. The regulatory measure used to determine the regulatory capital requirement, and an internal measure based on the Group's economic capital model.

The regulatory measure is calculated based on the Basel II Framework using a 99.9% probability that UL not be exceeded.

The economic capital measure takes into account portfolio specific characteristics (e.g. industry segment) and allows for diversification effects between obligors within a portfolio segment as well as across different portfolio segments.

Economic capital is the currency of risk measurement using a 99.95% probability that UL is not exceeded. The Group evaluates portfolio performance based on the return on economic capital.

Economic capital is an input to pricing models and strategic decision making within the Group.

Uses of Internal Estimates of Credit Risk Components Other Than for Regulatory Capital Purposes

The Group uses its internal estimates of PD, LGD and EAD for a number of activities other than for IRB regulatory capital purposes. They include:

- Management of credit risk concentrations – through the Large Credit Exposure Policy and industry limits;
- Loan origination and credit quality control - through the generation and monitoring of credit risk ratings;
- Calculation of some collective provisions;
- Capital budgeting - through modelling of business plans under expected and stressed scenarios, and the calculation of economic capital; and
- Aligning risk culture to the Group's risk appetite - through its internal risk-adjusted performance framework; ensuring the Group generates appropriate economic returns through its risk-pricing framework at both: (i) a transactional level where EL is factored into interest margins and fees and (ii) at a portfolio level via PACC and Return on Target Equity frameworks.

Credit Risk Exposure Subject to the Basel II Advanced Approach

APS 330 Table 6d provides a breakdown by asset class and PD, of the Group's credit risk for non-retail exposures that qualify for calculation of RWA under the Basel II AIRB approach (SME Corporate and SME Retail exposures are included with Corporate exposures).

APS 330 Table 6d (i) - Non-Retail exposures by portfolio type and PD band

	30 June 2010							
	PD Grade							
	0 < 0.03%	0.03% < 0.15%	0.15% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Non-retail [1]	$M	$M	$M	$M	$M	$M	$M	$M
Total credit risk exposures								
Corporate	-	22,227	29,874	51,700	6,952	3,035	1,670	115,458
Sovereign	26,713	2,577	432	154	12	-	-	29,888
Bank	-	28,687	1,240	299	15	-	89	30,330
Total	**26,713**	**53,491**	**31,546**	**52,153**	**6,979**	**3,035**	**1,759**	**175,676**
Undrawn commitments [2]								
Corporate	-	8,222	12,466	9,032	814	137	46	30,717
Sovereign	788	617	110	72	-	-	-	1,587
Bank	-	1,740	364	88	-	-	-	2,192
Total	**788**	**10,579**	**12,940**	**9,192**	**814**	**137**	**46**	**34,496**
Exposure-weighted average EAD ($M)								
Corporate	-	2.372	1.528	0.056	0.370	0.551	0.399	0.920
Sovereign	6.476	1.108	1.260	0.066	0.776	-	-	5.902
Bank	-	7.397	6.110	2.315	0.517	-	14.872	7.313
Exposure-weighted average LGD (%)								
Corporate	-	61.1	57.2	40.1	36.7	39.5	44.1	48.4
Sovereign	16.1	65.0	65.0	54.1	65.0	-	-	21.3
Bank	-	65.0	65.0	55.1	64.3	-	65.0	64.9
Exposure weighted-average risk weight (%)								
Corporate	-	29.6	56.9	67.4	93.4	187.1	303.4	65.5
Sovereign	5.3	34.0	77.9	97.0	168.4	-	-	9.4
Bank	-	22.3	57.3	107.9	165.3	-	38.9	24.7

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

2 The credit exposure value of undrawn commitments included in Total Credit Risk Exposures above.

APS 330 Table 6d (i) – Non-Retail exposures by portfolio type and PD band – continued

	31 December 2009							
	PD Grade							
	0 < 0.03%	0.03% < 0.15%	0.15% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Non-retail [1]	$M	$M	$M	$M	$M	$M	$M	$M
Total credit risk exposures								
Corporate	-	20,838	31,101	50,503	7,472	2,617	1,900	114,431
Sovereign	25,314	2,234	318	167	11	-	-	28,044
Bank	-	29,285	1,816	238	33	-	89	31,461
Total	**25,314**	**52,357**	**33,235**	**50,908**	**7,516**	**2,617**	**1,989**	**173,936**
Undrawn commitments [2]								
Corporate	-	8,556	13,537	8,962	875	200	98	32,228
Sovereign	1,245	146	101	56	-	-	-	1,548
Bank	-	1,329	386	73	-	-	-	1,788
Total	**1,245**	**10,031**	**14,024**	**9,091**	**875**	**200**	**98**	**35,564**
Exposure-weighted average EAD ($M)								
Corporate	-	2.027	1.434	0.056	0.388	0.508	0.590	0.830
Sovereign	4.450	2.246	1.124	0.066	0.922	-	-	4.210
Bank	-	6.445	4.681	1.386	33.080	-	44.344	6.440
Exposure-weighted average LGD (%)								
Corporate	-	60.0	57.2	40.5	36.6	44.1	48.6	48.5
Sovereign	14.5	54.7	65.0	55.8	65.0	-	-	18.6
Bank	-	64.5	65.0	58.9	65.0	-	65.0	64.5
Exposure weighted-average risk weight (%)								
Corporate	-	26.1	54.3	66.1	93.5	209.4	258.9	63.9
Sovereign	3.7	28.7	55.0	116.5	172.7	-	-	7.0
Bank	-	18.5	51.3	124.4	167.5	-	48.3	21.4

1 Total credit risk exposures do not include specialised lending, equity or securitisation exposures.
2 The credit exposure value of undrawn commitments included in Total Credit Risk Exposures above.

APS 330 Table 6d (i) – Non-Retail exposures by portfolio type and PD band – continued

	30 June 2009							
	PD Grade							
Non-retail [1]	0 < 0.03% $M	0.03% < 0.15% $M	0.15% < 0.5% $M	0.5% < 3% $M	3% < 10% $M	10% < 100% $M	Default $M	Total $M
Total credit risk exposures								
Corporate	-	29,115	38,564	63,707	8,542	2,943	2,264	145,135
Sovereign	21,808	1,557	129	130	12	-	-	23,636
Bank	-	30,330	2,311	181	36	-	195	33,053
Total	**21,808**	**61,002**	**41,004**	**64,018**	**8,590**	**2,943**	**2,459**	**201,824**
Undrawn commitments [2]								
Corporate	-	9,883	14,089	10,835	967	260	72	36,106
Sovereign	1,002	114	30	48	-	-	-	1,194
Bank	-	1,642	631	76	-	-	188	2,537
Total	**1,002**	**11,639**	**14,750**	**10,959**	**967**	**260**	**260**	**39,837**
Exposure-weighted average EAD ($M)								
Corporate	-	2.618	1.797	0.072	0.451	0.701	0.719	1.086
Sovereign	15.029	0.296	0.558	0.051	1.361	-	-	13.890
Bank	-	6.412	6.049	1.487	12.001	-	64.826	6.711
Exposure-weighted average LGD (%)								
Corporate	-	60.1	55.8	39.7	35.3	43.5	45.9	48.0
Sovereign	18.6	55.8	65.0	54.9	65.0	-	-	21.5
Bank	-	65.0	65.0	57.6	65.0	-	65.0	64.9
Exposure weighted-average risk weight (%)								
Corporate	-	25.6	53.1	68.4	92.2	208.8	214.6	62.3
Sovereign	4.1	36.4	65.4	107.7	177.2	-	-	7.2
Bank	-	19.3	44.3	96.0	172.2	-	475.2	24.3

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

2 The credit exposure value of undrawn commitments included in Total Credit Risk Exposures above.

APS 330 Table 6d (ii) provides a breakdown by asset class and PD, of the Group's credit risk for retail exposures that qualify for calculation of RWA under the Basel II IRB approach.

APS 330 Table 6d (ii) - Retail exposures by portfolio type and PD band

	30 June 2010							
	PD Grade							
	0 < 0.1%	0.1% < 0.3%	0.3% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Retail [1]	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**
Total credit risk exposures								
Residential mortgage	70,028	121,975	20,667	99,356	12,146	6,044	2,712	332,928
Qualifying revolving retail	-	5,027	94	4,275	2,592	520	185	12,693
Other retail	100	63	607	3,315	1,481	342	85	5,993
Total	**70,128**	**127,065**	**21,368**	**106,946**	**16,219**	**6,906**	**2,982**	**351,614**
Undrawn commitments [2]								
Residential mortgage	22,674	14,934	2,311	10,969	1,065	36	11	52,000
Qualifying revolving retail	-	2,658	56	1,337	282	25	29	4,387
Other retail	99	39	510	344	24	2	-	1,018
Total	**22,773**	**17,631**	**2,877**	**12,650**	**1,371**	**63**	**40**	**57,405**
Exposure-weighted average EAD ($M)								
Residential mortgage	0.153	0.212	0.102	0.254	0.284	0.230	0.225	0.208
Qualifying revolving retail	-	0.004	0.006	0.004	0.007	0.007	0.009	0.005
Other retail	0.003	0.003	0.005	0.007	0.005	0.003	0.003	0.006
Exposure-weighted average LGD (%)								
Residential mortgage	20.4	20.1	22.9	20.5	23.3	21.0	20.8	20.6
Qualifying revolving retail	-	84.9	85.9	85.6	86.2	86.2	85.7	85.5
Other retail	37.7	35.3	82.1	97.3	95.5	93.4	90.7	93.4
Exposure weighted-average risk weight (%)								
Residential mortgage	3.2	8.9	13.0	24.5	74.0	111.9	-	16.8
Qualifying revolving retail	-	10.3	17.0	40.9	128.2	223.5	-	53.3
Other retail	7.2	18.1	48.0	101.2	135.9	187.0	4.7	105.5

1 Total credit risk exposures do not include equity or securitisation exposures.
2 The credit exposure value of undrawn commitments included in Total Credit Risk Exposures above.

APS 330 Table 6d (ii) – Retail exposures by portfolio type and PD band – continued

	31 December 2009							
	PD Grade							
	0 < 0.1%	0.1% < 0.3%	0.3% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Retail [1]	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**
Total credit risk exposures								
Residential mortgage	65,293	106,701	19,099	105,927	15,887	5,590	2,302	320,799
Qualifying revolving retail	-	5,136	100	4,107	2,378	483	175	12,379
Other retail	102	70	527	3,340	1,478	352	73	5,942
Total	**65,395**	**111,907**	**19,726**	**113,374**	**19,743**	**6,425**	**2,550**	**339,120**
Undrawn commitments [2]								
Residential mortgage	21,662	15,332	2,256	12,084	1,273	37	3	52,647
Qualifying revolving retail	-	2,576	57	1,280	262	22	25	4,222
Other retail	101	39	440	396	22	2	-	1,000
Total	**21,763**	**17,947**	**2,753**	**13,760**	**1,557**	**61**	**28**	**57,869**
Exposure-weighted average EAD ($M)								
Residential mortgage	0.154	0.205	0.104	0.243	0.344	0.231	0.322	0.210
Qualifying revolving retail	-	0.004	0.006	0.004	0.007	0.006	0.008	0.005
Other retail	0.003	0.004	0.004	0.008	0.005	0.004	0.004	0.006
Exposure-weighted average LGD (%)								
Residential mortgage	20.4	20.1	23.2	20.5	22.7	21.2	20.8	20.6
Qualifying revolving retail	-	84.1	86.0	84.7	85.6	85.5	85.1	84.7
Other retail	37.7	34.7	82.0	97.0	95.7	93.8	91.4	93.3
Exposure weighted-average risk weight (%)								
Residential mortgage	3.2	8.8	13.2	24.5	67.4	112.9	-	17.7
Qualifying revolving retail	-	10.2	17.0	40.2	127.1	223.0	-	50.8
Other retail	7.2	17.5	48.0	100.6	136.3	188.8	5.4	106.3

1 Total credit risk exposures do not include equity or securitisation exposures.
2 The credit exposure value of undrawn commitments included in Total Credit Risk Exposures above.

Determined to be different

APS 330 Table 6d (ii) – Retail exposures by portfolio type and PD band – continued

	30 June 2009							
	PD Grade							
	0 < 0.1%	0.1% < 0.3%	0.3% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Retail [1]	$M	$M	$M	$M	$M	$M	$M	$M
Total Exposure								
Residential mortgage	59,320	102,092	17,989	106,396	13,006	5,214	1,596	305,613
Qualifying revolving retail	-	4,631	96	4,219	2,031	431	168	11,576
Other retail	96	76	514	3,146	1,630	376	74	5,912
Total	**59,416**	**106,799**	**18,599**	**113,761**	**16,667**	**6,021**	**1,838**	**323,101**
Undrawn commitments [2]								
Residential mortgage	19,687	15,669	2,205	14,007	1,087	36	2	52,693
Qualifying revolving retail	-	2,405	57	1,342	260	18	18	4,100
Other retail	95	40	438	418	25	2	-	1,018
Total	**19,782**	**18,114**	**2,700**	**15,767**	**1,372**	**56**	**20**	**57,811**
Exposure-weighted average EAD ($M)								
Residential mortgage	0.140	0.196	0.098	0.244	0.281	0.215	0.223	0.200
Qualifying revolving retail	-	0.004	0.006	0.004	0.006	0.005	0.008	0.004
Other retail	0.003	0.004	0.004	0.007	0.006	0.004	0.004	0.006
Exposure-weighted average LGD (%)								
Residential mortgage	20.5	20.1	23.6	20.6	24.5	21.3	21.3	20.8
Qualifying revolving retail	-	83.9	85.8	84.5	85.4	85.5	84.9	84.5
Other retail	37.7	34.3	81.8	96.3	95.6	94.7	91.7	92.9
Exposure weighted-average risk weight (%)								
Residential mortgage	3.2	8.8	13.4	24.5	73.8	113.1	-	17.9
Qualifying revolving retail	-	10.2	17.0	40.2	125.4	224.2	-	49.2
Other retail	7.2	17.2	47.9	99.4	136.8	188.2	-	107.1

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

2 The credit exposure value of undrawn commitments included in Total Credit Risk Exposures above.

Analysis of Losses

The following tables provide an analysis of the Group's financial losses by portfolio type (APS 330 Table 6e) and a comparison of losses on advanced portfolios against the Group's internal estimates of expected loss and regulatory expected loss estimates (APS 330 Table 6f, page 50).

APS 330 Table 6e - Analysis of losses by portfolio type

	30 June 2010		
	Full year Losses in reporting period		
Portfolio Type	Gross write-offs $M	Recoveries $M	Actual losses $M
Corporate including SME and specialised lending	1,210	(9)	1,201
Sovereign	-	-	-
Bank	74	-	74
Residential mortgage	120	(3)	117
Qualifying revolving retail	294	(32)	262
Other retail	375	(33)	342
Total	**2,073**	**(77)**	**1,996**

	31 December 2009		
	Half year Losses in reporting period		
Portfolio Type	Gross write-offs $M	Recoveries $M	Actual losses $M
Corporate including SME and specialised lending	768	(8)	760
Sovereign	-	-	-
Bank	73	-	73
Residential mortgage	42	(1)	41
Qualifying revolving retail [1]	134	(16)	118
Other retail [1]	142	(16)	126
Total	**1,159**	**(41)**	**1,118**

1 Gross write-offs and reccoveries for Qualifying Revolving Retail and Other Retail have been restated, to better align with the category. Totals have not changed.

	30 June 2009		
	Full year Losses in reporting period		
Portfolio Type	Gross write-offs $M	Recoveries $M	Actual losses $M
Corporate including SME and specialised lending	553	(17)	536
Sovereign	-	-	-
Bank	26	-	26
Residential mortgage	54	(1)	53
Qualifying revolving retail [1]	233	(32)	201
Other retail [1]	277	(23)	254
Total	**1,143**	**(73)**	**1,070**

1 Gross write-offs and reccoveries for Qualifying Revolving Retail and Other Retail have been restated, to better align with the category. Totals have not changed.

Analysis of Losses - continued

APS 330 Table 6f - Historical loss analysis by portfolio type

	30 June 2010		
	Full Year Actual loss $M	Bank internal model 1 year expected loss estimate $M	Regulatory one year expected loss estimate $M
Corporate including SME and specialised lending	785	782	2,125
Sovereign	-	3	4
Bank	74	15	71
Residential mortgage	107	338	1,362
Qualifying revolving retail	262	341	496
Other retail	204	203	274
Total Advanced	**1,432**	**1,682**	**4,332**

	30 June 2009		
	Full Year Actual loss $M	Bank internal model 1 year expected loss estimate $M	Regulatory one year expected loss estimate $M
Corporate including SME and specialised lending	533	847	2,113
Sovereign	-	2	3
Bank	26	12	67
Residential mortgage	51	322	1,080
Qualifying revolving retail	201	283	425
Other retail	169	207	273
Total Advanced	**980**	**1,673**	**3,961**

There are a number of reasons as to why the actual losses will differ from expected loss (internal model and regulatory estimate). For example:

- Actual losses are historical and are based on the quality of the assets in the prior period, write-offs and recent economic conditions;
- Expected losses (EL) measure economic losses and include costs (e.g. internal workout costs) not included in actual losses;
- Group internal EL is a forward estimate of the loss rate given the quality (grade distribution) of the non-defaulted assets at a point in time based on the Group's estimated long run PDs and LGDs. In most years actual losses will be below long run losses;
- Regulatory EL for AIRB portfolios is based on the quality of exposures at a point in time using long run PDs and downturn LGDs as required by APRA. Again, in most years actual losses would be below the regulatory EL estimate;
- Regulatory EL for AIRB portfolios is reported for both defaulted and non-defaulted exposures. For non-defaulted exposures, regulatory EL is a function of long-run PD and downturn LGD. For defaulted exposures, Regulatory EL is based on the best estimate of loss which for the non-retail portfolios is the individually assessed provisions; and
- Regulatory EL for Specialised Lending exposures is determined by the APRA imposed "slotting" approach which is more punitive than under the AIRB approach.

Regulatory EL increased $55 million on the prior half to $4,332 million, mainly as a result of:

- A $133 million increase related to the retail asset classes, particularly residential mortgages and qualifying revolving portfolios;
- For residential mortgages this was driven by increases in home loan arrears, and loans in default, wherein the application of the regulatory minimum LGD of 20% occurs; and
- A net reduction of $78 million in non-retail expected loss largely reflecting the re-rating of facilities from impaired to non-impaired status.

6.5 Credit Risk Mitigation

Collateral

Where it is considered appropriate, the Group has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be taken to mitigate credit risk, including valuation parameters, review frequency and independence of valuation. The Group CRO (or delegate) is responsible for approving acceptable collateral types.

The type, liquidity and carrying costs on collateral held is a key determination of the LGD percentage that is assigned to a credit risk exposure. Collateral held for any credit facility is valued, recorded and controlled as follows:

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 Group CRO 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 value of the collateral should be up-to-date, which the Group monitors and when appropriate regularly updates collateral values;
- Insurance - steps are taken to ensure that the property taken as collateral is adequately insured against damage or deterioration;
- 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 allowed for when assessing security 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.

Non-Real Estate Collateral

Non-real estate collateral values are only extended for LGD purposes where there is a sound process for determining the value of the collateral. Monitoring processes appropriate for the specific exposures (either immediate or contingent) attributable to the collateral are used as a risk mitigant. The main non-real estate collateral types include:

- Cash (usually in the form of a charge over a Term Deposit);
- Guarantees by company directors supporting commercial lending;
- A floating charge over a company's assets, including stock debtors and work in progress; and
- A charge over bonds, stocks or scrip.

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 after applying the Aggregation Policy within the risk-rated segment and PD rating.

The objective of the LCEP is to ensure that the Group is not exposed to catastrophic loss through the failure of a single counterparty (or group of related counterparties). The LCEP is reviewed annually.

Usage of LCEP limits is determined by the aggregate exposure for the group of related (aggregated) counterparties, and is subject to Board approved constraints.

Management reports to the Executive Risk Committee monthly and the Risk Committee of the Board at each meeting, on a total credit risk exposure basis:

- All exposures at, or greater than, the LCEP limits - including those resulting from PD deterioration;
- Outcomes relative to agreed strategies to reduce or alter exposures; and
- All exposures ceasing to exceed LCEP limits since the last report.

All relevant borrower specific credit submissions are to prominently demonstrate relative compliance with the LCEP.

Credit risk concentration limits are in place to ensure portfolio diversification and prevent credit risk concentrations. So too are country limits. Geographic dispersion monitoring within Australia 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.

Other - Including Credit Default Swaps and Guarantees

Where the Group has legal certainty, it recognises on-balance sheet netting for Group Limit Facilities where the balances of all participating accounts to a lead overdraft account are netted.

The Group restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. The credit risk associated with favourable contracts 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.

Apart from the taking of collateral mentioned above, other forms of credit risk mitigation are used to either reduce or transfer credit risk. This may be achieved by purchasing credit derivatives (e.g. credit default swaps) and/or guarantees from typically exceptional and strong 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. APS 330 Table 7b and 7c (page 52) discloses the Group's coverage of exposure by credit default swaps and guarantees.

APS 330 Table 7b and 7c - Credit risk mitigation

	30 June 2010				
	Total Exposure [1] $ M	Eligible Financial Collateral $ M	Exposures Covered by Guarantees $ M	Exposures Covered by Credit Derivatives $ M	Coverage %
Advanced approach					
Corporate	66,880	-	855	9	1.3
SME corporate	39,450	-	-	40	0.1
SME retail	9,128	-	-	-	-
Sovereign	29,888	-	-	-	-
Bank	30,330	-	358	437	2.6
Residential mortgage	332,929	-	-	-	-
Qualifying revolving retail	12,693	-	-	-	-
Other retail	5,993	-	-	-	-
Other assets	-	-	-	-	-
Total advanced approach	**527,290**	**-**	**1,213**	**486**	**0.3**
Specialised Lending	39,373	-	-	-	-
Standardised approach					
Corporate	8,975	114	-	-	1.3
SME corporate	7,955	68	-	-	0.9
SME retail	5,474	12	-	-	0.2
Sovereign	1,250	-	-	-	-
Bank	5,903	-	27	-	0.5
Residential mortgage	47,463	69	-	-	0.1
Other retail	2,575	2	-	-	0.1
Other assets	14,297	-	-	-	-
Total standardised approach	**93,891**	**265**	**27**	**-**	**0.3**
Total exposures	**660,554**	**265**	**1,240**	**486**	**0.3**

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.*

	31 December 2009				
	Total Exposure [1] $ M	Eligible Financial Collateral $ M	Exposures Covered by Guarantees $ M	Exposures Covered by Credit Derivatives $ M	Coverage %
Advanced approach					
Corporate	67,074	-	872	39	1.4
SME corporate	38,432	-	-	-	-
SME retail	8,924	-	-	-	-
Sovereign	28,044	-	-	-	-
Bank	31,462	-	364	202	1.8
Residential mortgage	320,800	-	-	-	-
Qualifying revolving retail	12,377	-	-	-	-
Other retail	5,941	-	-	-	-
Other assets	-	-	-	-	-
Total advanced approach	**513,054**	**-**	**1,236**	**241**	**0.3**
Specialised Lending	41,865	-	-	-	-
Standardised approach					
Corporate	11,097	104	-	-	0.9
SME corporate	7,604	65	-	-	0.9
SME retail	5,261	8	-	-	0.2
Sovereign	586	-	-	-	-
Bank	6,013	-	21	-	0.3
Residential mortgage	47,225	52	-	-	0.1
Other retail	2,454	3	-	-	0.1
Other assets	15,649	-	-	-	-
Total standardised approach	**95,889**	**232**	**21**	**-**	**0.3**
Total exposures	**650,808**	**232**	**1,257**	**241**	**0.3**

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.*

APS 330 Table 7b and 7c continued - Credit risk mitigation

	30 June 2009				
	Total Exposure [1] $ M	Eligible Financial Collateral $ M	Exposures Covered by Guarantees $ M	Exposures Covered by Credit Derivatives $ M	Coverage %
Advanced approach					
Corporate	87,911	-	974	44	1.2
SME corporate	48,328	-	-	-	-
SME retail	8,896	-	-	-	-
Sovereign	23,635	-	-	-	-
Bank	33,053	-	377	314	2.1
Residential mortgage	305,613	-	-	-	-
Qualifying revolving retail	11,576	-	-	-	-
Other retail	5,912	-	-	-	-
Other assets	-	-	-	-	-
Total advanced approach	**524,925**	**-**	**1,351**	**358**	**0.3**
Specialised Lending	21,461	-	-	-	-
Standardised approach					
Corporate	12,619	172	-	-	1.4
SME corporate	7,522	-	-	-	-
SME retail	5,293	-	-	-	-
Sovereign	301	-	-	-	-
Bank	609	-	12	-	1.9
Residential mortgage	42,866	45	-	-	0.1
Other retail	2,424	2	-	-	0.1
Other assets	16,861	-	-	-	-
Total standardised approach	**88,494**	**219**	**12**	**-**	**0.3**
Total exposures	**634,880**	**219**	**1,363**	**358**	**0.3**

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.*

6.6 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 portfolio of transactions with the counterparty has a positive economic value for the Group at the time of default. Unlike 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.

Counterparty credit risk economic capital is measured in accordance with the risk-rating and expected exposure of the counterparty. Economic capital is allocated to CCR exposures in proportion to the contributions of those exposures to total economic capital, after taking into account correlation and diversification impacts across risk types.

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 is positively correlated with the PD of the counterparty due to the nature of its unique business.

Counterparty credit risk and wrong-way risk are controlled through a variety of credit policies and procedures; including, but not limited to the following:

- Large Credit Exposure Policy;
- Country Risk Policy;
- Aggregation Policy;
- Credit Risk Rating; and
- Specific product policies.

Collateralised Counterparty Credit Risk

Credit Support Annexes (CSA) collateralise credit counterparty risk for global markets type products. CSAs lower the wrong-way risk that arises from market movements. This is typically done by requiring the counterparty (or the Group) to post collateral according to a Threshold and Minimum Transfer matrix for mark-to-market values that might be owed upon a counterparty default. (In turn, the Group normally has a similar obligation to the counterparty should it have a mark-to-market value obligation.)

Long term debt ratings are used as references within approximately 75% of International Swaps and Derivatives Association (ISDA) Master Agreement and CSA’s to determine the Thresholds and Minimum Transfer Amount increments to which both the Group and counterparties adhere. Generally, the better a counterparty’s rating the higher the Threshold and Minimum Transfer Amount given to that counterparty. In some instances, an independent or initial margin amount may also be introduced resulting from a low credit rating.

These terms are agreed between the principal and counterparty during the negotiation of the ISDA Master Agreement and CSA. 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 possible thresholds levels for each credit ratings level are input into the collateral management system together with the credit ratings. The system monitors the threshold limits outlined in the CSA.

The long term debt ratings are taken from two main rating agencies, Moody’s Investors Service Inc. and Standard & Poor’s Ratings Services. The CSA states that in an event of a split level rating with these ratings agencies, the lower of the two ratings will be used when calculating collateral obligations.

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

The actual posting obligation figures provide a “worst case” scenario based on all counterparties making full collateral calls upon the Group. As at 30 June 2010, a one-notch downgrade in the Group's rating would have resulted in a $110 million increase in collateral posted. A two-notch downgrade would have resulted in a $213 million increase in collateral posted.

Collateral stress tests are also conducted on the Group’s counterparties so that it can monitor for likely collateral stresses in the Group’s counterparties.

6.7 Securitisation

Securitisation is defined as a 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 securitisations - where assets are sold to a Special Purpose Vehicle (SPV), which finances the purchase by issuing notes in different tranches with different risk and return profiles. Cash flow arising from those assets is used by the SPV to service its debt obligations; or
- Synthetic transactions - where only the underlying credit risk or part of the credit risk is transferred to a third party without the ownership of assets being transferred as part of the transaction.

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 sells assets it has originated to an externally rated securitisation SPV, which in turn raises funding principally through external investors. The principal example of this is the Group's Medallion Programme which is primarily involved in the securitisation of Group originated mortgages;
- 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 lenders mortgage insurance, over-collateralisation 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, vehicle loans and equipment financing;
- The purchase of asset/mortgage backed securities for trading or portfolio investment; and
- The provision of swaps and/or liquidity support facilities to an externally rated securitisation SPV where the Group is neither the arranger nor originator of the respective securities or underlying assets.

As at 30 June 2010, the Group also had a sponsored SPV conduit; Shield Series 50 (Medallion CP). This SPV holds term assets that are funded through a Group facility. These assets were approved under the Group's risk framework and were consolidated into the Group's financial statements.

Medallion CP assets comprise AAA prime Residential Mortgage-Backed Securities (RMBS) issued under the Group's Medallion program. These RMBS are repurchase eligible collateral with the Reserve Bank of Australia (RBA).

For contingent liquidity, the Group separately created a A$38.8 billion RMBS portfolio in 2008 which is not intended to be issued publicly. These notes will be held by the Group and, if required, can be used for repurchase agreements with the RBA to generate additional liquidity for the Group.

Strategic Issues

For the Group, securitisation has and will continue to provide a source of liquidity through RBA repurchase transactions and an opportunistic rather than core external funding source. While at current low levels, the Group, in undertaking an intermediation 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 APRA prudential standard APS 120 "Securitisation" (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 uses the Internal Assessment Approach (IAA) and the Supervisory Formula Approach (SFA) under the Internal Ratings-Based Approach hierarchy detailed in APS 120 to determine the relevant risk-weight for non-rated securitisation exposures.

The Group may apply the IAA to the following asset classes:

- Residential mortgages (excluding reverse mortgages);
- Trade receivables;
- Equipment finance; or
- Auto Loans.

The Group uses the SFA for the following asset classes:

- Commercial mortgages;
- Reverse mortgages;
- Investment / margin loans; and
- Auto Loans (where IAA cannot be used).

A draft revised APS 120 standard was released for comment in December 2009 with a final version expected to be issued later in the 2010 calendar year. Changes to the standard are expected to include the alignment of risk weights between the banking book and trading book, higher risk weights for resecuritisations as well as more detailed due diligence and reporting requirements.

For exposures rated by ECAIs, the Group uses the Ratings-Based Approach for regulatory capital purposes.

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

Risk Management Framework

Risk Assessment

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 Standard & Poor's, Moody's Investors Service and/or Fitch Ratings for both bank originated and third-party securitisation transactions.

The Group undertakes credit assessment 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, PD and LGD are also benchmarked by the Group using the accepted rating methodologies of ECAI or other models accepted by APRA.

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 held for trading or are available for sale, the transactions must be monitored respectively under the Group's market risk oversight and accounting framework. The risk management framework includes regular checking of ECAI credit rating of asset backed securities and other periodical credit reviews.

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 review (external audit and APRA).

Credit Approval

Credit approval authorities relating to securitisation are restricted to officers with appropriately badged delegations. Risk Management's Institutional and Business Banking - Financial Institutions Group 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.

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.

Exposure Aggregation

Securitisation SPVs are bankruptcy remote entities. Generally, there is no legally enforceable obligation on the asset originator or issuer to provide on-going 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. These transactions are managed by the Group's Treasury.

Support facilities provided to SPV's may not include any support outside of the explicit contracted obligations. Hence, the SPV will not contain the Group's name or other marketing material that may infer Group support greater than the explicit obligations that are documented.

Where the Group has sold assets to a 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 arms 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 will hold less than 20% (excepting permitted underwritings [3]) of the public securities outstanding issued by an SPV under a Group-originated securitisation.

The aggregated value of all securities held by the Group under its various public Medallion Programmes and/or other securitisation SPVs (where the Group was the originating entity) will not exceed 10% of the Group's Level 2 capital (excepting permitted security underwritings [3]).

Accounting Framework

Group originated financial assets included in a securitisation may be fully or partially derecognised when the Group transfers substantially all risks and rewards of the assets (or portions thereof) or when the Group neither transfers nor retains substantially all risks and rewards but does not retain control over the financial assets transferred. For the existing securitisations of Group-originated assets, the Group does not derecognise those assets.

Securitisation SPVs are consolidated for accounting but not for tax or capital attribution unless the Group retains a subordinated position.

The Group does not look to recognise any capital gain on sale of its assets to the SPV. If such a gain were to be booked, it would need to be a deduction from the Group's Tier One capital.

3 *When a securitisation deal is taken to market, there may be times when the Group holds more than the specified amount of the securities until they are sold down within a short time frame.*

APS 330 Table 9d (i) - Total outstanding exposures securitised - traditional securitisations

Traditional securitisations				30 June 2010
	Total outstanding exposures securitised			
Underlying asset	Bank originated assets[1] $M	Third party originated assets[2] $M	Facilities provided[3] $M	Other (Manager Services) $M
Residential mortgage	9,696	-	1,475	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**9,696**	**-**	**1,475**	**-**

Traditional securitisations				31 December 2009
	Total outstanding exposures securitised			
Underlying asset	Bank originated assets[1] $M	Third party originated assets[2] $M	Facilities provided[3] $M	Other (Manager Services) $M
Residential mortgage	10,884	-	1,884	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**10,884**	**-**	**1,884**	**-**

Traditional securitisations				30 June 2009
	Total outstanding exposures securitised			
Underlying asset	Bank originated assets[1] $M	Third party originated assets[2] $M	Facilities provided[3] $M	Other (Manager Services) $M
Residential mortgage	12,568	-	2,439	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	399	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**12,568**	**-**	**2,838**	**-**

1 *Bank originated assets comprise the Medallion and Swan Trusts but exclude those assest held for contingent liquidity purposes.*

2 *The Bank does not have any indirect origination i.e. the Bank does not use a third party to originate exposures into an SPV without those exposures having appeared on the Bank's Balance Sheet.*

3 *Facilities provided include liquidity facilities, derivatives, etc. provided to the Medallion Trusts and facilities provided to clients' term or ABCP securitisation programmes.*

APS 330 Table 9d (ii) - Total outstanding exposures securitised - synthetic securitisations

Synthetic securitisations				30 June 2010
	Total outstanding exposures securitised			
Underlying asset	**Bank originated assets $M**	**Third party originated assets $M**	**Facilities provided $M**	**Other (Manager Services) $M**
Residential mortgage	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**-**	**-**	**-**

Synthetic securitisations				31 December 2009
	Total outstanding exposures securitised			
Underlying asset	**Bank originated assets $M**	**Third party originated assets $M**	**Facilities provided $M**	**Other (Manager Services) $M**
Residential mortgage	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**-**	**-**	**-**

Synthetic securitisations				30 June 2009
	Total outstanding exposures securitised			
Underlying asset	**Bank originated assets $M**	**Third party originated assets $M**	**Facilities provided $M**	**Other (Manager Services) $M**
Residential mortgage	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**-**	**-**	**-**

APS 330 Table 9d (iii) - Total outstanding exposures securitised

Total securitisations				30 June 2010
	Total outstanding exposures securitised			
Underlying asset	**Bank originated assets [1] $M**	**Third party originated assets [2] $M**	**Facilities provided [3] $M**	**Other (Manager Services) $M**
Residential mortgage	9,696	-	1,475	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**9,696**	**-**	**1,475**	**-**

Total securitisations				31 December 2009
	Total outstanding exposures securitised			
Underlying asset	**Bank originated assets [1] $M**	**Third party originated assets [2] $M**	**Facilities provided [3] $M**	**Other (Manager Services) $M**
Residential mortgage	10,884	-	1,884	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**10,884**	**-**	**1,884**	**-**

Total securitisations				30 June 2009
	Total outstanding exposures securitised			
Underlying asset	**Bank originated assets [1] $M**	**Third party originated assets [2] $M**	**Facilities provided [3] $M**	**Other (Manager Services) $M**
Residential mortgage	12,568	-	2,439	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	399	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**12,568**	**-**	**2,838**	**-**

1 *Bank originated assets comprise the Medallion and Swan Trusts but exclude those assest held for contingent liquidity purposes.*

2 *The Bank does not have any indirect origination i.e. the Bank does not use a third party to originate exposures into an SPV without those exposures having appeared on the Bank's Balance Sheet.*

3 *Facilities provided include liquidity facilities, derivatives, etc. provided to the Medallion Trusts and facilities provided to clients' term or ABCP securitisation*

APS 330 Table 9e - Analysis of past due and impaired securitisation exposures by asset type

	30 June 2010			
	Group originated assets securitised			
Underlying asset	Outstanding exposure $M	Impaired $M	Past due $M	Losses recognised $M
Residential mortgage	9,696	14	36	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**9,696**	**14**	**36**	**-**

	31 December 2009			
	Group originated assets securitised			
Underlying asset	Outstanding exposure $M	Impaired $M	Past due $M	Losses recognised $M
Residential mortgage	10,884	31	350	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**10,884**	**31**	**350**	**-**

	30 June 2009			
	Group originated assets securitised			
Underlying asset	Outstanding exposure $M	Impaired $M	Past due $M	Losses recognised $M
Residential mortgage	12,568	15	165	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**12,568**	**15**	**165**	**-**

APS 330 Table 9f - Analysis of securitisation exposure by facility type

	30 June 2010	31 December 2009	30 June 2009
Securitisation facility type	Exposure $M	Exposure $M	Exposure $M
Liquidity support facilities	767	882	1,052
Warehouse facilities	4,759	5,166	6,258
Standby liquidity facilities	-	-	-
Derivative transactions	1,386	1,328	1,026
Holdings of securities (banking book)	1,744	1,921	3,813
Other	29	85	96
Total securitisation exposures in the banking book	**8,685**	**9,382**	**12,245**
Holdings of securities (trading book)	139	114	60
Total securitisation exposures	**8,824**	**9,496**	**12,305**

APS 330 Table 9g (i) - Analysis of securitisation exposure by risk weighting

		30 June 2010
Risk weight band	Exposure $M	Capital requirement $M
≤ 25%	8,211	1,074
>25 ≤ 35%	-	-
>35 ≤ 50%	6	2
>50 ≤ 75%	209	157
>75 ≤ 100%	297	178
>100 ≤ 650%	105	158
>650 < 1250%	-	-
Total [1]	**8,828**	**1,569**

		31 December 2009
Risk weight band	Exposure $M	Capital requirement $M
≤ 25%	8,690	1,087
>25 ≤ 35%	-	-
>35 ≤ 50%	-	-
>50 ≤ 75%	214	160
>75 ≤ 100%	321	249
>100 ≤ 650%	157	466
>650 < 1250%	-	-
Total [1]	**9,382**	**1,962**

		30 June 2009
Risk weight band	Exposure $M	Capital requirement $M
≤ 25%	10,473	1,485
>25 ≤ 35%	-	-
>35 ≤ 50%	200	88
>50 ≤ 75%	1,339	894
>75 ≤ 100%	153	64
>100 ≤ 650%	72	129
>650 < 1250%	9	63
Total [1]	**12,245**	**2,724**

1 *Securitisation exposures held in the trading book are subject to the VaR capital model based capital calculation and are reported in the market risk sections of this report; they are not included in the above.*

APS 330 Table 9g (ii) - Securitisation exposures deducted from capital

30 June 2010			
Underlying asset type	**Deductions from Tier 1 Capital $M**	**Deductions from Tier 2 Capital $M**	**Total $M**
Residential mortgage	10	10	**20**
Credit cards and other personal loans	-	-	**-**
Auto and equipment finance	-	-	**-**
Commercial loans	34	34	**68**
Other	-	-	**-**
Total	**44**	**44**	**88**

31 December 2009			
Underlying asset type	**Deductions from Tier 1 Capital $M**	**Deductions from Tier 2 Capital $M**	**Total $M**
Residential mortgage	30	30	**60**
Credit cards and other personal loans	-	-	**-**
Auto and equipment finance	-	-	**-**
Commercial loans	-	-	**-**
Other	3	3	**6**
Total	**33**	**33**	**66**

30 June 2009			
Underlying asset type	**Deductions from Tier 1 Capital $M**	**Deductions from Tier 2 Capital $M**	**Total $M**
Residential mortgage	32	31	**63**
Credit cards and other personal loans	-	-	**-**
Auto and equipment finance	-	-	**-**
Commercial loans	-	-	**-**
Other	-	-	**-**
Total	**32**	**31**	**63**

APS 330 Table 9h - Analysis of securitisation exposure subject to early amortisation

30 June 2010

Underlying asset type	Aggregate drawn exposure: Seller's interest $M	Aggregate drawn exposure: Investor's interest $M	Aggregate IRB capital charge against Bank's retained shares from: Drawn balances $M	Aggregate IRB capital charge against Bank's retained shares from: Undrawn lines $M	Aggregate IRB capital charge against investor's shares of: Drawn balances $M	Aggregate IRB capital charge against investor's shares of: Undrawn lines $M
Residential mortgage	-	-	-	-	-	-
Credit cards and other personal loans	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-

31 December 2009

Underlying asset type	Aggregate drawn exposure: Seller's interest $M	Aggregate drawn exposure: Investor's interest $M	Aggregate IRB capital charge against Bank's retained shares from: Drawn balances $M	Aggregate IRB capital charge against Bank's retained shares from: Undrawn lines $M	Aggregate IRB capital charge against investor's shares of: Drawn balances $M	Aggregate IRB capital charge against investor's shares of: Undrawn lines $M
Residential mortgage	-	-	-	-	-	-
Credit cards and other personal loans	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-

30 June 2009

Underlying asset type	Aggregate drawn exposure: Seller's interest $M	Aggregate drawn exposure: Investor's interest $M	Aggregate IRB capital charge against Bank's retained shares from: Drawn balances $M	Aggregate IRB capital charge against Bank's retained shares from: Undrawn lines $M	Aggregate IRB capital charge against investor's shares of: Drawn balances $M	Aggregate IRB capital charge against investor's shares of: Undrawn lines $M
Residential mortgage	-	-	-	-	-	-
Credit cards and other personal loans	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-

APS 330 Table 9i - Securitised assets under the standardised approach

Bankwest securitisation exposures are subject to the Standardised approach and are incorporated in APS 330 Table 9g (page 61).

APS 330 Table 9j (i) - Securitisation activity for the reporting period

Securitisation activity for the 6 months to 30 June 2010		
Underlying asset type	**Value of loans sold or originated into securitisation $M**	**Recognised gain or loss on sale $M**
Residential mortgage	-	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial loans	-	-
Other	-	-
Total	**-**	**-**

Securitisation activity for the 6 months to 31 December 2009		
Underlying asset type	**Value of loans sold or originated into securitisation $M**	**Recognised gain or loss on sale $M**
Residential mortgage	-	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial loans	-	-
Other	-	-
Total	**-**	**-**

Securitisation activity for the 12 months to 30 June 2009		
Underlying asset type	**Value of loans sold or originated into securitisation $M**	**Recognised gain or loss on sale $M**
Residential mortgage	-	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial loans	-	-
Other	-	-
Total	**-**	**-**

APS 330 Table 9j (ii) - New facilities provided in the 12 month reporting period

	30 June 2010	**30 June 2009**
New facilities provided	**Notional amount $M**	**Notional amount $M**
Liquidity support facilities	58	-
Warehouse facilities	-	-
Standby liquidity facilities	-	-
Derivative transactions	620	-
Other	-	-
Total	**678**	**-**

7 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 both capital gain and strategic reasons. Equity investments acquired for strategic reasons require approval from the relevant Finance and Risk Management functions, including governance by the Risk Committee and monitoring by an independent Market Risk Management function. The method of measurement applied to banking book securities is determined by the Group's accounting policies. This varies depending on the significance of the holding, including equity accounting and measurement at fair value.

Significant holdings (generally interests above 20%) are treated as associates under the equity accounting method. This treatment recognises investments at cost plus the Group's share of post acquisition profit or loss and other reserves.

Other holdings are recognised at fair value. 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 a market accepted valuation technique.

Changes in the value of equity investments in the banking book are recognised in profit and loss, or an equity reserve (Available for Sale Investments reserve) based on their accounting classification as discussed above.

APRA requires that these equity investments be either deducted from capital (50% Tier One and 50% Tier Two) or risk weighted, dependent upon on the amount involved and the nature of the underlying investment.

The Group has no equity investments that are subject to any supervisory transition or grandfathering provisions regarding capital requirements.

APS 330 Table 13b to 13f - Equity investment exposures

	30 June 2010	
Equity Investments	**Balance sheet value $M**	**Fair value $M**
Value of listed (publicly traded) equities	578	578
Value of unlisted (privately held) equities	1,427	1,427
Total [1]	**2,005**	**2,005**

1 *Equity holdings comrpise; $1,490m Investments in Associates, $40m Assets Held for Sale and $475m Available for Sale Investments.*

	31 December 2009	
Equity Investments	**Balance sheet value $M**	**Fair value $M**
Value of listed (publicly traded) equities	557	557
Value of unlisted (privately held) equities	1,357	1,357
Total [1]	**1,914**	**1,914**

1 *Equity holdings comprise; $1,339m Investments in Associates, $219m Assets Held for Sale and $355m Available for Sale Investments.*

	30 June 2009	
Equity Investments	**Balance sheet value $M**	**Fair value $M**
Value of listed (publicly traded) equities	556	556
Value of unlisted (privately held) equities	1,329	1,329
Total [1]	**1,885**	**1,885**

1 *Equity holdings comprise; $1,047m Investments in Associates, $553m Assets Held for Sale and $285m Available for Sale Investments. Includes Bankwest.*

Determined to be different

APS 330 Table 13b to 13f continued – Equity investment exposures

Gains (losses) on Equity Investments	For the Six Months to: 30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Cumulative realised gains (losses) in reporting period	1	34	(46)
Total unrealised gains (losses)	1	100	(85)
Total unrealised gains (losses) included in Tier One/Tier Two Capital	15	14	4

Risk Weighted Assets	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Equity investments subject to a 300% risk weight	441	440	396
Equity investments subject to a 400% risk weight	1,979	2,088	1,707
Total RWA by equity asset class	**2,420**	**2,528**	**2,103**

Equity Exposures	Total Credit Exposure 30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Risk weight			
300%	147	147	132
400%	495	522	427
Total	**642**	**669**	**559**

8 Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates, foreign exchange rates, commodity and equity prices, credit spreads, lease residual risk values, and implied volatility levels for all assets and liabilities where options are transacted. Market risk also includes risks associated with funding and liquidity management.

For the purposes of Market Risk Management, the Group makes a distinction between Traded and Non-Traded Market Risks. Traded Market Risks principally arise from the Group's trading book activities within the Institutional Banking and Markets (IB&M) business.

The predominant Non-Traded Market Risk is IRRBB. Other Non-Traded Market Risks are liquidity risk, funding risk, transactional and structural foreign exchange risk arising from capital investments in offshore operations, Non-Traded Equity Risk, market risk arising from the insurance business and lease residual value risk.

APRA has specifically requested Australian banks that have implemented the Basel II framework to incorporate regulatory capital for IRRBB in their assessment of total capital from 1 July 2008. The measurement of market risk for traded assets remains unchanged from the Basel I approach.

Market Risk Management Governance Overview

The Group's appetite for market risk is determined by the Risk Committee and is expressed via its 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 also conform to prudential regulatory requirements.

The market risk profile of the Group is overseen by the Risk Committee and the senior executive management of the Group via the Group Asset Liability Committee (ALCO). The central Market Risk Management (MRM) unit provides support to the Risk Committee and ALCO in the performance of their Market Risk Management accountabilities. MRM supports the implementation of the Group Market Risk Policy through Group Market Risk Standards, which are subject to ratification by ALCO, and define the operational requirements for managing each major market risk type in the Group, including details of sub-limits, stress testing, key controls, delegations, reporting and escalation requirements.

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

- An approved Trading or Treasury function;
- An independent Market Risk Oversight area; and
- A senior management Oversight Committee.

Centralised management systems are used to measure and report significant market risks generated across the Group. The Market Risk Oversight areas are responsible for the daily monitoring and analysis of risk positions against the limits and the profit & loss performance of the Trading and Treasury areas for which they have responsibility, including providing independent valuations of equity holdings across the Group and lease residual valuations, as noted in the table below. The ALCO and senior management committees review market risk performance against risk and return expectations on a monthly basis. The Risk Committee meets at least quarterly to address the operation of the Market Risk Management framework together with any issues that may arise.

Internal 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 volatility and correlation between different markets. The VaR measured for Traded Market Risk uses two years of daily market movements. The VaR measure for Non-Traded Banking Book Market Risk is based on six years of daily market movement history.

VaR is modelled at a 97.5% confidence level over a 1-day holding period for trading book positions and over a 20-day holding period for IRRBB, insurance business market risk and Non-Traded Equity risk.

Because VaR is not an estimate of the maximum economic loss that the Group could experience from an extreme market event, management also uses stress testing to measure the potential for economic loss at significantly higher confidence levels than 97.5%. Management then uses these results in decisions made to manage the economic impact of market risk positions.

Risk Type	Owned By	Oversight By	Group Oversight	Senior Management Oversight Committees	
Traded Market Risk	CBA Domestic & Offshore: • Institutional Banking & Markets • Group Treasury Liquidity Operations	Market Risk Management	Global monitoring by Market Risk Management	• Market Risk Forum • CBA ALCO • ASB Executive Leadership Team - Risk & Control ("ASB ALCO") • PTBC ALCO • Bankwest ALCO	CBA Board Risk Committee and Subsidiary Boards
	International & Domestic Banking Subsidiaries: • ASB Treasury & Financial Markets (New Zealand) • PT Bank Commonwealth (PTBC) Treasury (Indonesia) • Bankwest (Australia)	• ASB Group Risk (Market Risk Unit) • PTBC Risk Management (Indonesia) & IFS Risk Management (Sydney) • Market Risk Management			
Interest Rate Risk in the Banking Book	CBA Domestic & Offshore: • Group Treasury	Market Risk Management		• Market Risk Forum • CBA ALCO • ASB ALCO • PTBC ALCO • Bankwest ALCO	
	International & Domestic Banking Subsidiaries: • ASB Treasury & Financial Markets (New Zealand) • PTBC Treasury (Indonesia) • Bankwest (Australia)	• ASB Group Risk (Market Risk Unit) • PTBC Risk Management & IFS Risk Management • Market Risk Management			
Non-Traded Market Risk in Life Insurance	Wealth Management: • The Colonial Mutual Life Assurance Society Limited (CMLA)	Wealth Risk Management		CMLA ALCO	
Non-Traded Equity Risk	CBA Domestic & Offshore: • Wealth Management: Colonial First State Global Asset Management (CFS GAM) & Colonial First State Investments (CFSI) • Institutional Banking & Markets	• Wealth Risk Management • Market Risk Management		CBA ALCO	
Lease Residual Value Risk	CBA Domestic & Offshore: • Institutional Banking & Markets	Market Risk Management		Residual Value Risk Committee	
Seed Funding Risk	Globally by: • Wealth Management CFS GAM and CFSI	Globally by: • Wealth Risk Management		• Seed Trust Risk Committee • CBA ALCO	

8.1 Traded Market Risk

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

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

- Provide risk management and capital market products to customers;
- Efficiently assist in managing the Group's own market risks; and
- Conduct profitable trading within a controlled framework, leveraging off the Group's market presence and expertise.

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 is a participant in all major markets across foreign exchange and interest rate products, debt, equity and commodities products as required to provide treasury, capital markets and risk management services to institutional, corporate, middle market and retail customers.

Income is earned from spreads achieved through market making and from taking 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.

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 foreign exchange, interest rates, equity, commodity and credit spread risk using this model.

In accordance with the Standard Method, a specific risk charge is calculated for debt specific and equity position risk. There are also a small number of products in the trading book for which regulatory capital is determined using the Standard Method. The Group applies the contingent loss and simplified approaches against these products for capital calculations. An approved pricing model exists for these products in the Group's official product valuation and trading systems however the model is yet to be implemented and approved within the Internal Model risk engine. These products are managed in a distinct portfolio with regulatory capital calculated as an add-on to that from the Internal Model. Electricity trading, inflation linked products and a small number of path dependent interest rate options are managed in this manner.

The breakdown of Traded Market Risk RWA by modelling method is summarised below and the capital requirement for Traded Market Risk under the Standard Method is disclosed in APS 330 Table 10b.

Traded Market Risk Approach	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Internal model approach	1,465	1,845	1,110
Standard method	2,038	2,188	2,340
Total traded market risk RWA	**3,503**	**4,033**	**3,450**

APS 330 Table 10b - Traded market risk under the standard method

Exposure Type	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Interest rate risk	156.1	167.6	183.0
Equity position risk	4.4	6.4	3.4
Foreign exchange risk	1.3	0.2	0.5
Commodity risk	1.2	0.8	0.3
Total	**163.0**	**175.0**	**187.2**
Risk weighted asset equivalent [1]	**2,037.5**	**2,187.5**	**2,340.0**

1 *Risk weighted asset equivalent is the capital requirements multiplied by 12.5 in accordance with APRA Prudential Standard APS 110.*

Internal Models in the Traded Market Risk Portfolios

Each individual pricing model within the Internal Model Approach has been independently validated in accordance with the Group Model Policy. The Internal Model, as a whole, is subject to back-testing against hypothetical and actual profit and loss.

Stress Testing in the Traded Market Risk Portfolios

The stress events considered for Traded 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 Risk Committee and the Group ALCO on a regular basis. Stress tests also include a range of forward looking macro scenario stresses.

APS 330 Table 11d – Value at Risk for trading portfolios under the Internal Model Approach

	Aggregate Value at Risk over the reporting period			
Aggregate VaR [1]	***Mean value*** **$M**	***Maximum value*** **$M**	***Minimum value*** **$M**	**As at balance date $M**
Over the 6 months to 30 June 2010	41	50	34	43
Over the 6 months to 31 December 2009	42	62	19	48
Over the 6 months to 30 June 2009	31	47	20	21

Summary table of the number of back-testing exceptions and outliers [2]	
Over the 6 months to 30 June 2010	0
Over the 6 months to 31 December 2009	1
Over the 6 months to 30 June 2009	4

1 10 day, 99% confidence interval over the reporting period.
2 1 day, 99% confidence interval over the reporting period.

Over the reporting period 1 January 2010 to 30 June 2010

Date	Hypothetical Loss $M	VaR 99% $M
n/a	-	-

Over the reporting period 1 July 2009 to 31 December 2009

Date	Hypothetical Loss $M	VaR 99% $M
27 November 2009	12.5	9.0

Over the reporting period 1 January 2009 to 30 June 2009

Date	Hypothetical Loss $M	VaR 99% $M
9 March 2009	12.0	9.1
30 January 2009	18.4	9.0
26 January 2009	15.1	8.7
15 January 2009	21.7	8.9

There were no back-testing outliers over the 6 months to 30 June 2010.

8.2 Non-Traded Market Risk

Non-Traded Market Risk activities are governed by the Group market risk framework approved by the Risk Committee. The Group market risk framework governs all the activities performed in relation to Non-Traded Market Risk. Implementation of the policy, procedures and limits for the Group is the responsibility of each Group Executive undertaking activities with Non-Traded Market Risk. Independent management of the Non-Traded Market Risk activities of offshore banking subsidiaries is delegated to the Chief Executive Officer of each entity with oversight by the local ALCO. Senior management oversight is provided by the Group's ALCO.

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. Maturity transformation activities of the Group result in mismatched asset and liability positions which direct that the propensity, timing and quantum of interest rate movements have undesired outcomes over both the short term and the long term.

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

The Group acknowledges, through the application of its risk metrics measures and its subsequent management activities, the impact of interest rate risk from both (i) earnings and (ii) economic value perspectives.

(i) Next 12 Months' Earnings

Interest rate risk from the 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 sensitivity analysis which applies an instantaneous 100 basis point parallel shock (increase) in interest rates across the yield curve.

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

Assets and liabilities that reprice directly from observable market rates are assessed 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 taking into consideration historic repricing behaviour and current/ anticipated competitive market forces.

The figures in APS Table 14b represent the potential unfavourable change to the Group's net interest earnings during the year based on a 100 basis point parallel rate shock (increase) and the expected unfavourable net change in price of assets and liabilities held for purposes other than trading.

(ii) Economic Value

Interest rate risk from the economic value perspective is based on a 20-day, 97.5% 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 its economic value of equity through the application of the VaR methodology. A 20-day, 97.5% VaR measure is used to capture the net economic value impact over the long term or total life of all balance sheet assets and liabilities 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

The interest rate risk associated with banking book items is measured by the Group's internal measurement model:

1. 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.
2. 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 twelve month forecast period in response to an adverse change to implied forward cash rates.
3. 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.
4. The embedded loss or gain in banking book items not accounted for on a marked-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.

APRA requires Australian banks accredited for advanced approaches under the Basel II framework to incorporate regulatory capital for IRRBB in their assessment of total capital.

Bankwest is excluded as it is reporting under the Standardised approach which does not require an IRRBB calculation for RWA. An initiative is underway to achieve advanced accreditation from APRA for the Bankwest business to use an Internal Model Approach for assessing capital required for IRRBB.

Transactional Foreign Exchange Risk

Transactional foreign exchange exposure results from exposure to banking assets and liabilities, denominated in currencies other than the functional currency of the transacting entity.

The Group's risk management policies prevent the holding of significant open positions in foreign currencies outside the trading portfolio. There were no material net transactional foreign currency exposures outside the trading portfolio at 30 June 2010.

Due to the low level of non-trading exposures, no reasonably possible change in foreign exchange rates would have a material effect on either the Group's profit or movements in equity for the year ended 30 June 2010.

Structural Foreign Exchange Risk

Foreign exchange risk is the risk to earnings and value originating from adverse movements in the foreign exchange rates in which the Group conducts its activities. The translation impact of the structural foreign exchange risk is managed in accordance with principles approved by the Risk Committee. Hedging strategies are based on the source of the funds and the expected life of the investments. The Group principally hedges Balance Sheet foreign exchange risks except for those associated with long-term capital investments in offshore branches and subsidiaries. The Group's only significant structural foreign exchange exposure occurs due to the Group's capitalisation of ASB.

Non-Traded Equity Risk

The Group retains Non-Traded Equity Risk through strategic investments and business development activities in divisions including IB&M and Wealth Management. This activity is subject to governance arrangements approved by the Risk Committee, and is monitored on a centralised basis within the MRM function. A 20-day, 97.5% VaR is used to measure the economic impact of adverse changes in value. The 30 June 2010 VaR measure is $140 million (refer also to section 7 "Equity Risk").

Market Risk in Insurance Businesses

Although still modest in the broader Group context, a significant component of Non-Traded Market Risk activities result from the holding of assets related to the Life Insurance businesses.

There are two main sources of market risk in these businesses: (i) market risk arising from guarantees made to policyholders, and (ii) market risk arising from the investment of shareholders' capital.

A second order market risk also arises for the Group from assets held for investment linked policies. On this type of contract, the policyholder takes the risk of falls in the market value of the assets. However, falls in market value also impact funds under management and reduce the fee income collected for this class of business.

Guarantees (to Policyholders)

All financial assets within the Life Insurance statutory funds directly support either the Group's life insurance or life investment contracts. Market risk arises for the Group on contracts where the liabilities to policyholders are guaranteed by the Group. The Group manages this risk by the monthly monitoring and rebalancing of assets to contract liabilities. However, for some contracts the ability to match asset characteristics with policy obligations is constrained by a number of factors including regulatory constraints, the lack of suitable investments as well as by the nature of the policy liabilities themselves.

Shareholders' Capital

A portion of financial assets held within the Insurance business, both within the Statutory Funds and in the Shareholders' Funds of the Life Insurance company represents shareholder (Group) capital. Market risk also arises for the Group on the investment of this capital. As at 30 June 2010, shareholders' funds in the Australian Life Insurance businesses are invested 79% in income assets (cash and fixed interest) and 21% in growth assets (shares and property).

APS 330 Table 14b (i) – Interest rate risk in the banking book

	Change in economic value		
Stress testing: interest rate shock applied	**30 June 2010 $M**	**31 December 2009 $M**	**30 June 2009 $M**
AUD			
200 basis point parallel increase	69	(285)	(150)
200 basis point parallel decrease	(54)	332	168
NZD			
200 basis point parallel increase	(134)	(126)	(146)
200 basis point parallel decrease	142	134	156
Other			
200 basis point parallel increase	(6)	(9)	(9)
200 basis point parallel decrease	6	9	9

APS 330 Table 14b (ii)

Regulatory RWA	**30 June 2010 $M**	**31 December 2009 $M**	**30 June 2009 $M**
Interest rate risk in the banking book [1]	**10,272**	**16,601**	**8,944**

1 *Risk weighted asset equivalent is the capital requirements multiplied by 12.5 in accordance with APRA Prudential Standard APS 110.*

Lease Residual Value Risk

The Group takes residual value risk on assets such as industrial and mining equipment, rail, aircraft, marine technology, healthcare and other equipment. A lease residual value guarantee exposes the business to the movement in secondhand asset prices. The lease residual value risk within the Group is controlled through a risk management framework approved by the Risk Committee. The framework includes asset, geographic and maturity concentration limits and stress testing which is performed by the independent MRM function.

Liquidity and Funding Risk

Overview

Balance Sheet liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Group manages liquidity requirements by currency and by geographical location of its operations. Subsidiaries also manage their liquidity as per their own liquidity policies and are also included in the Group's liquidity policy framework.

Funding risk is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds. The funding requirements are integrated into the Group's liquidity and funding policy with its aim to ensure the Group has a stable diversified funding base without over-reliance on any one market sector.

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 borrow funds on an unsecured basis, or has sufficient quality assets to borrow against on a secured basis, or has sufficient quality liquid assets to sell to raise immediate funds without adversely affecting the Group's net asset value.

The Group's funding policies and risk management framework complement the Group's liquidity policies by ensuring an appropriate liability structure to finance the Group's businesses. The long term stability and security of the Group's funding is also designed to protect its liquidity position in the event of a crisis specific to the Group.

The Group's liquidity policies are designed to ensure it maintains sufficient cash balances and liquid asset holdings 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, such as those experienced during the Global Financial Crisis.

The Group's funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type, investor location, jurisdiction, currency and concentration on a cost-effective basis. This objective applies to the Group's wholesale funding and customer deposit funding activities. The Group's customer deposit base formed approximately 58% of its total funding requirements as at 30 June 2010.

The Risk Management Framework for Liquidity and Funding

The Group's liquidity and funding policies are approved by the Risk Committee and agreed with APRA. The Group ALCO's charter includes: reviewing the management of assets and liabilities; reviewing liquidity and funding policies and strategies; as well as regularly monitoring compliance with those policies across the Group. The Group Treasury division manages the Group's liquidity and funding positions in accordance with the Group's liquidity policy including monitoring and satisfying the liquidity needs of the Group and its subsidiaries. The Group Treasury division manages Bankwest's liquidity and funding positions.

Larger domestic subsidiaries, such as Bankwest, CBFC Limited and subsidiaries within the Colonial Group, are subject to Group oversight and also apply their own liquidity and funding methods to address their specific needs.

The Group's New Zealand banking subsidiary, ASB Bank Limited (ASB), manages its own domestic liquidity and funding needs in accordance with its own liquidity policies and the policies of the Group. ASB's liquidity policy is also overseen by the RBNZ.

The Group also has relatively small banking subsidiaries in Indonesia and Malta that manage their liquidity and funding on a similar basis.

The Group's Financial Services and Risk Management divisions provide prudential oversight of the Group's liquidity and funding risk and manage the Group's relationship with prudential regulators.

Liquidity and Funding Policies and Management

The Group's liquidity and funding policies provide that:

- Balance sheet assets that cannot be liquidated quickly are funded with deposits or term borrowings that meet minimum maturity requirements with appropriate liquidity buffers;
- Short and long term wholesale funding limits are established and reviewed regularly based on surveys and analysis of market capacity;
- The level of liquid assets complies with crisis scenario assumptions related to "worst case" wholesale and retail market conditions; is adequate to meet known funding obligations over certain timeframes; and are allocated across Australian dollar and foreign currency denominated securities in accordance with specific calculations;
- Certain levels of liquid assets are held to provide for the risk of the Group's committed but undrawn lending obligations being drawn by customers and retail deposit withdrawals, as calculated based on draw down estimates and forecasts; and
- The Group maintains certain levels of liquid assets categories within its liquid assets portfolio. The first category includes negotiable certificates of deposit of Australian banks, bank bills, Commonwealth of Australia Government and Australian state and semi-government bonds and supra-national bonds eligible for repurchase by the Reserve Bank of Australia (RBA) at any time. The second category is AAA and A-1+ rated Australian residential mortgage backed securities that meet certain minimum requirements.

The Group's key liquidity tools include:

- A liquidity management model similar to a "cash flow ladder" or "maturity gap analysis", that allows forecasting of liquidity needs on a daily basis;
- An additional liquidity management model that implements prudential liquidity policies. This model is calibrated with a series of "worst case" liquidity crisis scenarios, incorporating both systemic and "name" crisis assumptions, such that the Group will have sufficient liquid assets available to ensure it meets all of its obligations as and when they fall due in stressed scenarios;
- The RBA's repurchase agreement facilities provide the Group with the ability to borrow funds on a secured basis, even when normal funding markets are unavailable;
- The Group's various short term funding programmes are supplemented by the Interbank Deposit Agreement

between the four major Australian banks. This agreement is similar to a standby liquidity facility that allows the Group to access funding in various crisis circumstances;

- Its consumer, small business and institutional deposit base. Its consumer retail funding base includes a wide range of retail transaction accounts, investment accounts, term deposits and retirement style accounts for individual consumers; and
- Its wholesale international and domestic funding programmes that include: Australian Dollar Negotiable Certificates of Deposit programme; Transferable Certificate of Deposit programme; Asian Transferable Certicate of Deposit programme; Australian Dollar Bank Bill programme; Australian, U.S. and Euro Commercial Paper programmes; Bankwest Euro Commercial Paper programme; U.S. Extendible Notes programme; Australian Dollar Domestic Borrowing programme; U.S. Medium Term Note programme; Euro Medium Term Note programme and its Medallion "Regulation AB" securitisation programme.

At 30 June 2010 around 100% of the Group's Australian dollar liquid assets qualified for repurchase by the RBA at any time.

9 Operational Risk

Operational risk is defined as the risk of economic loss arising from inadequate or failed internal processes and methodologies, people, systems or from external events. The Group is continually faced with issues or incidents that have the potential to disrupt normal Group operations, expose the Group to loss or harmful reputation and/or regulatory scrutiny.

Risks that arise from lending activity or changes in market conditions are not operational risks, but credit and market risks respectively.

Capital is attributed to operational risks according to the Group's Economic Capital Framework using the Group's Advanced Measurement Approach (AMA) methodology for operational risk.

The Group's Operational Risk Management Framework

Operational Risk Objectives

The Group's operational risk management objectives support the Group's Vision, achieving financial targets and satisfying licensing and other regulatory obligations.

The following detailed objectives have been approved by the Risk Committee:

- Maintenance of an effective internal control environment and system of internal control;
- Demonstration of effective governance, including a consistent approach to operational risk management across the Group;
- Transparency, escalation and resolution of risk and control incidents and issues; and
- Making decisions based upon an informed risk-return analysis and appropriate standards of professional practice.

Operational Risk Management Framework

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

- Governance;
- Management, Measurement & Systems;
- Analytics, Review and Reporting; and
- Trusted Advice & Continuous Improvement.

Roles and Responsibilities

Every staff member has responsibility for risk management and compliance with obligations. Individual responsibilities and limits of authority are articulated within the position descriptions for each role.

Three Lines of Defence

Within the Group, accountability for operational risk has been structured into "Three Lines of Defence" as illustrated below.

Line 1 – Business Management

Business managers are responsible for managing operational risk for their business and the processes they own. This includes understanding and articulating their risk profile, testing and monitoring key controls, and escalating, reporting and rectifying incidents and control weaknesses.

Line 2 – Risk Management & Compliance

Group, Business Unit and Divisional Risk Management and Compliance units support the risk strategy and philosophy, and business decisions within the Group's risk appetite as well as facilitate the embedding of the Group's operational risk framework and culture within the Group's businesses.

Line 3 – Internal and External Audit

Group Audit is responsible for reviewing risk management frameworks and Business Unit practices for risk management and internal controls.

External Audit is responsible for providing an independent opinion on the financial statements and control environments of the Group and Bank.

Operational Risk Within the Group

There are several areas within the Group responsible for providing policies and guidance to reduce the likelihood of an operational risk event occurring and actions that can be taken when the event occurs. These areas may also issue policies to communicate the Group's requirements for managing selected risks.

Responsibilities of Group Functions

The Group Functions collaborate to identify where there are commonalities in their own areas of accountabilities. They also centrally implement processes and act as information repositories so that information can be shared, rather than collected and recorded in multiple areas.

Compliance Risk Management

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Group may suffer as a result of its failure to comply with the requirements of relevant laws, regulatory bodies, industry standards and codes.

The Group's Compliance Risk Management Framework (CRMF) is a key element of the Group's integrated risk management framework. The CRMF is consistent with the Australian Standard on Compliance Programs; as such it is designed to meet the Group's obligations under the Corporations Act 2001 and the Group's Australian Financial Services Licence. The CRMF incorporates a number of components including Group Policies, a Compliance Obligations Register and Guidance Notes that detail specific requirements and accountabilities. These are complemented by Business Unit compliance frameworks including obligations registers, standards and procedures.

The CRMF provides for the assessment of compliance risks, implementation of controls, monitoring and testing of framework effectiveness and the escalation, remediation and reporting of compliance incidents and control weaknesses.

The Group's compliance strategy is based on two fundamental principles:

- Line Management in each Business Unit have the responsibility to ensure their business is and remains compliant with legislative, regulatory, industry code and organisational requirements; and
- Group and Business Unit Regulatory Risk and Compliance teams work together to monitor, overview and report on compliance to management, compliance committees and the Board.

Risk Mitigation Through Insurance

The Group transfers selected unexpected insurable operational risk losses to the insurance market. The Group's insurance program is structured based upon the Group's risk appetite and risk retention strategies.

In the design of the insurance program, the adequacy and appropriateness of cover are subject to continuous review. The quality and scope of cover are reviewed with the Group's operational risk profile. Information such as the Group's loss data, quantitative risk assessments, external loss data, loss modelling, external benchmarking, external valuations and the cost of cover are factors in the program design and structure.

The Group appoints an external advisor to provide insurance and insurance risk management advice and deliver the optimal insurance program.

The insurance program is subject to review by the Risk Committee and the Executive Committee.

Capital Measurement Approach

The Group follows a mathematically determined loss distribution approach to measure operational risk. This involves separate modelling of the frequency and severity of risks at a component level and then aggregating the simulated losses from these components into loss distributions for the Group and for its parts.

The Group's modelling approach is granular – all 20 "Level 2" event types defined in Basel II are considered for each business. Each intersection of a business and a Level 2 event type is referred to as the Business/Risk Type (or BuRT). The approach has a two-fold benefit:

(i) To model all potential risk and events as accurately as possible; and
(ii) To align risk measurements to the Businesses that need to own and manage these risks.

The BuRT level frequency and severity distributions are adjusted based on judgement factors to tailor loss event histories to current business circumstances. Then, Monte Carlo simulations are used to produce capital results for the Group and each business.

This modelling system has been subject to review by independent third parties.

The Group's operational risk measurement methodology combines expert assessment of individual risk exposures with loss data from various sources to determine potential loss, purchase insurance and calculate operational risk economic capital.

The operational risk measurement approach integrates the use of relevant factors as follows:

Direct inputs:

- Scenario analysis capture of business judgments (called Quantitative Risk Assessment) using online functionality within the modelling system; and
- Internal loss data (captured in the Group's internal loss incident management system).

Indirect inputs:

- External loss data (sourced from external providers) case studies are used in the scenario analysis process;
- Risk indicators are used in the scenario analysis process; and
- Judgemental overlays, as previously mentioned.

Economic Capital Allocation

The outcomes of the operational risk measurement cycle are generated at BuRT level as outlined above. The outcomes include an economic capital requirement based on a 99.95% confidence interval (calibrated to the Group's overall target AA debt rating).

That data is used as a direct risk type input to the Economic Capital framework calculations alongside other risk type inputs (e.g. credit, traded and non-traded market, insurance, strategic business risks which are measured at a consistent 99.95% confidence interval). A primary outcome of the Economic Capital framework process is that economic capital for operational risk is allocated across the Group's business lines and this information is used to assist risk profile review and to drive risk-adjusted performance management metrics for each business line.

Regulatory Capital Calculation

The Group (including ASB) has approval from APRA to calculate its operational risk capital using the Basel II Advanced Measurement Approach (AMA). Smaller overseas operations are excluded and are calculated based on the Standardised approach.

Bankwest also calculates its operational risk capital based on the Standardised approach pending accreditation by APRA for the Advanced Measurement Approach.

APS 330 Table 16c - Capital requirements for operational risk (risk weighted assets)

	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Advanced measurement approach	16,684	15,154	14,797
Standardised approach	3,599	3,195	3,192
Total operational risk RWA	**20,283**	**18,349**	**17,989**

10 Appendices

10.1 Detailed Capital Disclosures

Fundamental Tier One Capital

The Group's fundamental capital is comprised of ordinary share capital, reserves, and retained earnings (including current period profits net of allowance for expected dividends).

Ordinary Share Capital

Ordinary share capital	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Ordinary share capital	23,081	22,344	21,642
add back treasury shares [1]	298	262	278
Ordinary share capital for regulatory purposes	**23,379**	**22,606**	**21,920**

1 Represents shares of the Bank held by the Group's life insurance operations and employee share scheme trusts.

The key features of the Group's ordinary shares include:

- Publicly listed on the Australian Stock Exchange;
- The right to receive dividends as declared;
- In the event of winding up the Company, participate in the proceeds from sale of surplus assets in proportion to the number of and amounts paid up on shares held; and
- A shareholder has one vote on a show of hands and one vote for each fully paid share on a poll. A shareholder may be present at a general meeting in person or by proxy or attorney, and if a body corporate, it may also authorise a representative.

Reserves

The table below details the reserve accounts that qualify as Tier One Capital.

Reserves [1]	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
General reserve	1,248	1,210	1,445
Capital reserve	319	303	299
Foreign currency translation reserve [2]	(545)	(612)	(521)
Total reserves balance included in regulatory capital	**1,022**	**901**	**1,223**

1 Regulatory Capital excludes Cash Flow Hedge reserve, Employee Compensation reserve, Available for Sale Investments reserve and Asset Revaluation reserve from Tier One Capital. Upper Tier Two Capital allows for the inclusion of 45% of the Asset Revaluation reserve balance.

2 Excludes balances related to non consolidated subsidiaries.

Retained Earnings (including Current Year Earnings)

Through the use of dividend policy and strategy, retained earnings (including current period profits) are a significant mechanism by which the Group's capital is managed. There are a number of reconciling items between accounting designated retained earnings and that amount which qualifies as Tier One Capital, including provision for expected dividends.

The table below details the Retained Earnings and Current Period Profits that qualify as Tier One Capital.

Retained Earnings and Current Period Profits	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Retained earnings and current period profits	9,938	9,320	7,825
Less expected dividend	(2,633)	(1,841)	(1,747)
Add back estimated reinvestment under dividend reinvestment plan [1]	-	608	507
Retained earnings adjustment for non consolidated subsidiaries [2]	392	752	752
Other	(52)	(91)	(181)
Total included in regulatory capital	**7,645**	**8,748**	**7,156**

1 The Bank's Dividend Reinvestment Plan (DRP) for the June 2010 final dividend will be satisfied in full by an on market purchase of shares. The DRP in respect of the December 2009 interim dividend and the June 2010 final dividend were satisfied through the issue of shares.

2 Represents retained earnings adjustment for non-consolidated subsidiaries. This includes adjustments to the extent to which profits from non-consolidated subsidiaries are not repatriated back to the Bank in dividends (June 2010: $360 million, December 2009: nil, June 2009: nil). The retention of these profits will be used to fund the future growth of these operations. This has been partially offset by the one-off write back adjustments upon adoption of AIFRS of $752 million.

Residual Tier One Capital

The Group's Residual Tier One Capital instruments are comprised of both innovative capital and non innovative capital.

Residual Capital eligible for inclusion as Tier One Capital is subject to an APRA prescribed limit of 25% of Tier One Capital with any excess transferred to Upper Tier Two Capital, subject to transitional arrangements which ceased on 1 January 2010.

Innovative Capital

The following innovative capital instruments were current at 30 June 2010:

Innovative Capital [1]	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
PERLS III	1,147	1,147	1,147
Trust preferred securities 2003	642	613	676
Trust preferred securities 2006	939	939	939
ASB preference shares	505	505	505
Perpetual exchangeable floating rate notes	236	225	248
Total innovative capital	**3,469**	**3,429**	**3,515**

1 Represents AUD equivalent net of issue costs.

The key features and terms and conditions of each instrument are summarised below.

PERLS III

Perpetual Exchangeable Repurchaseable Listed Shares (PERLS III) was issued in 2006 and are classified as Loan Capital in the Group's balance sheet.

	PERLS III
Instrument	Perpetual preference share
Amount	AUD 1,166m
Tier One Class	Innovative
Issue Date	06 Apr 2006
Earliest Buy-out Date	06 Apr 2016
Distribution Rate	3M AUD-BBSW + 1.05 % p.a.
Distribution Frequency	Quarterly in arrears
Accounting Treatment	Debt
Franking	Fully franked distributions
Step-up Date	Yes; 6 Apr 2016
Step-up Rate	Margin increase by a one time step-up of 1.00% per annum.
Distributions	Non-cumulative
Mandatory Conversion	No

Trust Preferred Securities

The Group has on issue Trust Preferred Securities (TPS) issued in 2003 and 2006.

	TPS 2003	**TPS 2006**
Instrument	Preferred beneficial ownership in a trust	Preferred beneficial ownership in a trust
Amount USD	USD 550m	USD 700m
Amount AUD	AUD 642 m	AUD 939m
Tier One Class	Innovative	Innovative
Issue Date	06 Aug 2003	15 Mar 2006
Earliest Buy-out Date	30 Jun 2015	15 Mar 2016
Distribution Rate	5.805% p.a.	6.024% p.a. to 15 Mar 2016
Distribution Frequency	Semi-annually in arrears	Semi-annually in arrears
Accounting Treatment	Debt	Equity
Franking	No	No
Step-up Date	No	Yes: 15 Mar 2016
Step-up Rate	N/A	LIBOR + 1.740% p.a.
Distributions	Non-cumulative	Non-cumulative
Mandatory Conversion	No	No

The TPS 2003 securities are classified as Loan Capital in the Group's balance sheet.

The TPS 2006 securities are classified as Other Equity Instruments in the Group's balance sheet and reflect the fact there is no contractual obligation to deliver cash or another financial asset to the holder. Due to the equity nature of the securities they are revalued back to Australian dollars at the historical exchange rate.

ASB Preference Shares

The Group has issued preference shares through two subsidiary entities, ASB Capital and ASB Capital No 2. These preference shares are classified as minority interests for accounting purposes.

	ASB Capital	**ASB Capital No 2**
Instrument	Perpetual preference share	Perpetual preference share
Amount NZD	NZD 200m	NZD 350m
Amount AUD	AUD 182m	AUD 323m
Tier One Class	Innovative	Innovative
Issue Date	10 Dec 2002	22 Dec 2004
Earliest Buy-out Date	10 Dec 2007	22 Dec 2009
Distribution Rate	1Y FISSWAP + 1.3% p.a.	1Y Swap FISSWAP + 1.0% p.a.
Distribution Frequency	Quarterly in arrears	Quarterly in arrears
Accounting Treatment	Minority Interests	Minority Interests
Franking	Fully imputed	Fully imputed
Step-up Date	No	No
Step-up Rate	N/A	N/A
Distributions	Non-cumulative	Non-cumulative
Mandatory Conversion	No	No

Perpetual Exchangeable Floating Rate Notes

The Group has three US denominated perpetual exchangeable floating rate notes on issue. These are comprised of the following outstanding note issues:

Instrument	Exchangeable floating rate note	Exchangeable floating rate note	Undated floating rate note
Amount USD	USD 37.5m	USD 64m	USD 100m
Amount AUD	AUD 44m	AUD 75m	AUD 117m
Issue Date	11 Jul 1988	22 Feb 1989	15 Oct 1986
Distribution Rate	6 mth LIBOR + 0.15% p.a.	6 mth LIBOR + 0.06% p.a.	6 mth LIBOR + 0.0625% on an actual / 360 day basis
Distribution Frequency	Semi-annually in arrears	Semi-annually in arrears	Semi-annually in arrears
Accounting Treatment	Debt	Debt	Debt
Franking	No	No	No
Step-up Date	No	No	No
Step-up Rate	N/A	N/A	N/A
Distributions	Non-cumulative	Non-cumulative	Non-cumulative
Mandatory Conversion	No	No	No

These instruments are classified as Loan Capital in the Group's balance sheet.

Non Innovative Capital [1]	**30 June 2010 \$M**	**31 December 2009 \$M**	**30 June 2009 \$M**
PERLS IV	1,443	1,443	1,443
PERLS V	1,964	1,964	-
Total non innovative capital	3,407	3,407	1,443

1 Represents AUD equivalent net of issue costs.

The Group's Perpetual Exchangeable Resaleable Listed Securities (PERLS IV and PERLS V), issued in July 2007 and October 2009 respectively, qualify as Non Innovative Tier One Capital and are classified as Loan Capital in the Group's balance sheet. PERLS IV were the first non-innovative transaction undertaken by the Group.

PERLS IV and PERLS V are retail domestic issues denominated in Australian dollars and are listed on the Australian Stock Exchange.

	PERLS IV	PERLS V
Legal Form	Stapled Security	Stapled Security
Issuer	Commonwealth Bank	Commonwealth Bank
Issue size	AUD 1,465m	AUD 2,000m
Issue date	12 Jul 2007	14 Oct 2009
Earliest Buy-Out Date	31 Oct 2012	31 Oct 2014
Accounting Classification	Debt	Debt
APRA Classification	Non-Innovative Tier One	Non-Innovative Tier One
Security Credit Rating	A+ (S&P) Aa3 (Moody's)	A+ (S&P) Aa3 (Moody's)
Distribution Rate	1Y AUD-BBSW + 1.05% p.a.	3Y AUD-BBSW + 3.4% p.a.
Distribution Frequency	Quarterly in arrears	Quarterly in arrears
Nature of distribution	Franked floating rate distribution	Franked floating rate distribution
Rights if distribution not fully franked	Gross-up	Gross-up
Ranking in liquidation	Ranks as Preference Share	Ranks as Preference Share
Reset to terms	No	No
Step-up	No	No
Mandatory conversion	31 October 2012, where Mandatory Conversion Conditions are satisfied	31 October 2014, where Conversion Conditions are satisfied

Tier One Capital Deductions

The tables below detail the Tier One capital deductions.

Tier One Capital Deductions - 100%	**30 June 2010 $M**	**31 December 2009 $M**	**30 June 2009 $M**
Goodwill	(8,470)	(8,523)	(8,572)
Capitalised expenses	(288)	(283)	(257)
Capitalised computer software costs	(950)	(799)	(673)
Defined benefit superannuation plan surplus	(221)	(411)	(347)
General reserve for credit losses [1]	(90)	-	-
Deferred tax	(96)	(34)	(257)
Total tier one capital deductions - 100%	**(10,115)**	**(10,050)**	**(10,106)**

1 Capital deduction at 30 June 2010 of $90 million (after tax) to ensure the Group has sufficient provisions and capital to cover credit losses estimated to arise over the full life of the individual facilities, as required by APS 220.

Tier One Capital Deductions - 50%	**30 June 2010 $M**	**31 December 2009 $M**	**30 June 2009 $M**
Equity investments in other companies and trusts	(323)	(315)	(422)
Equity investments in non consolidated subsidiaries (net on intangibles)	(518)	(600)	(529)
Expected impairment loss (before tax) in excess of eligible credit provisions (net of deferred tax)	(830)	(727)	(654)
Other deductions	(328)	(277)	(250)
Total tier one capital deductions - 50%	**(1,999)**	**(1,919)**	**(1,855)**

Tier Two Capital

The table below provide details on the Group's Upper Tier Two Capital.

Upper Tier Two Capital	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
Residual capital above prescribed limits transferred from Tier One capital [1]	225	73	-
Prudential general reserve for credit losses (net of tax) [2]	603	603	590
Asset revaluation reserve	87	76	78
Upper Tier Two note and bond issues	382	350	373
Other	83	64	56
Total upper tier two capital	**1,380**	**1,166**	**1,097**

1 Residual Capital eligible for inclusion as Tier One Capital is subject to an APRA prescribed limit of 25% of Tier One Capital with any excess transferred to Upper Tier two Capital.

2 Prudential general reserve for credit losses represents the after tax collective provisions and general reserve for credit losses of Banking entities in the Group (including Bankwest) which operate under the Basel II Standardised methodology.

The Group has on issue Perpetual Subordinated Debt that qualify as Upper Tier Two capital instruments. There are two separate notes issued, one each by the Commonwealth Bank and its wholly owned subsidiary Bankwest. The key features of these instruments are summarised below:

Instrument	Perpetual Subordinated Debt (Commonwealth Bank)	Perpetual Subordinated Debt (Bankwest)
Amount JPY	JPY 20b	JPY 9b
Amount AUD	AUD 263m	AUD 119m
Issued	25 Feb 1999	30 May 1996
Maturity	Undated	Undated
Call Option	Redeemable at option of the Bank	Redeemable at option of the Bank
Coupon	Up to 28 Sept 2029 - 4.775%	Up to 30 May 2016 – 4.55%
	After 28 Sept 2029 - 6 month JPY-LIBOR-BBA plus 170 bps	After 30 May 2016 – mid five year fixed Yen swap rate + 220bp

Lower Tier Two Capital

The Group has a number of subordinated debt issues across multiple currencies on issue at any one point in time. In order to qualify as Lower Tier Two Capital the following criteria has to be satisfied:

- Instruments are unsecured and paid up;
- Minimum term of 5 years; and
- The amount available for inclusion in Lower Tier Two is amortised at a rate of 20% (straight line) over the last 4 years to maturity.

The lower Tier Two debt on issue is summarised in the table below.

Lower Tier Two Loan Capital	Currency	Amount $M	Issue	Maturity	30 June 2010 $M	31 December 2009 $M	30 June 2009 $M
AUD Denominated							
Subordinated Note	AUD	275	Dec-89	Dec-14	275	275	275
Subordinated Note	AUD	25	Apr-99	Apr-29	25	25	25
Subordinated Note	AUD	300	Feb-05	Feb-15	-	300	300
Subordinated Note	AUD	300	Nov-05	Nov-15	300	300	300
Subordinated Note	AUD	200	Sep-06	Sep-16	200	200	200
Subordinated Note	AUD	150	May-07	May-17	150	150	150
Subordinated Note	AUD	350	May-07	May-17	350	350	350
Subordinated Note	AUD	500	Sep-08	Sep-18	500	500	500
					1,800	2,100	2,100
USD Denominated							
Subordinated Note	USD	300	Jun-00	Jun-10	-	67	74
Subordinated Note	USD	250	Jun-03	Jun-18	292	279	308
Subordinated Note	USD	100	Jun-03	Jun-18	117	111	123
Subordinated Note	USD	250	Jun-04	Aug-14	-	-	308
Subordinated Note	USD	250	Aug-04	Aug-14	-	-	308
Subordinated Note	USD	61	Mar-05	Mar-25	71	67	74
Subordinated Note	USD	200	Jun-06	Jul-16	234	223	246
Subordinated Note	USD	300	Sep-06	Sep-16	350	334	368
Subordinated Note	USD	650	Dec-06	Dec-16	759	725	800
					1,823	1,806	2,609
JPY Denominated							
Subordinated Note	JPY	30,000	Oct-95	Oct-15	395	361	386
Subordinated Note	JPY	10,000	May-04	May-34	132	121	129
Subordinated Note	JPY	10,000	Nov-05	Nov-35	132	121	129
Subordinated Note	JPY	5,000	Mar-06	Mar-18	66	60	64
					725	663	708
GBP Denominated							
Subordinated Note	GBP	150	Jun-03	Dec-23	264	269	309
NZD Denominated							
Subordinated Note	NZD	350	May-05	Apr-15	284	284	282
Subordinated Note	NZD	200	Jun-06	Jun-16	161	160	105
Subordinated Note	NZD	370	Nov-07	Nov-17	300	300	288
					745	744	675
EUR Denominated							
Subordinated Note	EUR	300	Mar-05	Mar-15	-	480	520
Subordinated Note	EUR	1,000	Aug-09	Aug-19	1,429	1,602	-
					1,429	2,082	520
CAD Denominated							
Subordinated Note	CAD	150	Nov-05	Nov-15	167	159	160
Subordinated Note	CAD	150	Nov-05	Nov-15	167	159	160
Subordinated Note	CAD	300	Oct-07	Oct-17	334	317	320
					668	635	640
Total Lower Tier 2 notes and bonds on issue					**7,454**	**8,299**	**7,561**
less holdings on own lower tier two capital					**(16)**	**(17)**	**(19)**
Total Lower Tier 2 Capital [1]					**7,438**	**8,282**	**7,542**

1 Balance eligible for inclusion in Lower Tier 2 (net of amortisation).

10.2 List of APRA APS 330 Tables

The following schedule lists the quantitative tables in this document as referenced in APRA Prudential Standard APS 330 "Capital Adequacy: Public Disclosure of Prudential Information" Attachments A and B.

Determined to be different

10.3 List of Supplemental Tables and Diagrams

10.4 Glossary

Term	Definition
ADI	Authorised Deposit-taking Institution - includes banks, building societies and credit unions which are authorised by APRA to take deposits from customers.
AIFRS	Australian equivalents to International Financial Reporting Standards.
AIRB	Advanced Internal Ratings Based approach - used to measure credit risk in accordance with the Group's Basel II accreditation approval provided by APRA 10 December 2007 that allows the Group to use internal estimates of PD, LGD and EAD for the purposes of calculating regulatory capital.
AMA	Advanced Measurement Approach - used to measure operational risk in accordance with the Group's Basel II accreditation approval provided by APRA 10 December 2007 that allows the Group to use internal estimates and operational model for the purposes of calculating regulatory capital.
APRA	Australian Prudential Regulation Authority - the regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia.
APS	APRA's ADI Prudential Standards. For more information, refer to the APRA web site.
ASB	ASB Bank Limited - a subsidiary of the Commonwealth Bank of Australia that is directly regulated by the Reserve Bank of New Zealand.
Bank	APS asset class - includes claims on central banks, international banking agencies, regional development banks, ADI and overseas banks.
Basel II	Refers to the Basel Committee on Banking Supervision Revised Framework for International Convergence of Capital Measurement and Capital Standards issued in June 2006 and as subsequently amended.
CBA	Commonwealth Bank of Australia - the chief entity for the Group.
Collective Provision	All loans and receivables that do not have an individually assessed provision are assessed collectively for impairment. The collective provision is maintained to reduce the carrying value of the portfolio of loans to their estimated recoverable amounts. These provisions are as reported in the Group's Financial Statements in accordance with AIFRS (AASB 139 "Financial Instruments: Recognition and Measurement").
Corporate	APS asset class – includes commercial credit risk where annual revenues exceed $50 million, SME Corporate and SME Retail.
EAD	Exposure at Default – the extent to which a bank may be exposed to a counterparty in the event of default.
ECAI	External Credit Assessment Institution
ELE	Extended Licensed Entity – APRA may deem a subsidiary of an ADI to be part of the ADI itself for the purposes of measuring the ADI's exposures to related entities.
General Reserve for Credit Losses	APS 220 requires the Group to establish a reserve that covers credit losses prudently estimated, but not certain to arise, over the full life of all individual facilities making up the business of the ADI. Most of the Group's collective provisions are included in the General Reserve for Credit Losses. An excess of required General Reserve for Credit Losses over the Group's collective provisions is recognised as a deduction from Tier 1 Capital on an after tax basis.
Individual Provisions	Provisions made against individual facilities in the credit-rated managed segment where there is objective evidence of impairment and full recovery of principal is considered doubtful. These provisions are established based primarily on estimates of realisable value of collateral taken. These provisions are as reported in the Group's financial statements in accordance with AIFRS (AASB 139 "Financial Instruments: Recognition and Measurement"). Also known as individually assessed provisions or IAP.
Level 1	The lowest level at which the Group reports its capital adequacy to APRA.

Glossary (continued)

Term	Definition
Level 2	The level at which the Group reports its capital adequacy to APRA being the consolidated banking group comprising the ADI, its immediate locally incorporated non-operating holding company, if any, and all their subsidiary entities other than non-consolidated subsidiaries. This is the basis on which this report has been produced.
Level 3	The conglomerate group including the Group's insurance and wealth management businesses.
LGD	Loss Given Default - the fraction of exposure at default (EAD) that is not expected to be recovered following default.
Other Assets	APS asset class - includes Cash, Investments in Related Entities, Fixed Assets and Margin Lending.
Other Retail	APS asset class - includes all retail credit exposures not otherwise classed as a residential mortgage, SME retail or a qualifying revolving retail asset.
PD	Probability of Default - the likelihood that a debtor fails to meet an obligation or contractual commitment.
Qualifying Revolving Retail	APS asset class - represents revolving exposures to individuals less than $0.1m, unsecured and unconditionally cancellable by the Group. Only Australian retail credit cards qualify for this AIRB asset class.
Residential Mortgage	APS asset class - includes retail and small and medium enterprise exposures up to $1 million that are secured by residential mortgage property.
RWA	Risk Weighted Assets – the value of the Group's on and off-balance sheet assets are adjusted according to risk weights calculated according to various APRA prudential standards. For more information, refer to the APRA web site.
Scaling Factor	In order to broadly maintain the aggregate level of capital in the global financial system post implementation of Basel II, the Basel Committee on Banking Supervision applies a scaling factor to the risk-weighted asset amounts for credit risk under the IRB approach. The current scaling factor is 1.06.
Securitisation	APS asset class - includes Group-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities.
SME Corporate	APS asset class - includes small and medium enterprise (SME) commercial credit risk where annual revenues are less than $50 million and exposures are generally greater than $1 million.
SME Retail	APS asset class - includes small and medium enterprise (SME) exposures up to $1 million that are not secured by residential mortgage property.
Sovereign	APS asset class - includes claims on the Reserve Bank of Australia and on Australian and foreign governments.
Specialised Lending	APS asset classes subject to the supervisory slotting approach and which include Income Producing Real Estate (IPRE) and Project Finance assets.
Specific Provisions	APS 220 requires ADIs to report as specific provisions all provisions for impairment assessed by an ADI on an individual basis in accordance with AIFRS and that portion of provisions assessed on a collective basis which are deemed ineligible to be included in the General Reserve for Credit Losses (which are primarily collective provisions on some defaulted assets).