DETERMINED TO BE BETTER THAN WE'VE EVER BEEN.

Basel II Pillar 3

Capital Adequacy and Risk Disclosures

AS AT 30 JUNE 2011

CommonwealthBank

COMMONWEALTH BANK OF AUSTRALIA | ACN 123 123 124

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In this report:

Reference to 'CBA', 'Commonwealth Bank' and 'Group' mean the Commonwealth Bank of Australia ACN 123 123 124 and its subsidiaries unless they clearly mean just Commonwealth Bank of Australia or the context indicates otherwise.

Unless otherwise stated or the context otherwise required, references to '$', 'AUD' or 'A$' are to Australian dollars.

Any discrepancies between total and sums of components in tables contained in this report are due to rounding.

1 Introduction

The Commonwealth Bank of Australia (the Group) is an authorised deposit-taking institution (ADI) subject to regulation by the Australian Prudential Regulation Authority (APRA) under the authority of the Banking Act 1959.

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 required to report its quarterly assessment of capital adequacy on a Level 2 basis. APS 330 defines Level 2 as the consolidated banking group excluding the insurance, wealth management businesses and entities through which securitisation of Group assets are conducted.

The Group is accredited with advanced Basel II status to use the advanced internal ratings based approach (AIRB) for credit risk and advanced measurement approach (AMA) for operational risk under the Basel II 'Pillar One' minimum capital requirements. The Group is also required to assess its traded market risk and Interest Rate Risk in the Banking Book (IRRBB) requirement under Pillar One.

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 Basel II advanced status and Level 2 reporting by the Group includes ASB.

These disclosures include consolidation of Bank of Western Australia Limited (Bankwest), CommBank Europe Limited and PT Bank Commonwealth which use the Standardised Basel II methodology.

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

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

The Group in Review

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 2011.

The Group's strong risk culture has been strengthened over the year via enhancements to the risk appetite framework and the refinement of the risk accountability ("Three Lines of Defence") model. The risk appetite framework creates transparency over risk management and strategy decision; and the Three Lines of Defence model recognises that the business managers are responsible for managing the risks within their business units. This starts with a requirement for business management to operate responsibly by taking well understood and managed risks that are appropriately and adequately priced.

The strength and robustness of the Group's risk management framework has been reflected in the recognition of the Group's overall asset quality and capital position. In particular, the Group remains in a select cohort of banking institutions with an AA credit rating. To maintain this strength, the Group continues to invest in its risk systems and management processes.

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

The Board continues to demand that the Group maintain a Tier One Capital ratio that is in excess of 7.0%.

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 Business Unit. The results are integrated into the Group's consolidated regulatory and economic capital requirements, and risk-adjusted performance and pricing processes.

Summary Group Capital Adequacy Ratios (Level 2)	30/06/11 %	31/12/10 %	30/06/10 %
Common Equity	**7. 66**	7. 35	6. 86
Tier One	**10. 01**	9. 71	9. 15
Tier Two	**1. 69**	1. 79	2. 34
Total Capital	**11. 70**	11. 50	11. 49

Market Environment Review

Global economic performance has been mixed between regions. Asia together with other emerging economies are for the most part performing strongly but are starting to face some challenges with inflation. Europe and the US are still dealing with the fallout from the Global Financial Crisis, a factor that continues to influence financial market sentiment. High commodity prices mean that the prospects for the Australian economy in aggregate are positive, with the unemployment rate at a relatively low level. The high level of the Australian dollar and the moderation in consumer spending means that economic conditions are tougher for some sectors of the Australian economy.

The Group manages with the view that uncertainty will continue to mark global economic prospects, and periodic bouts of volatility will remain a feature of financial markets.

Proposed Regulatory Changes

There are a number of regulatory changes in progress that will impact the measurement of capital for the Group in regards to Banking, General and Life Insurance, and Conglomerate Groups.

Banking - Basel Committee Changes

On 16 December 2010, the BCBS published details of its main banking reforms to strengthen global capital and liquidity regulations with the aim of promoting a more resilient banking sector.

The *"Basel III: A global regulatory framework for more resilient banks and banking systems"* reforms are designed to increase the quality, consistency and transparency of capital, to enhance the risk coverage framework, and to reduce systemic and pro-cyclical risks.

The regulations will increase the common equity minimum requirement from 2% to 4.5%. They introduce a capital conservation buffer of 2.5%, taking the minimum common equity requirement to 7%. Tier One and Total Capital minimum requirements (inclusive of the capital conservation buffer) will increase to 8.5% and 10.5% respectively. The reforms also introduce a minimum leverage ratio of Tier One Capital to total exposures of 3%.

The reforms will be phased in from 1 January 2013 to 1 January 2019.

Banking - APRA Changes

APRA has begun work on developing draft prudential standards to implement the changes outlined by the BCBS.

APRA is expected to release a consultation paper on implementation in Australia in August 2011. Draft prudential standards are expected by December 2011, and final standards are expected in December 2012.

The BCBS and APRA conducted several recent Quantitative Impact Studies (QIS) to assess the impact of the proposed changes. The results of these studies are expected to be used to calibrate appropriate capital levels.

Basel II enhancements announced in July 2009, relating to securitisation and market risk, will be implemented from 1 January 2012.

General and Life Insurers

APRA released a discussion paper titled *"Review of capital standards for general insurers and life insurers"* in May 2010 followed by more detailed technical papers in July 2010. APRA is seeking to improve the risk sensitivity of its capital standards, and to introduce a definition and measurement of the capital base for insurers that is consistent with ADIs. A QIS to assess the impact of the proposed changes was completed in 2010 and after some refinements, APRA requested a further QIS be completed in 2011. The final standards are expected to be released by APRA in 2012 with implementation to commence in 2013.

The RBNZ issued draft solvency standards for life insurance operations in August 2010. Following a period of consultation with the industry, the RBNZ is close to finalising the standard which will take effect during 2012.

Supervision of Conglomerate Groups

APRA released a discussion paper titled *"Supervision of Conglomerate Groups"* in March 2010. APRA is seeking to extend its 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 proposals are to ensure that a conglomerate group holds adequate capital to protect the APRA regulated entities from potential contagion and other risks within the group.

A QIS to assess the impact of the proposed changes was completed in February 2011. Draft capital standards are expected in 2012 with implementation to commence in 2013.

2 Basel II Framework Overview

The Group is required to report the calculation of risk weighted assets (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 AIRB approach for credit risk and the advanced measurement approach 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 36).

The Group included 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 2011 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.

3 Scope of Application

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

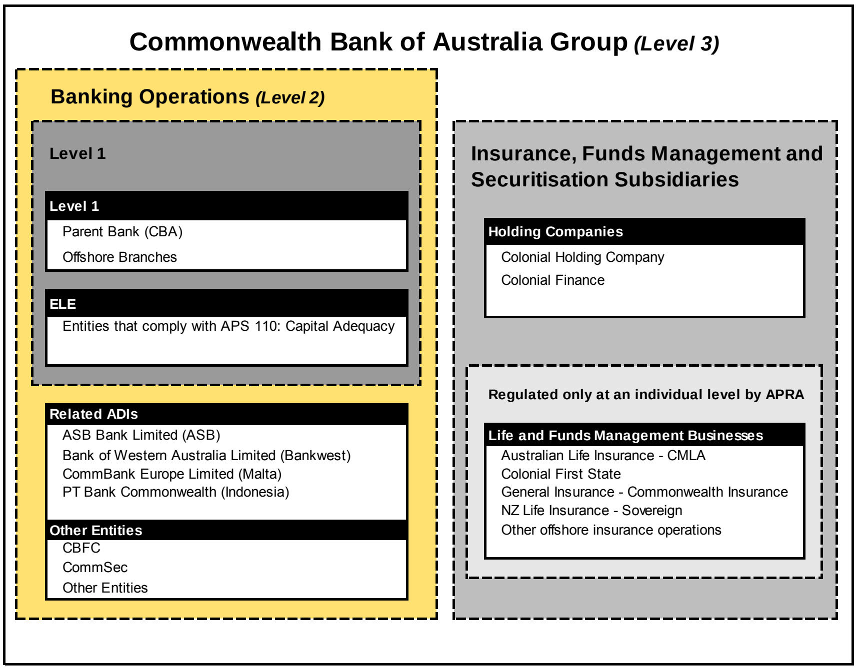
APRA adopts a tiered approach to the measurement of an ADI's capital adequacy:

- Level 1: the Parent Bank (CBA) and offshore branches (the Bank) and APRA approved Extended Licensed Entities (ELE);
- Level 2: the consolidated banking group excluding the insurance and funds 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 funds management businesses (the Group).

The Group is required to report its semi-annual 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 of this report (page 9).

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 Capital.

These disclosures include the consolidation of ASB (which operates under Basel II advanced status) and Bankwest, CommBank Europe Limited (Malta) and PT Bank Commonwealth (Indonesia) which operate under the standardised Basel II approach. There is a programme to extend the Group's advanced accreditation to Bankwest.



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

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

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

	30/06/11 $M	31/12/10 $M	30/06/10 $M
Aggregate amount of under capitalisation in non-consolidated subsidiaries of the ADI group	-	-	-

4 Capital and Risk Weighted Assets

Capital Management

The Group maintains a strong capital position with the capital ratios well in excess of APRA minimum capital adequacy requirements PCR and the Board approved minimum levels at all times throughout the year ended 30 June 2011.

The Group's Common Equity, Tier One Capital and Total Capital ratios as at 30 June 2011 were 7.66%, 10.01% and 11.70% respectively.

The Group's Common Equity and Tier One Capital increased by 31 and 30 basis points respectively over the prior half, primarily influenced by both solid cash profit after tax (net of dividend and Dividend Reinvestment Plan (DRP)) and an overall net reduction in RWA.

The Group's Total Capital ratio increased 20 basis points over the prior half to 11.70%, with the benefits from the improvement in Tier One Capital partially offset by the planned redemption of a Lower Tier Two instrument.

RWA were $282 billion at 30 June 2011, a decrease of $4 billion since 31 December 2010. This decrease was primarily influenced by a $7 billion reduction in Interest Rate Risk in the Banking Book (IRRBB) RWA with the balance sheet duration moving closer to its neutral risk position. This was achieved through treasury risk management activities and change in loan and deposit pricing terms.

Compared to the prior year, the Group's Common Equity and Tier One Capital increased 80 and 86 basis points respectively, reflecting a solid performance and reduction in RWA.

Total Capital increased 21 basis points compared to the prior year. The benefits from the growth in Tier One Capital being partially offset by the planned redemption of a number of Lower Tier Two instruments, and foreign currency translation impacts of these instruments.

Summary Group Capital Adequacy and RWA	30/06/11	31/12/10	30/06/10
Total Risk Weighted Assets ($M)	**281,711**	285,563	290,821
Common Equity Capital ($M)	**21,575**	20,999	19,950
Tier One Capital ($M)	**28,213**	27,735	26,601
Total Capital ($M)	**32,962**	32,846	33,420
Common Equity (%)	**7. 66**	7. 35	6. 86
Tier One Capital (%)	**10. 01**	9. 71	9. 15
Total Capital (%)	**11. 70**	11. 50	11. 49

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 One Capital and 50% from Tier Two 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 One Capital. The FSA treats the DTA as a 100% RWA.	Increase
Hybrid limits	APRA imposes a Residual Capital limit of 25% of Tier One Capital. Under FSA rules this limit is 50%, with more flexible transition rules.	Increase Tier One, Total Capital neutral
Value of in force (VIF)	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.	Increase Tier One, Total Capital neutral

(1) The Financial Services Authority is the primary regulator of the financial services industry in the United Kingdom.
(2) Refer to section 8 for further detail on IRRBB.

The following table estimates the impact on the Group's capital, as at 30 June 2011, of the differences between APRA's prudential requirements for calculating RWA and those of the FSA.

Common Equity, Tier One and Total Capital ratios as at 30 June 2011 under the FSA method of calculating regulatory capital as a percentage of RWA were 10.9%, 13.7% and 15.0% respectively. This has been provided for comparative purposes as the Group is not regulated by the Financial Services Authority.

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

	30 June 2011		
Regulatory Capital Frameworks Comparison	**Common equity capital [1] %**	**Tier One capital %**	**Total capital %**
Reported risk weighted capital ratios	7. 7	10. 0	11. 7
RWA treatment - mortgages [2] and margin loans	1. 2	1. 6	1. 7
IRRBB risk weighted assets	0. 3	0. 4	0. 4
Future dividends (net of Dividend Reinvestment Plan)	0. 8	0. 8	0. 8
Tax impact in EL v EP calculation	0. 1	0. 1	0. 2
Equity investments	0. 3	0. 3	0. 2
Value of in force deductions [3]	0. 5	0. 5	-
Total adjustments	3. 2	3. 7	3. 3
Normalised FSA equivalent	10. 9	13. 7	15. 0

(1) Represents Fundamental Tier One Capital net of Tier One deductions.
(2) Based on APRA 20% 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) 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.

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 hybrid and 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 10) and Appendix "Detailed Capital Disclosures" (page 76).

This information is consistent with the information provided in the Group's June 2011 Profit Announcement and 2011 Annual Report.

The Board has set the Group's Tier One minimum to be 7% 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). This is achieved by optimising the mix of capital, while maintaining adequate 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. These include 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 position is monitored on a continuous basis and reported monthly to the Asset and Liability Committee of the Group. Three year capital forecasts are conducted on a quarterly basis and a detailed capital and strategic 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, including details of remedial action taken or planned to be taken.

The Group's capital ratios throughout the 2010 and 2011 financial years, the Group's capital ratios were well in excess of both APRA minimum capital adequacy requirements and the Board Approved minimums.

Capital Initiatives

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

Tier One Capital

- The DRP for the 2010 final dividend was satisfied in full by an on market purchase and transfer of shares. As such there was no impact on the Group's capital ratios. The DRP participation rate was 25.8% and follows the removal of the 1.5% discount;
- The allocation of $513 million of ordinary shares in order to satisfy the DRP in respect of the interim dividend for the 2011 financial year, representing a participation rate of 25.1%; and
- The redemption of $65 million in Exchangeable Floating Rate notes, classified as Innovative Tier One Capital, in February 2011.

Tier Two Capital

- Redemption of five separate subordinated Lower Tier Two debt issues totalling $795 million, the majority of which took place in November 2010; and
- Redemption of a $152 million (NZ$ 200 million) Lower Tier Two debt issue in June 2011.

Banking Regulatory Framework

The Group, excluding Bankwest, operates under Basel II advanced status which resulted in the AIRB approach for credit risk and the AMA for operational risk being adopted in the calculation of RWA effective from 1 January 2008. IRRBB was incorporated into the calculation of RWA from 1 July 2008. The agreed methodology for measuring market risk for traded assets remained unchanged from Basel I.

Bankwest's operations are included in the Group's capital requirements however, Bankwest operates as a stand-alone Bank under Basel II standardised status and is separately regulated by APRA. There is a program to extend the Group's advanced accreditation to determine regulatory capital for Bankwest.

Bankwest's capital ratios, at 30 June 2011, are in excess of both APRA minimum requirements and Board approved minimum levels. The Tier One ratio was 9.14% and Total Capital was 12.93%. Bankwest was in compliance with its regulatory requirements at all times during the year. Once Basel III reforms are implemented, Bankwest will be required to report a common equity ratio.

ASB Bank's operations are included in the Group's capital requirements however, ASB operates as a stand-alone Bank under Basel II advanced status and is subject to regulation by the RBNZ. The RBNZ applies a similar methodology to APRA in calculating regulatory capital requirements.

ASB has a Tier One ratio of 11.22% and a Total Capital ratio of 12.79% at 30 June 2011. ASB Bank was in compliance with its regulatory capital requirements at all times during the year. Once Basel III reforms are implemented, ASB will be required to report a common equity ratio.

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 insurance and funds management companies held assets in excess of regulatory capital requirements at 30 June 2011. The Group's Australian and New Zealand insurance and funds management businesses held $1,014 million of assets in excess of regulatory solvency requirements at 30 June 2011 (31 December: $1,147 million, 30 June 2010: $1,007 million).

(1) The Shareholders' fund is subject to a separate capital requirement.

APS 330 Table 3g – Capital ratios

Significant Group ADIs	30/06/11 %	31/12/10 %	30/06/10 %
CBA Level 2 Tier One Capital ratio	**10.01**	9.71	9.15
CBA Level 2 Total Capital ratio	**11.70**	11.50	11.49
CBA Level 1 Tier One Capital ratio	**10.83**	10.59	9.92
CBA Level 1 Total Capital ratio	**11.80**	11.65	11.32
ASB Tier One Capital ratio [1]	**11.22**	11.04	10.87
ASB Total Capital ratio [1]	**12.79**	13.27	13.23
Bankwest Tier One Capital ratio [2]	**9.14**	9.26	8.59
Bankwest Total Capital ratio [2]	**12.93**	13.06	12.39

(1) Calculated under advanced Basel II methodology.

(2) Calculated under standardised Basel II methodology.

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

	30/06/11 $M	31/12/10 $M	30/06/10 $M
Tier One Capital			
Ordinary Share Capital and Treasury Shares	**23,896**	23,384	23,379
Total Reserves [(1)]	**372**	566	1,022
Net Retained Earnings	**9,667**	9,167	7,645
Non-controlling interests less ASB Perpetual Preference Shares	**23**	19	18
Total Fundamental Tier One Capital	**33,958**	33,136	32,064
Deductions from Tier One Capital			
Goodwill and other intangibles (excluding software) [(2)]	**(8,306)**	(8,382)	(8,470)
Other deductions from Tier One Capital	**(2,021)**	(1,750)	(1,645)
Tier One Capital deductions - 50% [(3)]	**(2,056)**	(2,005)	(1,999)
Total Tier One Capital Deductions	**(12,383)**	(12,137)	(12,114)
Fundamental Tier One Capital After Deductions	**21,575**	20,999	19,950
Residual Capital			
Total Innovative Tier One Capital	**3,231**	3,329	3,469
Non-innovative Residual Tier One Capital [(4)]	**3,407**	3,407	3,407
Less Residual capital in excess of prescribed limits transferred to Upper Tier Two Capital [(5)]	**-**	-	(225)
Total Residual Tier One Capital	**6,638**	6,736	6,651
Total Tier One Capital	**28,213**	27,735	26,601
Tier Two Capital			
Total Upper Tier Two Capital	**1,166**	1,161	1,380
Total Lower Tier Two Capital	**5,639**	5,955	7,438
Gross Tier Two Capital	**6,805**	7,116	8,818
Deduction from Tier Two Capital			
Tier Two Capital deductions - 50% [(3)]	**(2,056)**	(2,005)	(1,999)
Total Tier Two Capital Deductions	**(2,056)**	(2,005)	(1,999)
Total Tier Two Capital	**4,749**	5,111	6,819
Total Capital	**32,962**	32,846	33,420

(1) The Group's general reserve, capital reserve and foreign currency translation reserve (excluding balances related to non consolidated subsidiaries) qualify as fundamental Tier One Capital.

(2) Represents total Goodwill and other intangibles (excluding capitalised computer software costs) which is required to be deducted from Tier One Capital.

(3) Represents 50% Tier One and 50% Tier Two Capital deductions under Basel II rules.

(4) Comprises PERLS IV $1,465 million (less costs) issued by the Bank in July 2007 and PERLS V $2,000 million (less costs) issued by the Bank in October 2009. These have been approved by APRA as Tier One Non-Innovative Capital instruments.

(5) 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.

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 has been included in the Group's disclosures with effect from 30 September 2008.

The 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)

	30/06/11	31/12/10	30/06/10	Jun 2011 vs Dec 2010		Dec 2010 vs Jun 2010	
Asset Category	**$M**	**$M**	**$M**	**$M**	**%**	**$M**	**%**
Credit Risk							
Subject to advanced IRB approach							
Corporate	**39,180**	40,129	44,252	(949)	(2. 4)	(4,123)	(9. 3)
SME corporate	**22,471**	22,071	26,216	400	1. 8	(4,145)	(15. 8)
SME retail	**4,435**	4,896	5,170	(461)	(9. 4)	(274)	(5. 3)
Sovereign	**2,517**	2,557	2,800	(40)	(1. 6)	(243)	(8. 7)
Bank	**7,216**	6,686	7,492	530	7. 9	(806)	(10. 8)
Residential mortgage	**55,709**	56,412	55,882	(703)	(1. 2)	530	0. 9
Qualifying revolving retail	**6,398**	6,761	6,772	(363)	(5. 4)	(11)	(0. 2)
Other retail	**7,253**	6,398	6,322	855	13. 4	76	1. 2
Impact of the regulatory scaling factor (1)	**8,711**	8,755	9,294	(44)	(0. 5)	(539)	(5. 8)
Total RWA subject to advanced IRB approach	**153,890**	154,665	164,200	(775)	(0. 5)	(9,535)	(5. 8)
Specialised lending	**35,990**	34,339	35,483	1,651	4. 8	(1,144)	(3. 2)
Subject to standardised approach							
Corporate	**8,048**	8,040	8,872	8	0. 1	(832)	(9. 4)
SME corporate	**7,389**	7,597	7,746	(208)	(2. 7)	(149)	(1. 9)
SME retail	**4,461**	4,377	4,684	84	1. 9	(307)	(6. 6)
Sovereign	**103**	99	215	4	4. 0	(116)	(54. 0)
Bank	**1,238**	1,583	1,136	(345)	(21. 8)	447	39. 3
Residential mortgage	**23,515**	22,605	22,436	910	4. 0	169	0. 8
Other retail	**2,574**	2,510	2,530	64	2. 5	(20)	(0. 8)
Other assets	**4,751**	4,619	5,472	132	2. 9	(853)	(15. 6)
Total RWA subject to standardised approach	**52,079**	51,430	53,091	649	1. 3	(1,661)	(3. 1)
Securitisation	**2,670**	1,894	1,569	776	41. 0	325	20. 7
Equity exposures	**2,113**	2,280	2,420	(167)	(7. 3)	(140)	(5. 8)
Total RWA for credit risk exposures	**246,742**	244,608	256,763	2,134	0. 9	(12,155)	(4. 7)
Traded market risk	**3,162**	3,873	3,503	(711)	(18. 4)	370	10. 6
Interest rate risk in the banking book	**9,699**	17,033	10,272	(7,334)	(43. 1)	6,761	65. 8
Operational risk	**22,108**	20,049	20,283	2,059	10. 3	(234)	(1. 2)
Total risk weighted assets (2)	**281,711**	285,563	290,821	(3,852)	(1. 3)	(5,258)	(1. 8)

(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).
(2) RWA include the consolidation of Bankwest which operates under the Basel II standardised methodology.

Details of exposure movements over the prior half are as follows (see also table 4i – Total credit exposure, page 22):

Asset Category	Regulatory Exposure Change $M	Regulatory Exposure Driver
AIRB corporate (including SME) and specialised lending	1,281	Growth reflects increases in Specialised Lending facilities.
AIRB sovereign	10,943	Increased investment in well-rated government securities.
AIRB bank	5,438	An increase in money market and negotiable securities.
AIRB consumer retail	10,960	Continued growth in the home loan book and a change in methodology for determining exposure at default for Qualifying Revolving Retail facilities.
Total advanced and specialised lending	**28,622**	
Standardised including other assets	2,422	Growth in standardised home loan portfolio and increase in cash items.
Total excluding securitisation and equity exposures	**31,044**	Aligns to exposure movement disclosed in APS 330 table 4i (page 22).
Equities and securitisation exposures	227	Net growth in securitisation exposures driven primarily by increases in warehouse exposures and securitisation investments.
Total credit exposure	**31,271**	Total including equities and securitisation exposures.

The composition of the movement in Credit RWA over the prior half, as reflected in APS 330 Table 3b to 3f (page 11), as shown below.

Asset Category	Total credit RWA movement Dec 10 to Jun 11 $M	Credit RWA driven by volume changes $M	Credit RWA driven by credit risk factor changes $M	Credit RWA driven by change in regulatory treatments $M	Credit RWA driven by change in credit quality $M
AIRB corporate including SME and specialised lending	**641**	1,038	(2,258)	1,938	(77)
AIRB bank	**530**	1,259	(440)	-	(289)
AIRB sovereign	**(40)**	911	(100)	-	(851)
AIRB consumer retail	**(211)**	4,209	(1,008)	-	(3,412)
Standardised (including other assets)	**649**	649	-	-	-
Equity and securitisation exposures	**609**	(142)	-	-	751
Impact of Basel II scaling factor	**(44)**	(44)	(56)	-	56
Total credit RWA movement	**2,134**	7,880	(3,862)	1,938	(3,822)

Risk Weighted Assets

Total RWA decreased by $4 billion or 1.3% on the prior half to $282 billion driven by a decrease in IRRBB RWA partially offset by growth in credit risk RWA.

Credit Risk Exposure and RWA

Credit risk RWA increased over the half by $2 billion or 0.9% to $247 billion. The increase was primarily influenced by:

- Growth in lower risk retail exposures, bank exposures, specialised lending exposures; and
- Change in regulatory treatment driven by RBNZ requirements for the ASB Farm Lending portfolio.

The above increases were partially offset by implementation of revised credit risk factors for the:

- Group's risk-rated portfolio; and
- Domestic retail portfolio including a new methodology (APRA accepted a new modelling approach) to determine exposure at default for domestic Qualifying Revolving Retail facilities.

Traded Market Risk RWA

Traded Market Risk RWA decreased $711 million or 18% on the prior half to $3.2 billion. The decrease was due to reduced volatility affecting capital measurements following the global financial crisis.

Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA reduced by $7.3 billion during the half year as a result of treasury risk management activities and changes in loan and deposit repricing terms.

Operational Risk RWA

The increase in operational risk RWA reflects a more conservative assessment of the operational risk profile of the Group including the impact of the external environment.

5 Risk Management

5.1 Risk Governance

Risk governance originates at Board level, and cascades through to the CEO and businesses via Group policies, delegated authorities and regular reviews of outcomes. This ensures Board level oversight and is based on a clear segregation of duties between those who originate and those who approve risk exposures. Independent review of the risk management framework is carried out by Group Audit and Assurance.

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".

The Risk Committee of the board 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 key 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 (that underpin the ICAAP), liquidity and funding, which are 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 charter states that the Risk Committee will meet at least quarterly, and as required; in practice this is at least six times a year. The Chairman of the Risk Committee provides a report to the Board following each Risk Committee meeting. A copy of the Risk Committee charter appears on the Group's website.

Risk Management Organisation

The Group has an integrated risk management framework in place 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 Management - Risk is best managed at the place it occurs, therefore business managers are responsible for managing the risks for their business. This includes implementing approaches to proactively manage their risk within risk appetite levels, and using risk management outcomes ("the costs of risks") and considerations as part of their day-to-day business making processes;
- Line 2 - Risk Management - Group, Business Unit and Divisional Risk Management units provide risk management expertise and oversight for Business Management risk-taking activities. Risk Management develop specialist policies and procedures for risk management and ensure they are embedded and in use as part of the day-to-day management of the business. Risk Management also establishes and maintains aligned and integrated risk management frameworks and monitors compliance with the frameworks, policies and procedures; and
- Line 3 - Group Audit and Assurance - Group Audit and Assurance provides independent assurance to key stakeholders regarding the adequacy and effectiveness of the Group's system of internal controls, risk management procedures and governance processes. It is responsible for reviewing risk management frameworks and Business Unit practices for risk management and internal controls.

This risk management framework requires each business to manage the outcome of its risk-taking activities and allows it to 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 Group CRO, who heads up the Risk Management function, oversees independent risk management for the whole Group. This unit is comprised of both 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 enable enterprise wide risk management. The Group CRO reports to the CEO and has direct reporting requirements to the Risk Committee.

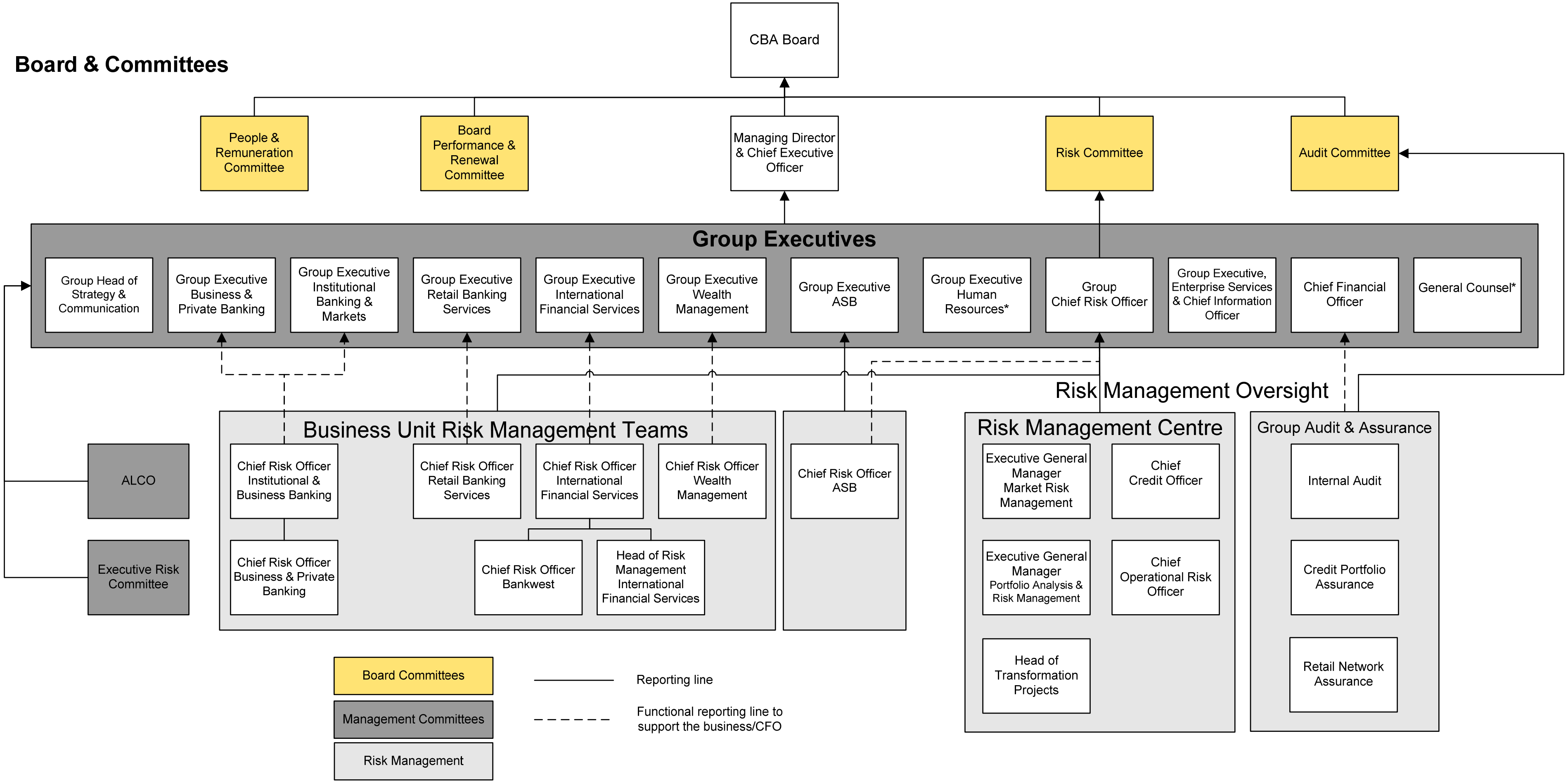
Risk management professionals deployed in each Business Unit measure risks and take actions to ensure businesses adhere to risk policies and procedures. They also provide insights to assist the business in making decisions that optimise their risk-adjusted returns.

While 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 businesses. As risk owners, they are expected to staff their businesses with employees who are appropriately knowledgeable about risk and its management.

The Group's risk appetite framework creates transparency over risk management and strategy decisions and, in turn, promotes a strong risk culture. Connected to the Group's aligned business' articulated risk appetite statements are governance processes and disciplines. These promote independence of the risk management function from the Group's Business Units and the Group Audit function.

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

Risk Governance Structure



* Group Executive Human Resources role in currently vacant and responsibilities are being temporarily covered by General Counsel

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 in undertaking its strategic and business actions. 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's view is that a well articulated risk appetite is important in giving the Group's stakeholders a clear expectation of how the Group will operate from a risk taking perspective.

This expectation is defined by a number of principles and metrics that 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 current capital adequacy and future contingent capital plans and 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.

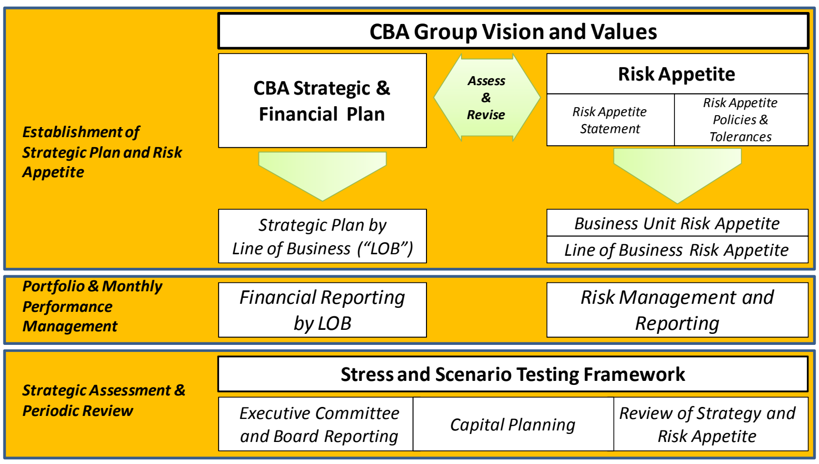
The Group's risk culture is to take risks that are adequately rewarded and that support its aspiration of achieving solid and sustainable growth in shareholder value. Supporting this culture, the Group will:

- Operate responsibly; meet the financial service needs of its customers, provide excellent customer service and maintain impeccable professional standards and business ethics;
- Differentiate between risk (with a relatively clear discernable distribution of possible outcomes), which is to be assessed on its merits, and uncertainty (which has a unknown distribution of possible outcomes that is hard to discern), which is to be minimised;
- Make business decisions only after careful consideration of risk, including consideration of potential upside and downside scenarios;
- Understand the risks it takes on (or the nature of uncertainties involved), undertaking strategic initiatives or exposure to new products and services 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;
- Maintain a control environment that, within practical constraints, minimises risks to the sustainability of its business; and
- Promote a culture aimed at the achievement of best practice in the recognition, assessment, pricing and management of risk.

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 and tolerances support the Group and business risk appetite statements by:

- Summarising the principles and practices to be used by the Group in managing its major risks;
- Quantifying the financial operating limits for major risks, principally credit risk, market risk (both traded and non-traded) and operational risk; and
- Stating clearly the types of risk outcomes to which the Group is intolerant.

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" on page 17.

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's credit risk policies have been developed as a matter of sound risk management practice and in accordance with the expectations of 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.

Programs are continuing to align Bankwest's credit practices to the Group-wide risk framework and to extend the Group's accreditation to use the AIRB approach to determine regulatory capital to Bankwest.

Further information on credit risk is included in section 6 of this report (page 21).

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.

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 overreliance 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.

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

Operational Risk

Operational risk is defined as the risk of economic loss arising from inadequate or failed internal processes, people, systems or from 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.

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

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.

Risk exposure arises in the insurance business as the risk that claims payments are greater than expected. In the life insurance business this arises primarily through mortality (death) or morbidity (illness or injury) risks being greater than expected.

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. It is essential in the control of claims on an end-to-end basis, from underwriting to policy termination or claim payment.

The major methods of mitigating insurance risk are:

- Sound product design and pricing, to ensure that robust procedures are in place and there are no risks which have not been priced into contracts;
- Regular review of insurance experience, so 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
- Transferring a proportion of the risk carried to reinsurers.

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 consistent with the Australian Standard on Compliance Programs. It is designed to help the Group meet its obligations under the Corporations Act 2001, the Group's Australian Financial Services Licence and Australian Credit Licences.

Further information on compliance 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 as business strategy and objectives are defined. The Risk Committee receives reports on business plans, major projects and change initiatives and monitors progress and reviews successes compared to plans. The Board accepts or amends the Group's overall strategy and each key Business Unit's strategic plans.

Reputational Risk

Reputational risk arises from negative perception on the part of customers, counterparties, shareholders, investors, debt holders, market analysts, regulators and other relevant parties of the Group.

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 a function of the adequacy of the Group's control of its risk management processes, as well as the manner and efficiency with which management responds to external influences on Group-related transactions. In many, but not all respects, adverse reputational risk outcomes flow from the failure to manage other types of risk.

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 crossborder 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 (VaR and Stress Testing limits); Interest Rate Risk in the Banking Book (Market Value Sensitivity and Net Interest Earnings at Risk limits); Seed Trust Market Risk limits; Lease Residual Value Risk limits; Investment mandates for insurance Asset and Liability Management risk (VaR and stress testing limits); and Non-Traded Equity limits.
Liquidity & Funding Risk	Group Liquidity and Funding Policy.	**Quantitative limits/tolerances:** Liquid asset holdings under name crisis scenario; and Source of funding (e.g., wholesale) limits and term 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.
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)	**Management via:** The CRMF Minimum Group Standards for Compliance, Risk Management 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.
Strategic Business Risk	Strategic Framework.	**Management via a suite of management controls including:** Strategic planning; Strategic implementation; and Financial management.
Reputational Risk	Cultural Framework and Statement of Professional Practice;	**Management via:** Support from risk professionals embedded throughout the Group; and Crisis management testing of leadership team.

5.3 Stress Testing

Stress testing is used in combination with other risk management practices to understand, manage and quantify the Group's risks 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 testing, which informs and engages the Board in assessing capital requirements and other key financial outcomes under severe but plausible scenarios. These tests are conducted across businesses with the results aggregated to the Group level; and
- Risk management related stress testing, which support 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 in extreme circumstances.

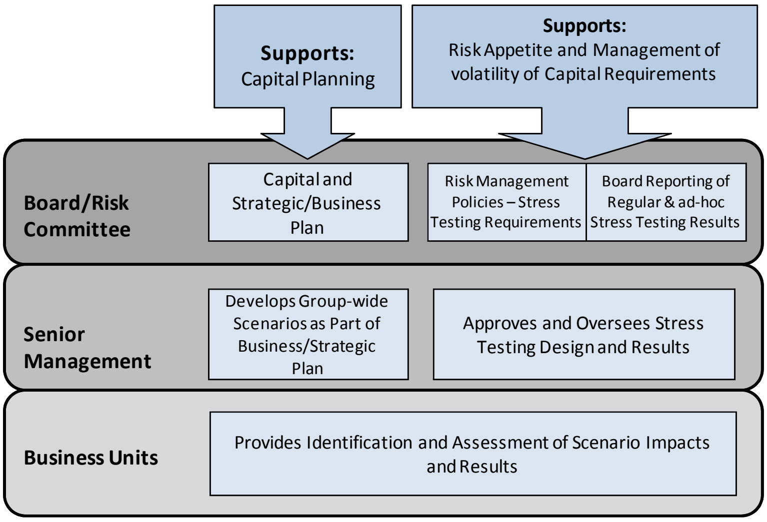
Stress testing also provides an input into the formation of internal views of adequacy of the Group's capital, liquidity and provisions and the development of capital and liquidity contingency plans which detail how the Group would respond to potential future adverse scenarios.

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;
- Business contingency planning; and
- Requests from regulators or external agencies.

Specific risk types for which stress tests are conducted for business risk management purposes include:

- Credit risk on the Home Loan portfolio, secured and unsecured non-mortgage products (Credit Cards, Personal Loans, and Cheque Amounts) and the commercial loan portfolio in conjunction with group-wide stress tests;
- Traded market risk, non-traded interest rate risk, non-traded equity risk and non-traded insurance risk portfolios;
- Liquidity stress tests that determine survival horizons are performed and reported to the Asset and Liability Committee (ALCO) on a monthly basis. The stress tests look to identify the timeframe over which high quality liquid assets could survive under various stress liability run-off scenarios;
- Funding indicators monitor a range of balance sheet metrics focussing on external market conditions, changing patterns of business activity and concentration; and
- Operational risk to assess the potential for operational risk outcomes.



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.

The Group uses the following five different views of capital in assessing the level of capital and the use of capital to maintain strength and drive performance. 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 Total Capital. The life and general insurance businesses also maintain regulatory capital as required by APRA to protect policy holders. The Group holds additional buffers to these regulatory requirements;
- Rating agency capital - (protects debt holders). The level of capital required by the rating agencies to support the Group's AA debt rating;
- Market view - (supports investors). Market participants implicitly provide the Group with a consensus assessment of the 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.
- Stress testing - (protects shareholders). The Group's assessment of capital required based on stress testing extreme but plausible scenarios, including both potential sudden losses or systemic losses over a period of time; and
- Economic capital - (protects shareholders).

Economic capital is an internal model based assessment of capital required based on the risks across the entire Group. This capital assessment is regularly updated and evolves quickly as the Group's risk profile changes. This view is consistent with the capital allocation processes used in:

- Pricing of products;
- Performance Management; and
- Understanding the Group's risk profile.

These five views of capital are used to determine the Group's minimum capital requirement. 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".

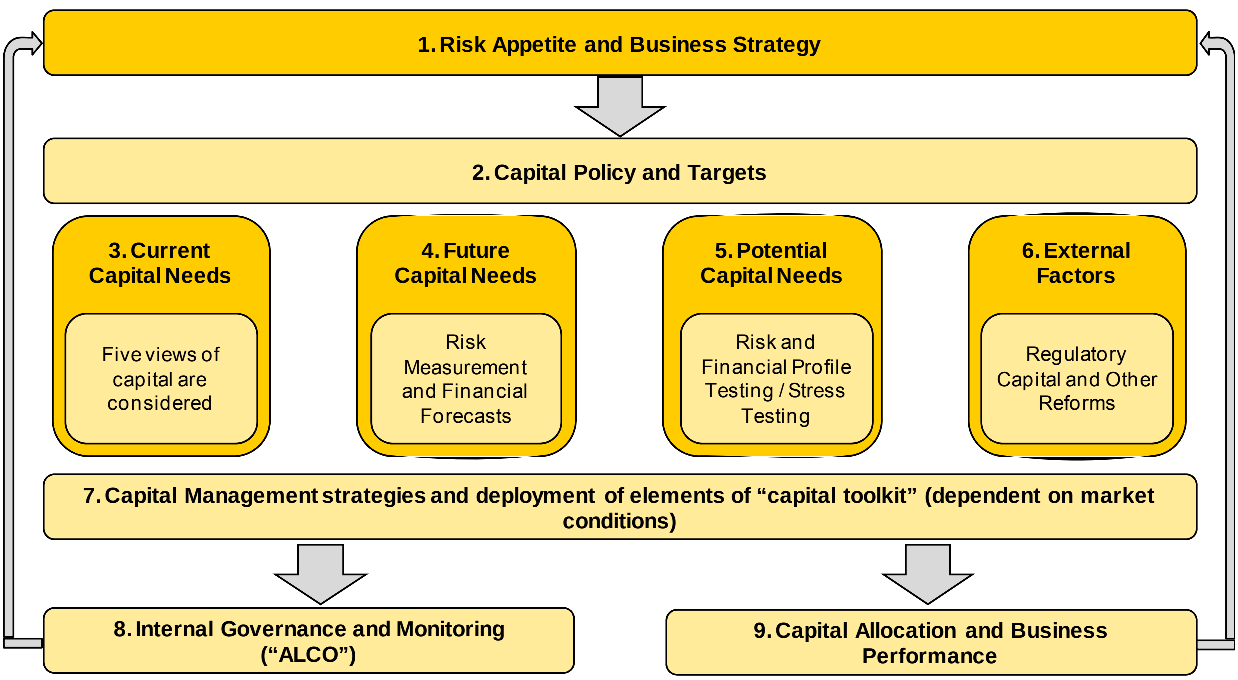
The Group forecasts its capital requirements and accesses capital instruments within its "capital toolkit" as required.

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.

Internal Capital Adequacy Assessment Process



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, internally developed and externally advised/approved.	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. These 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).

6.1 Credit Risk Exposure – Excluding Equities and Securitisation

The following tables detail credit risk exposures (excluding equities and securitisation exposures) subject to Advanced IRB and Standardised approaches.

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

	30 June 2011						
		Off balance sheet					
Portfolio Type	On balance sheet $M	Non-market related $M	Market related $M	Total $M	Average exposure for June 2011 half [2] $M	Change in exposure for June 2011 half [3] $M	%
Subject to advanced IRB approach							
Corporate	36,068	26,892	4,666	**67,626**	67,417	418	0. 6
SME corporate	31,189	5,542	353	**37,084**	37,823	(1,477)	(3. 8)
SME retail	7,367	1,835	27	**9,229**	9,168	122	1. 3
Sovereign	32,696	7,760	1,201	**41,657**	36,185	10,944	35. 6
Bank	23,737	2,377	9,752	**35,866**	33,147	5,438	17. 9
Residential mortgage	289,846	51,833	-	**341,679**	339,163	5,032	1. 5
Qualifying revolving retail	8,883	9,677	-	**18,560**	15,907	5,307	40. 0
Other retail	5,397	1,254	-	**6,651**	6,341	621	10. 3
Total advanced IRB approach	435,183	107,170	15,999	**558,352**	545,151	26,405	5. 0
Specialised lending	31,813	8,896	984	**41,693**	40,584	2,219	5. 6
Subject to standardised approach							
Corporate	6,899	908	36	**7,843**	8,004	(322)	(3. 9)
SME corporate	6,430	1,046	25	**7,501**	7,657	(312)	(4. 0)
SME retail	3,870	1,547	-	**5,417**	5,348	138	2. 6
Sovereign	1,945	1	-	**1,946**	1,168	1,556	large
Bank	6,064	74	25	**6,163**	6,961	(1,596)	(20. 6)
Residential mortgage	50,907	794	13	**51,714**	50,481	2,467	5. 0
Other retail	2,508	95	1	**2,604**	2,579	50	2. 0
Other assets	13,912	-	-	**13,912**	13,692	441	3. 3
Total standardised approach	92,535	4,465	100	**97,100**	95,890	2,422	2. 6
Total credit exposures [1]	559,531	120,531	17,083	**697,145**	681,625	31,046	4. 7

(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 2011 and at 31 December 2010.

(3) Change, as at 30 June 2011, of exposures compared to balances at 31 December 2010.

APS 330 Table 4i – Total credit exposures (excluding equities and securitisation) by portfolio type and modelling approach (continued)

Portfolio Type	31 December 2010				Average exposure for December 2010 half [2]	Change in exposure for December 2010 half [3]	
	On balance sheet	Off balance sheet		Total			
		Non-market related	Market related				
	$M	$M	$M	$M	$M	$M	%
Subject to advanced IRB approach							
Corporate	37,321	24,389	5,498	67,208	67,044	328	0. 5
SME corporate	32,475	5,667	419	38,561	39,006	(889)	(2. 3)
SME retail	7,340	1,757	10	9,107	9,118	(21)	(0. 2)
Sovereign	27,059	1,388	2,266	30,713	30,301	825	2. 8
Bank	16,855	2,537	11,036	30,428	30,379	98	0. 3
Residential mortgage	283,579	53,068	-	336,647	334,788	3,719	1. 1
Qualifying revolving retail	8,732	4,521	-	13,253	12,973	560	4. 4
Other retail	5,067	963	-	6,030	6,012	37	0. 6
Total advanced IRB approach	418,428	94,290	19,229	531,947	529,621	4,657	0. 9
Specialised lending	31,020	7,488	966	39,474	39,424	101	0. 3
Subject to standardised approach							
Corporate	7,386	753	26	8,165	8,570	(810)	(9. 0)
SME corporate	6,775	1,012	26	7,813	7,884	(142)	(1. 8)
SME retail	3,844	1,435	-	5,279	5,376	(194)	(3. 5)
Sovereign	389	1	-	390	820	(860)	(68. 8)
Bank	7,659	68	32	7,759	6,831	1,856	31. 4
Residential mortgage	48,480	755	12	49,247	48,355	1,785	3. 8
Other retail	2,460	94	-	2,554	2,565	(22)	(0. 9)
Other assets	13,471	-	-	13,471	13,884	(826)	(5. 8)
Total standardised approach	90,464	4,118	96	94,678	94,285	787	0. 8
Total credit exposures [1]	539,912	105,896	20,291	666,099	663,330	5,545	0. 8

(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 2010 and at 30 June 2010.
(3) Change, as at 31 December 2010, of exposures compared to balances at 30 June 2010.

Portfolio Type	30 June 2010				Average exposure for June 2010 half [2]	Change in exposure for June 2010 half [3]	
	On balance sheet	Off balance sheet		Total			
		Non-market related	Market related				
	$M	$M	$M	$M	$M	$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	40,618	(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	94,891	(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 at 31 December 2009.
(3) Change, as at 30 June 2010, of exposures compared to balances at 31 December 2009.

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

Portfolio Type	As at 30/06/11 $M	Half year average [3] $M
Corporate	**75,469**	75,421
SME corporate	**44,585**	45,480
SME retail	**14,646**	14,516
Sovereign	**43,603**	37,353
Bank	**42,029**	40,108
Residential mortgage [1]	**393,393**	389,644
Qualifying revolving retail	**18,560**	15,907
Other retail	**9,255**	8,920
Specialised lending	**41,693**	40,584
Other assets	**13,912**	13,692
Total credit exposures [2]	**697,145**	681,625

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

Portfolio Type	As at 31/12/10 $M	Half year average [3] $M
Corporate	75,373	75,615
SME corporate	46,374	46,891
SME retail	14,386	14,494
Sovereign	31,103	31,121
Bank	38,187	37,210
Residential mortgage [1]	385,894	383,143
Qualifying revolving retail	13,253	12,973
Other retail	8,584	8,577
Specialised lending	39,474	39,424
Other assets	13,471	13,884
Total credit exposures [2]	666,099	663,330

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

Portfolio Type	As at 30/06/10 $M	Half year average [3] $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]	380,390	374,208
Qualifying revolving retail	12,693	12,535
Other retail	8,569	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 equities 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

Portfolio Type	Australia $M	New Zealand $M	Other $M	Total $M
	30 June 2011			
Corporate	56,970	5,696	12,803	**75,469**
SME corporate	37,698	6,411	476	**44,585**
SME retail	12,760	1,840	46	**14,646**
Sovereign	22,708	1,416	19,479	**43,603**
Bank	19,723	1,341	20,965	**42,029**
Residential mortgage (1)	360,474	32,541	378	**393,393**
Qualifying revolving retail	18,560	-	-	**18,560**
Other retail	7,878	1,376	1	**9,255**
Specialised lending	36,284	3,809	1,600	**41,693**
Other assets	9,646	1,315	2,951	**13,912**
Total credit exposures (2)	582,701	55,745	58,699	**697,145**

(1) Residential mortgages include SME retail secured by residential property.
(2) Total credit risk exposures do not include equities or securitisation exposures.

Portfolio Type	Australia $M	New Zealand $M	Other $M	Total $M
	31 December 2010			
Corporate	56,421	6,143	12,809	75,373
SME corporate	39,413	6,392	569	46,374
SME retail	12,510	1,829	47	14,386
Sovereign	18,928	1,478	10,697	31,103
Bank	14,958	1,762	21,467	38,187
Residential mortgage (1)	353,584	31,921	389	385,894
Qualifying revolving retail	13,253	-	-	13,253
Other retail	7,237	1,346	1	8,584
Specialised lending	33,955	3,934	1,585	39,474
Other assets	9,897	1,337	2,237	13,471
Total credit exposures (2)	560,156	56,142	49,801	666,099

(1) Residential mortgages include SME retail secured by residential property.
(2) Total credit risk exposures do not include equities or securitisation exposures.

Portfolio Type	Australia $M	New Zealand $M	Other $M	Total $M
	30 June 2010			
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	417	380,390
Qualifying revolving retail	12,693	-	-	12,693
Other retail	7,159	1,407	3	8,569
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 equities or securitisation exposures.

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

	30 June 2011							
	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	-	-	1,200	-	-	11,817	2,189	5,149
SME corporate	-	913	3,130	-	-	2,982	11,033	335
SME retail	-	1,178	3,646	-	-	404	1,559	30
Sovereign	-	-	-	43,603	-	-	-	-
Bank	-	-	-	-	42,009	20	-	-
Residential mortgage [2]	379,812	-	-	-	-	398	801	43
Qualifying revolving retail	-	18,560	-	-	-	-	-	-
Other retail	-	9,247	-	-	-	-	-	-
Specialised lending	-	-	4	-	-	178	167	451
Other assets	-	4,277	-	-	-	-	-	-
Total credit exposures [1]	379,812	34,175	7,980	43,603	42,009	15,799	15,749	6,008

	Industry Sector							
Portfolio Type	Manufacturing $M	Energy $M	Construction $M	Retail/ wholesale trade $M	Transport and storage $M	Property [3] $M	Other $M	Total $M
Corporate	9,575	4,123	512	7,679	7,422	10,327	15,476	**75,469**
SME corporate	2,466	222	1,253	5,876	1,467	1,269	13,639	**44,585**
SME retail	393	19	630	1,086	216	1,261	4,224	**14,646**
Sovereign	-	-	-	-	-	-	-	**43,603**
Bank	-	-	-	-	-	-	-	**42,029**
Residential mortgage [2]	493	22	1,221	1,793	414	2,906	5,490	**393,393**
Qualifying revolving retail	-	-	-	-	-	-	-	**18,560**
Other retail	-	-	-	-	-	-	8	**9,255**
Specialised lending	197	2,208	3,269	181	4,482	29,279	1,277	**41,693**
Other assets	-	-	-	-	-	-	9,635	**13,912**
Total credit exposures [1]	13,124	6,594	6,885	16,615	14,001	45,042	49,749	**697,145**

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

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

	31 December 2010							
	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	-	-	1,146	-	-	11,997	2,123	4,539
SME corporate	-	961	3,223	-	-	2,992	11,032	442
SME retail	-	1,222	3,756	-	-	404	1,475	28
Sovereign	-	-	-	31,103	-	-	-	-
Bank	-	-	-	-	38,169	18	-	-
Residential mortgage [2]	371,948	-	-	-	-	353	769	57
Qualifying revolving retail	-	13,253	-	-	-	-	-	-
Other retail	-	8,584	-	-	-	-	-	-
Specialised lending	-	-	3	-	-	85	99	495
Other assets	-	4,505	-	-	-	-	-	-
Total credit exposures [1]	371,948	28,525	8,128	31,103	38,169	15,849	15,498	5,561

	Industry Sector							
Portfolio Type	Manufacturing $M	Energy $M	Construction $M	Retail/ wholesale trade $M	Transport and storage $M	Property [3] $M	Other $M	Total $M
Corporate	10,057	4,348	610	7,371	7,312	12,335	13,535	75,373
SME corporate	2,458	158	1,304	5,942	1,437	1,590	14,835	46,374
SME retail	372	15	580	1,016	200	1,252	4,066	14,386
Sovereign	-	-	-	-	-	-	-	31,103
Bank	-	-	-	-	-	-	-	38,187
Residential mortgage [2]	515	22	1,318	1,840	397	3,365	5,310	385,894
Qualifying revolving retail	-	-	-	-	-	-	-	13,253
Other retail	-	-	-	-	-	-	-	8,584
Specialised lending	195	2,335	2,586	170	3,632	28,840	1,034	39,474
Other assets	-	-	-	-	-	-	8,966	13,471
Total credit exposures [1]	13,597	6,878	6,398	16,339	12,978	47,382	47,746	666,099

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

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

	30 June 2010							
	Industry Sector							
	Residential mortgage	Other personal	Asset finance	Sovereign	Bank	Other finance	Agriculture	Mining
Portfolio Type	$M	$M	$M	$M	$M	$M	$M	$M
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]	364,192	-	1	-	-	431	836	76
Qualifying revolving retail	-	12,693	-	-	-	-	-	-
Other retail	-	8,569	-	-	-	-	-	-
Specialised lending	-	-	1	-	-	97	80	398
Other assets	-	4,822	-	-	-	-	-	-
Total credit exposures [1]	364,192	28,383	8,258	31,138	36,233	16,487	15,898	4,710

	Industry Sector							
	Manufacturing	Energy	Construction	Retail/ wholesale trade	Transport and storage	Property [3]	Other	Total
Portfolio Type	$M	$M	$M	$M	$M	$M	$M	$M
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	380,390
Qualifying revolving retail	-	-	-	-	-	-	-	12,693
Other retail	-	-	-	-	-	-	-	8,569
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) SME retail business lending secured by residential property have been allocated by industry.
(3) Property includes REITs and excludes Business Services.

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

	30 June 2011				
				No specified	
	≤ 12mths	1 ≤ 5yrs	> 5 years	maturity	Total
Portfolio Type	$M	$M	$M	$M	$M
Corporate	8,873	61,138	3,890	1,568	**75,469**
SME corporate	3,103	32,499	8,020	963	**44,585**
SME retail	2,125	7,926	4,425	170	**14,646**
Sovereign	8,127	24,218	11,256	2	**43,603**
Bank	14,749	26,537	739	4	**42,029**
Residential mortgage (1)	8,638	8,996	319,440	56,319	**393,393**
Qualifying revolving retail	-	-	-	18,560	**18,560**
Other retail	82	3,639	2,624	2,910	**9,255**
Specialised lending	15,354	24,442	1,897	-	**41,693**
Other assets	5,084	-	-	8,828	**13,912**
Total credit exposures (2)	66,135	189,395	352,291	89,324	**697,145**

(1) Residential mortgages include SME retail secured by residential property.
(2) Total credit risk exposures do not include equities or securitisation exposures.

	31 December 2010				
				No specified	
	≤ 12mths	1 ≤ 5yrs	> 5 years	maturity	Total
Portfolio Type	$M	$M	$M	$M	$M
Corporate	10,325	57,681	5,782	1,585	75,373
SME corporate	5,225	28,596	11,659	894	46,374
SME retail	2,097	6,955	5,173	161	14,386
Sovereign	4,251	16,766	10,086	-	31,103
Bank	16,175	20,377	1,567	68	38,187
Residential mortgage (1)	8,849	10,414	312,262	54,369	385,894
Qualifying revolving retail	-	-	-	13,253	13,253
Other retail	3	3,490	2,478	2,613	8,584
Specialised lending	13,942	22,487	3,045	-	39,474
Other assets	5,189	33	8	8,241	13,471
Total credit exposures (2)	66,056	166,799	352,060	81,184	666,099

(1) Residential mortgages include SME retail secured by residential property.
(2) Total credit risk exposures do not include equities or securitisation exposures.

	30 June 2010				
				No specified	
	≤ 12mths	1 ≤ 5yrs	> 5 years	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	380,390
Qualifying revolving retail	-	-	-	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 equities 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 Accounting Standards 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.

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, 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 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 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 the Australian Accounting Standards are classified as specific provisions. Most of the collective provisions raised under the Australian Accounting Standards are included in the GRCL, however, 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 Australian Accounting Standards and APS 220 based credit provisions and APS 330 Table 4f – General reserve for credit losses

	30 June 2011		
	General reserve for credit losses (2)	Specific provision (2)	Total provisions
	$M	$M	$M
Collective provision (1)	2,920	123	**3,043**
Individual provisions (1)	-	2,125	**2,125**
Total provisions	2,920	2,248	**5,168**
Additional GRCL requirement (3)	189	-	**189**
Total regulatory provisions	3,109	2,248	**5,357**

(1) Provisions as reported in financial accounts according to the Australian Accounting Standards.

(2) Provisions classified according to APS 220 “Credit Quality”.

(3) The Group has recognised an after tax deduction from Tier One Capital of $132 million in order to maintain the required minimum GRCL.

	31 December 2010		
	General reserve for credit losses (2)	Specific provision (2)	Total provisions
	$M	$M	$M
Collective provision (1)	3,211	116	3,327
Individual provisions (1)	-	2,169	2,169
Total provisions	3,211	2,285	5,496
Additional GRCL requirement (3)	151	-	151
Total regulatory provisions	3,362	2,285	5,647

(1) Provisions as reported in financial accounts according to the Australian Accounting Standards.

(2) Provisions classified according to APS 220 “Credit Quality”.

(3) The Group has recognised an after tax deduction from Tier One Capital of $106 million in order to maintain the required minimum GRCL.

	30 June 2010		
	General reserve for credit losses (2)	Specific provision (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	124	-	124
Total regulatory provisions (3)	3,435	2,142	5,577

(1) Provisions as reported in financial accounts according to the Australian Accounting Standards.

(2) Provisions classified according to APS 220 “Credit Quality”.

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

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 2011				
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	911	3,047	236	143	67
Other personal	11	232	123	2	448
Asset finance	85	42	39	43	24
Sovereign	-	-	-	-	-
Bank	39	-	29	15	50
Other finance	411	23	226	81	55
Agriculture	315	40	98	19	27
Mining	2	5	1	(12)	7
Manufacturing	138	18	83	25	11
Energy	322	-	84	65	1
Construction	236	27	133	87	90
Wholesale/retail trade	188	38	94	52	49
Transport and storage	251	14	43	131	124
Property	1,625	131	678	407	496
Other	763	141	381	177	320
Total	5,297	3,758	2,248	1,235	1,769

(1) Specific provision balance includes certain Australian Accounting Standards collective provisions on some past due loans ≥ 90 days.

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the year ended 30 June 2011.

	31 December 2010				
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	846	2,562	205	55	46
Other personal	15	191	105	1	254
Asset finance	93	21	27	33	21
Sovereign	-	-	-	-	-
Bank	89	-	80	15	-
Other finance	396	20	206	47	41
Agriculture	402	33	103	7	5
Mining	26	4	15	(4)	3
Manufacturing	209	13	69	7	2
Energy	144	-	24	4	-
Construction	229	35	142	16	30
Wholesale/retail trade	140	33	85	19	21
Transport and storage	217	5	86	63	7
Property	1,641	175	723	199	197
Other	737	132	415	113	147
Total	5,184	3,224	2,285	575	774

(1) Specific provision balance includes certain Australian Accounting Standards collective provisions on some past due loans ≥ 90 days.

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the half year ended 31 December 2010.

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

	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	2,667	200	157	117
Other personal	19	245	131	30	604
Asset finance	81	28	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	120	411	221	208
Total	5,216	3,350	2,142	1,478	1,996

(1) Specific provision balance includes certain Australian Accounting Standards collective provisions on some past due loans ≥ 90 days.

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

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

	30 June 2011				
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	4,336	479	1,860	1,075	1,204
Sovereign	-	-	-	-	-
Bank	39	-	29	15	50
Residential mortgage	911	3,047	236	143	67
Qualifying revolving retail	-	109	60	-	257
Other retail	11	123	63	2	191
Total	5,297	3,758	2,248	1,235	1,769

(1) Specific Provision Balance includes certain Australian Accounting Standards collective provisions on some past due loans ≥ 90 days.

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the year ended 30 June 2011.

	31 December 2010				
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	4,234	471	1,895	504	474
Sovereign	-	-	-	-	-
Bank	89	-	80	15	-
Residential mortgage	846	2,562	205	55	46
Qualifying revolving retail	-	92	50	-	125
Other retail	15	99	55	1	129
Total	5,184	3,224	2,285	575	774

(1) Specific Provision Balance includes certain Australian Accounting Standards collective provisions on some past due loans ≥ 90 days.

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the half year ended 31 December 2010.

	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	438	1,745	1,220	1,201
Sovereign	-	-	-	-	-
Bank	103	-	66	71	74
Residential mortgage	836	2,667	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 Australian Accounting Standards collective provisions on some past due loans ≥ 90 days.

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

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

	30 June 2011		
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance
Geographic Region [1]	**$M**	**$M**	**$M**
Australia	4,640	3,492	2,115
New Zealand	398	257	71
Other	259	9	62
Total	5,297	3,758	2,248

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

	31 December 2010		
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance
Geographic Region [1]	**$M**	**$M**	**$M**
Australia	4,458	2,959	2,060
New Zealand	447	255	85
Other	279	10	140
Total	5,184	3,224	2,285

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

	30 June 2010		
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance
Geographic Region [1]	**$M**	**$M**	**$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 report balances based on the domicile of the lending entity.

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

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

Geographic Region	30/06/11 $M	31/12/10 $M	30/06/10 $M
Australia	**2,827**	3,093	3,098
New Zealand	**174**	165	187
Other	**108**	104	150
Total GRCL	**3,109**	3,362	3,435

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

	Half Year Ended		
	30/06/11	31/12/10	30/06/10
Movement in Collective Provisions	$M	$M	$M
Opening balance	3,327	3,461	3,452
Net charge against profit and loss	(102)	147	403
Recoveries	152	54	36
Other	(14)	(9)	(4)
Write-offs	(320)	(326)	(426)
Total collective provisions	3,043	3,327	3,461
Less collective provisions transferred to specific provisions	(123)	(116)	(150)
General reserve for credit losses	2,920	3,211	3,311
Additional GRCL requirement (1)	189	151	124
General reserve for credit losses	3,109	3,362	3,435

(1) The Group has recognised an after tax deduction from Tier One Capital of $132 million for 30 June 2011 (31 December 2010: $106 million; 30 June 2010: $90 million) in order to maintain the required minimum GRCL.

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

	Half Year Ended		
	30/06/11	31/12/10	30/06/10
Movement in Individual Provisions	$M	$M	$M
Opening balance for the period	**2,169**	1,992	1,822
Net new and increased provisioning	**889**	713	873
Net write back of provisions no longer required	**(229)**	(138)	(280)
Discount unwind to interest income	**(68)**	(79)	(85)
Other	**191**	183	150
Write-offs	**(827)**	(502)	(488)
Individual provisions	**2,125**	2,169	1,992
Add collective provisions transferred to specific provisions	**123**	116	150
Specific provisions	**2,248**	2,285	2,142

6.3 Portfolios Subject to Standardised and Supervisory Risk-Weights in the IRB Approaches

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 22).

Portfolios where the Standardised approach has been taken include:

- Commonwealth Bank of Australia:
  - Some Retail SMEs (Overdrawn Accounts);
  - Some Corporate and SME Corporate (Non-rated / Nonscored); and
  - Reverse equity mortgages.
- ASB Bank Limited:
  - Personal Loans.
- All exposures in the following entities:
  - Bank of Western Australia Limited;
  - 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

Standardised Approach Exposures [1]	Exposure After Risk Mitigation [1] 30/06/11 $M	31/12/10 $M	30/06/10 $M
Risk weight			
0%	**8,671**	7,141	7,529
20%	**10,608**	11,900	10,590
35%	**35,428**	33,814	32,466
50%	**10,616**	9,669	7,921
75%	**595**	610	876
100%	**29,770**	30,586	33,399
150%	**1,353**	890	1,059
> 150%	**-**	-	1
Capital deductions	**-**	-	-
Total	**97,041**	94,610	93,841

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

Other Assets [1]	30 June 2011 Exposure $M	Risk weight %	RWA $M
Cash	5,047	-	-
Cash items in course of collection	865	20	173
Margin lending	4,277	20	855
Fixed assets	1,407	100	1,407
Other	2,316	100	2,316
Total	13,912	34	4,751

Other Assets [1]	31 December 2010 Exposure $M	Risk weight %	RWA $M
Cash	5,073	-	-
Cash items in course of collection	219	20	44
Margin lending	4,505	20	901
Fixed assets	1,395	100	1,395
Other	2,279	100	2,279
Total	13,471	34	4,619

Other Assets [1]	30 June 2010 Exposure $M	Risk weight %	RWA $M
Cash	4,553	-	-
Cash items in course of collection	518	20	104
Margin lending	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 Exposures table above.

Specialised Lending Exposures Subject to Supervisory Slotting [1]	30/06/11 $M	31/12/10 $M	30/06/10 $M
Risk Weight			
0%	**1,240**	1,220	1,000
70%	**15,567**	14,586	14,080
90%	**18,082**	16,523	16,014
115%	**6,068**	6,374	7,025
250%	**736**	771	1,254
Total exposures	**41,693**	39,474	39,373

(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 Credit Exposures	30/06/11 $M	31/12/10 $M	30/06/10 $M
Risk Weight			
300%	**399**	141	147
400%	**229**	464	495
Total credit exposures	**628**	605	642

6.4 Portfolios Subject to Internal Ratings Based Approaches

The Group is accredited to use advanced internal ratings based (AIRB) 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 16 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. The weak/doubtful grade rating scale was increased from 2 to 6 in 2011.

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

This segment comprises commercial exposures including bank, sovereign and corporate. 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 Tool. 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 the use of internal rating tools, 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 Rating Tools are the primary method of assigning a PD rating. PD Rating Tools 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/Doubtful - (F1 through to G3) - 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 Credit Portfolio 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 Credit Portfolio 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, without recourse by the Bank to actions such as realising available security. This may be the case even if all the terms of the client's credit facilities are currently being met; or
- 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 Rating Tools 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 twenty two non-default grades (A0 through to G3) and one default grade (H) as shown in APS 330 Table 6b. PD Rating Tools 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

This segment has sub-segments covering 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 Credit Portfolio 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 charge over a company's assets, including stock and work in progress; and
- A charge over bonds, stock or scrip.

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

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% - 4.39%
Weak/doubtful	F1, F2, F3, G1, G2, G3	> 4.39%
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

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 utilisation, 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 summarises the PD rating methodology applied by the Group to various segments of the credit portfolio.

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 Rating Tool(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

Regulatory EL is calculated as the product of PD, EAD and LGD.

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 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 ROTE frameworks.

Credit Risk Exposure Subject to the Basel II Advanced Approach

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

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

	30 June 2011							
	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	$M
Total credit risk exposures								
Corporate	-	19,664	27,561	17,807	1,007	831	756	**67,626**
SME corporate	-	630	3,935	27,005	3,088	1,599	827	**37,084**
SME retail	-	-	1,094	6,128	1,607	197	203	**9,229**
Sovereign	40,036	1,177	332	100	12	-	-	**41,657**
Bank	-	34,157	1,396	257	17	-	39	**35,866**
Total	40,036	55,628	34,318	51,297	5,731	2,627	1,825	**191,462**
Undrawn commitments [2]								
Corporate	-	9,128	13,218	4,337	97	34	78	**26,892**
SME corporate	-	161	851	4,089	316	81	44	**5,542**
SME retail	-	-	634	914	263	12	12	**1,835**
Sovereign	7,440	194	110	16	-	-	-	**7,760**
Bank	-	1,711	517	149	-	-	-	**2,377**
Total	7,440	11,194	15,330	9,505	676	127	134	**44,406**
Exposure - weighted average EAD ($M)								
Corporate	-	5. 539	3. 890	0. 835	1. 486	3. 393	2. 513	**3. 508**
SME corporate	-	0. 149	0. 287	0. 201	0. 208	0. 307	0. 225	**0. 215**
SME retail	-	-	0. 006	0. 012	0. 031	0. 034	0. 099	**0. 017**
Sovereign	7. 471	1. 542	0. 589	0. 045	0. 618	-	-	**7. 229**
Bank	-	9. 126	6. 585	2. 735	0. 599	0. 005	13. 061	**8. 982**
Exposure - weighted average LGD (%)								
Corporate	-	59. 1	56. 6	42. 9	38. 6	47. 9	49. 7	**53. 3**
SME corporate	-	54. 9	33. 9	29. 6	28. 7	32. 7	35. 7	**30. 7**
SME retail	-	-	31. 3	41. 4	28. 0	37. 1	33. 5	**37. 6**
Sovereign	15. 3	61. 3	61. 3	46. 0	61. 3	-	-	**17. 1**
Bank	-	61. 2	58. 0	56. 2	60. 6	61. 3	61. 3	**61. 0**
Exposure - weighted average risk weight (%)								
Corporate	-	27. 2	55. 8	71. 9	122. 0	239. 0	322. 5	**97. 7**
SME corporate	-	18. 2	33. 3	51. 5	76. 1	155. 9	277. 5	**60. 6**
SME retail	-	-	16. 5	49. 5	40. 1	80. 1	208. 0	**48. 1**
Sovereign	4. 4	37. 3	65. 6	93. 3	176. 4	-	-	**6. 0**
Bank	-	18. 3	46. 2	80. 2	280. 4	315. 0	189. 0	**20. 1**

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

(2) The credit exposure value of undrawn commitments is included in Total Credit Exposures above.

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

	31 December 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	$M
Total credit risk exposure								
Corporate	-	19,761	26,882	17,712	1,335	625	893	67,208
SME corporate	-	1,103	3,479	28,107	3,322	1,857	693	38,561
SME retail	-	-	1,004	5,874	1,733	169	327	9,107
Sovereign	26,991	3,206	410	96	10	-	-	30,713
Bank	-	28,791	1,309	207	32	-	89	30,428
Total	26,991	52,861	33,084	51,996	6,432	2,651	2,002	176,017
Undrawn commitments [2]								
Corporate	-	8,128	12,162	3,924	132	21	22	24,389
SME corporate	-	157	811	4,245	337	90	27	5,667
SME retail	-	-	571	786	384	7	9	1,757
Sovereign	784	478	112	14	-	-	-	1,388
Bank	-	1,915	520	102	-	-	-	2,537
Total	784	10,678	14,176	9,071	853	118	58	35,738
Exposure - weighted average EAD ($M)								
Corporate	-	4. 586	4. 141	0. 815	1. 550	2. 962	3. 066	3. 319
SME corporate	-	0. 254	0. 260	0. 198	0. 208	0. 341	0. 139	0. 212
SME retail	-	-	0. 007	0. 017	0. 014	0. 014	0. 566	0. 035
Sovereign	6. 676	1. 440	0. 986	0. 041	0. 655	-	-	6. 031
Bank	-	7. 813	5. 619	2. 493	1. 147	-	29. 746	7. 740
Exposure - weighted average LGD (%)								
Corporate	-	59. 3	57. 5	42. 9	43. 6	34. 5	46. 3	53. 5
SME corporate	-	35. 7	33. 3	29. 5	28. 6	31. 0	34. 0	30. 1
SME retail	-	-	32. 0	42. 4	28. 8	38. 5	31. 5	38. 2
Sovereign	15. 3	61. 5	61. 8	44. 6	61. 3	-	-	20. 8
Bank	-	60. 1	61. 3	55. 6	61. 1	-	61. 3	60. 1
Exposure - weighted average risk weight (%)								
Corporate	-	27. 9	58. 2	78. 5	144. 4	185. 3	221. 6	59. 7
SME corporate	-	15. 6	33. 5	50. 8	71. 3	138. 8	216. 6	57. 2
SME retail	-	-	16. 9	50. 8	41. 0	83. 3	271. 9	53. 8
Sovereign	4. 7	26. 5	82. 7	94. 6	157. 1	-	-	8. 3
Bank	-	19. 9	53. 7	85. 4	230. 7	-	5. 6	22. 0

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

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

	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	$M
Total credit risk exposure								
Corporate	-	20,951	25,059	17,823	1,412	1,001	634	66,880
SME corporate	-	1,276	3,734	27,957	3,890	1,838	755	39,450
SME retail	-	-	1,081	5,920	1,650	196	281	9,128
Sovereign	26,713	2,577	432	154	12	-	-	29,888
Bank	-	28,687	1,240	299	15	-	89	30,330
Total	26,713	53,491	31,546	52,153	6,979	3,035	1,759	175,676
Undrawn commitments [2]								
Corporate	-	8,028	11,034	4,324	181	40	16	23,623
SME corporate	-	194	807	3,968	360	89	26	5,444
SME retail	-	-	625	740	273	8	4	1,650
Sovereign	788	617	110	72	-	-	-	1,587
Bank	-	1,740	364	88	-	-	-	2,192
Total	788	10,579	12,940	9,192	814	137	46	34,496
Exposure - weighted average EAD ($M)								
Corporate	-	4. 651	4. 466	0. 814	1. 870	2. 816	4. 089	3. 468
SME corporate	-	0. 268	0. 282	0. 201	0. 219	0. 361	0. 191	0. 220
SME retail	-	-	0. 007	0. 017	0. 015	0. 015	0. 331	0. 025
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	-	62. 3	60. 9	48. 1	51. 5	47. 7	52. 7	57. 5
SME corporate	-	40. 8	38. 5	34. 1	33. 1	34. 7	39. 1	34. 8
SME retail	-	-	36. 7	43. 9	32. 7	42. 2	38. 2	40. 8
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	-	30. 4	61. 3	85. 2	176. 4	262. 0	351. 9	66. 2
SME corporate	-	16. 8	38. 5	59. 1	83. 0	156. 6	255. 9	66. 5
SME retail	-	-	19. 4	52. 4	46. 9	91. 9	321. 1	56. 6
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 is included in Total Credit Exposures above.

APS 330 Table 6d (ii) provides a breakdown by asset class and PD band, 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 2011							
	PD Grade							
	0 < 0.1%	0.1% < 0.3%	0.3% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Retail	$M	$M	$M	$M	$M	$M	$M	$M
Total credit risk exposures								
Residential mortgage	80,205	117,540	7,418	116,025	11,408	6,058	3,025	**341,679**
Qualifying revolving retail	8	10,399	-	5,583	2,138	264	168	**18,560**
Other retail	-	155	619	4,352	1,061	337	127	**6,651**
Total	80,213	128,094	8,037	125,960	14,607	6,659	3,320	**366,890**
Undrawn commitments (1)								
Residential mortgage	31,169	7,389	1,747	10,941	545	31	11	**51,833**
Qualifying revolving retail	7	7,401	-	1,968	265	36	-	**9,677**
Other retail	-	145	518	488	62	41	-	**1,254**
Total	31,176	14,935	2,265	13,397	872	108	11	**62,764**
Exposure - weighted average EAD ($M)								
Residential mortgage	0. 174	0. 220	0. 169	0. 195	0. 274	0. 229	0. 232	**0. 202**
Qualifying revolving retail	0. 006	0. 006	-	0. 007	0. 007	0. 008	0. 007	**0. 006**
Other retail	-	0. 003	0. 005	0. 009	0. 004	0. 002	0. 002	**0. 007**
Exposure - weighted average LGD (%)								
Residential mortgage	20. 0	20. 1	20. 6	20. 7	21. 9	20. 5	20. 7	**20. 4**
Qualifying revolving retail	72. 6	76. 0	-	85. 0	88. 1	86. 8	86. 5	**80. 3**
Other retail	-	36. 6	90. 3	95. 4	95. 1	92. 6	78. 8	**93. 0**
Exposure - weighted average risk weight (%)								
Residential mortgage	1. 9	8. 8	12. 6	23. 9	74. 5	110. 2	-	**16. 3**
Qualifying revolving retail	4. 0	5. 6	-	41. 4	133. 8	241. 5	-	**34. 5**
Other retail	-	10. 0	59. 0	107. 8	141. 2	203. 2	0. 3	**109. 1**

(1) The credit exposure value of undrawn commitments is included in Total Credit Risk Exposures above.

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

	31 December 2010							
	PD Grade							
	0 < 0.1%	0.1% < 0.3%	0.3% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Retail	$M	$M	$M	$M	$M	$M	$M	$M
Total credit risk exposures								
Residential mortgage	70,222	127,273	2,790	115,632	12,792	5,156	2,782	336,647
Qualifying revolving retail	-	5,477	98	4,422	2,603	471	182	13,253
Other retail	97	58	566	3,517	1,394	331	67	6,030
Total	70,319	132,808	3,454	123,571	16,789	5,958	3,031	355,930
Undrawn commitments (1)								
Residential mortgage	24,150	15,833	276	11,635	1,131	35	8	53,068
Qualifying revolving retail	-	2,786	56	1,341	278	21	39	4,521
Other retail	96	39	467	324	22	15	-	963
Total	24,246	18,658	799	13,300	1,431	71	47	58,552
Exposure - weighted average EAD ($M)								
Residential mortgage	0. 172	0. 205	0. 076	0. 180	0. 111	0. 205	0. 222	0. 185
Qualifying revolving retail	-	0. 004	0. 006	0. 005	0. 008	0. 007	0. 009	0. 005
Other retail	0. 003	0. 003	0. 005	0. 008	0. 005	0. 002	0. 003	0. 007
Exposure - weighted average LGD (%)								
Residential mortgage	20. 0	20. 0	23. 5	20. 6	22. 2	20. 5	20. 8	20. 3
Qualifying revolving retail	-	85. 1	86. 0	85. 8	86. 2	86. 2	85. 5	85. 6
Other retail	37. 7	34. 7	82. 2	97. 9	96. 2	89. 2	88. 9	93. 9
Exposure - weighted average risk weight (%)								
Residential mortgage	3. 2	8. 9	15. 3	24. 3	68. 0	108. 9	-	16. 8
Qualifying revolving retail	-	10. 4	17. 0	40. 7	127. 6	223. 8	-	51. 0
Other retail	7. 2	17. 9	48. 1	102. 0	137. 7	181. 5	0. 2	106. 1

(1) The credit exposure value of undrawn commitments is included in Total Credit Risk Exposures above.

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

	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	$M	$M	$M	$M	$M	$M	$M	$M
Total credit risk exposures								
Residential mortgage	70,028	121,975	20,667	99,356	12,146	6,044	2,712	332,928
Qualifying revolving retail	-	5,027	94	4,275	2,592	520	185	12,693
Other retail	100	63	607	3,315	1,481	342	85	5,993
Total	70,128	127,065	21,368	106,946	16,219	6,906	2,982	351,614
Undrawn commitments (1)								
Residential mortgage	22,674	14,934	2,311	10,969	1,065	36	11	52,000
Qualifying revolving retail	-	2,658	56	1,337	282	25	29	4,387
Other retail	99	39	510	344	24	2	-	1,018
Total	22,773	17,631	2,877	12,650	1,371	63	40	57,405
Exposure - weighted average EAD ($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) The credit exposure value of undrawn commitments is 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), a comparison of losses on advanced portfolios against the Group's regulatory EL estimates (APS 330 Table 6f).

APS 330 Table 6e – Actual losses by portfolio type

	30 June 2011		
	Full year losses in reporting period		
	Gross write-offs	Recoveries	Actual losses
Portfolio Type	$M	$M	$M
Corporate including SME and specialised lending	1,226	(22)	1,204
Sovereign	-	-	-
Bank	50	-	50
Residential mortgage	110	(43)	67
Qualifying revolving retail	295	(38)	257
Other retail	294	(103)	191
Total	1,975	(206)	1,769

	31 December 2010		
	Half year losses in reporting period		
	Gross write-offs	Recoveries	Actual losses
Portfolio Type	$M	$M	$M
Corporate including SME and specialised lending	481	(7)	474
Sovereign	-	-	-
Bank	-	-	-
Residential mortgage	46	-	46
Qualifying revolving retail	145	(20)	125
Other retail	156	(27)	129
Total	828	(54)	774

	30 June 2010		
	Full year losses in reporting period		
	Gross write-offs	Recoveries	Actual losses
Portfolio Type	$M	$M	$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

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

	30 June 2011	
	Full year actual loss $M	Regulatory one year expected loss estimate $M
Corporate including SME and specialised lending	681	2,084
Sovereign	-	3
Bank	50	33
Residential mortgage	50	1,427
Qualifying revolving retail	257	453
Other retail	190	324
Total advanced	1,228	4,324

	30 June 2010	
	Full year actual loss $M	Regulatory one year expected loss estimate $M
Corporate including SME and specialised lending	785	2,125
Sovereign	-	4
Bank	74	71
Residential mortgage	107	1,362
Qualifying revolving retail	262	496
Other retail	204	274
Total advanced	1,432	4,332

Actual losses are historical and are based on the quality of the assets in the prior period, write-offs and recent economic conditions.

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. 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.

Regulatory EL for Specialised Lending exposures is determined by the APRA mandated "slotting" approach which is more punitive than under the AIRB approach.

Regulatory EL (calculated as the product of PD, LGD and EAD) decreased $8 million on the prior year to $4,324 million, mainly as a result of:

- A $72 million increase related to the retail asset classes, particularly residential mortgages;
- 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 $80 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 Chief Credit Officer (or delegate) is responsible for approving acceptable collateral types.

The type, liquidity, carrying and realisation costs on collateral held is a key determinant 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) and other liquid assets (e.g. bonds, shares, investment funds);
- Guarantees by company directors supporting commercial lending;
- Fixed or floating charges over a company's assets, including stock debtors and work in progress; and
- A charge over assets being financed (e.g. vehicles, equipment).

Other - Including Credit Default Swaps and Guarantees

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

Other forms of credit risk mitigation used to either reduce or transfer credit risk include purchasing credit derivatives (e.g. credit default swaps) and/or guarantees from highly rated banks or corporates. To be an eligible mitigant, the credit derivative or guarantee must be contractually binding, have legal certainty and be non-cancellable.

APS 330 Table 7b and 7c (page 52) discloses the Group's coverage of exposure by credit default swaps and guarantees.

Portfolio Management

The Group applies a board-approved Large Credit Exposure Policy (LCEP). This policy governs the authority of management with regard to the amount of credit provided to any single counterparty, or group of related counterparties, after applying the Aggregation Policy within the risk-rated segment.

The objective of the LCEP is to limit the risk of catastrophic loss to the Group through over-exposure to the failure of a single obligor, or group of related counterparties. The LCEP is reviewed annually. Usage of LCEP limits is determined at both individual counterparty and group of related (aggregated) counterparties levels. Limits are tiered by counterparty type and level of risk (PD Rating).

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; and
- All exposures ceasing to exceed LCEP limits since the last report.

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

Credit risk concentration limits are in place to ensure portfolio diversification and prevent over concentration to industries or countries. 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.

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

	30 June 2011				
	Total exposure (1) $M	Eligible financial collateral $M	Exposures covered by guarantees $M	Exposures covered by credit derivatives $M	Coverage %
Advanced approach					
Corporate	67,626	-	639	16	1. 0
SME corporate	37,084	-	-	-	-
SME retail	9,229	-	-	-	-
Sovereign	41,657	-	-	-	-
Bank	35,866	-	292	366	1. 8
Residential mortgage	341,679	-	-	-	-
Qualifying revolving retail	18,560	-	-	-	-
Other retail	6,651	-	-	-	-
Total advanced approach	558,352	-	931	382	0. 2
Specialised lending	41,693	-	-	-	-
Standardised approach					
Corporate	7,843	91	-	-	1. 2
SME corporate	7,501	54	-	-	0. 7
SME retail	5,417	15	-	-	0. 3
Sovereign	1,946	-	-	-	-
Bank	6,163	1	49	-	0. 8
Residential mortgage	51,714	65	-	-	0. 1
Other retail	2,604	2	-	-	0. 1
Other assets	13,912	-	-	-	-
Total standardised approach	97,100	228	49	-	0. 3
Total exposures	697,145	228	980	382	0. 2

(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 2010				
	Total exposure (1) $M	Eligible financial collateral $M	Exposures covered by guarantees $M	Exposures covered by credit derivatives $M	Coverage %
Advanced approach					
Corporate	67,208	-	763	9	1. 1
SME corporate	38,561	-	-	25	0. 1
SME retail	9,107	-	-	-	-
Sovereign	30,713	-	-	-	-
Bank	30,428	-	436	358	2. 6
Residential mortgage	336,647	-	-	-	-
Qualifying revolving retail	13,253	-	-	-	-
Other retail	6,030	-	-	-	-
Total advanced approach	531,947	-	1,199	392	0. 3
Specialised lending	39,474	-	-	-	-
Standardised approach					
Corporate	8,165	135	-	-	1. 7
SME corporate	7,813	79	-	-	1. 0
SME retail	5,279	15	-	-	0. 3
Sovereign	390	-	-	-	-
Bank	7,759	-	45	-	0. 6
Residential mortgage	49,247	65	-	-	0. 1
Other retail	2,554	3	-	-	0. 1
Other assets	13,471	-	-	-	-
Total standardised approach	94,678	297	45	-	0. 4
Total exposures	666,099	297	1,244	392	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 – Credit risk mitigation (continued)

	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	332,928	-	-	-	-
Qualifying revolving retail	12,693	-	-	-	-
Other retail	5,993	-	-	-	-
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	5,473	12	-	-	0. 2
Sovereign	1,250	-	-	-	-
Bank	5,903	-	27	-	0. 5
Residential mortgage	47,462	69	-	-	0. 1
Other retail	2,576	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.

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.

Counterparty credit risk is 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.

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

Specific wrong-way risk is controlled through not recognising any risk reduction from credit risk mitigation provided by highly correlated counterparties. General wrong way risk is monitored through the Group's stress testing activities and is controlled via the Group's policies that manage industry, country and individual counterparty concentrations.

Credit Support Annexes (CSA) are used to collateralise credit counterparty risk for global markets type products. CSAs lower the wrongway 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.

Fixed, including "zero", values 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 Amounts to which both the Group and counterparties adhere. A trend to lower thresholds has been observed between the Group and well rated counterparties since the Global Financial Crisis. Long term debt ratings are used as references within approximately 25% of agreements 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 amount or initial margin amount may also be required from a lowly rated counterparty.

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 2011, a one-notch downgrade in the Group's rating would have resulted in a $203 million increase in collateral posted. A two-notch downgrade would have resulted in a $534 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 event of a counterparty downgrade.

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 residential mortgage loans;
- 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 externally rated securitisation SPV where the Group is neither the arranger nor originator of the respective securities or underlying assets.

As at 30 June 2011, 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 RBA.

For contingent liquidity, the Group manages an A$44.3 billion RMBS portfolio 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).

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, the credit rating is 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 do 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[1]) 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[1]).

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.

(1) 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

	30 June 2011			
Underlying Asset	Bank originated assets (1) $M	Third party originated assets (2) $M	Facilities provided (3) $M	Other $M
Residential mortgage	7,577	597	2,098	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	184	269	-
Total	7,577	781	2,367	-

	31 December 2010			
Underlying Asset	Bank originated assets (1) $M	Third party originated assets (2) $M	Facilities provided (3) $M	Other $M
Residential mortgage	8,610	738	1,907	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	220	-	-
Total	8,610	958	1,907	-

	30 June 2010			
Underlying Asset	Bank originated assets (1) $M	Third party originated assets (2) $M	Facilities provided (3) $M	Other $M
Residential mortgage	9,696	-	1,551	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	9,696	-	1,551	-

(1) Bank originated assets comprise the Medallion and Swan Trusts but exclude those assets 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 Sheets.

(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

	30 June 2011			
Underlying Asset	Bank originated assets $M	Third party originated assets $M	Facilities provided $M	Other $M
Residential mortgage	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	-	-	-	-

	31 December 2010			
Underlying Asset	Bank originated assets $M	Third party originated assets $M	Facilities provided $M	Other $M
Residential mortgage	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	-	-	-	-

	30 June 2010			
Underlying Asset	Bank originated assets $M	Third party originated assets $M	Facilities provided $M	Other $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

	30 June 2011			
Underlying Asset	Bank originated assets [(1)] $M	Third party originated assets [(2)] $M	Facilities provided [(3)] $M	Other $M
Residential mortgage	7,577	597	2,098	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	184	269	-
Total	7,577	781	2,367	-

	31 December 2010			
Underlying Asset	Bank originated assets [(1)] $M	Third party originated assets [(2)] $M	Facilities provided [(3)] $M	Other $M
Residential mortgage	8,610	738	1,907	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	220	-	-
Total	8,610	958	1,907	-

	30 June 2010			
Underlying Asset	Bank originated assets [(1)] $M	Third party originated assets [(2)] $M	Facilities provided [(3)] $M	Other $M
Residential mortgage	9,696	-	1,551	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	9,696	-	1,551	-

(1) Bank originated assets comprise the Medallion and Swan Trusts but exclude those assets 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 Sheets.

(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 9e – Analysis of past due and impaired securitisation exposures by asset type

	30 June 2011			
	Group originated assets securitised			
Underlying Asset	Outstanding exposure $M	Impaired $M	Past due $M	Losses recognised $M
Residential mortgage	8,174	12	50	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	184	-	2	-
Total	8,358	12	52	-

	31 December 2010			
	Group originated assets securitised			
Underlying Asset	Outstanding exposure $M	Impaired $M	Past due $M	Losses recognised $M
Residential mortgage	9,348	8	56	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	220	-	2	-
Total	9,568	8	58	-

	30 June 2010			
	Group originated assets securitised			
Underlying Asset	Outstanding exposure $M	Impaired $M	Past due $M	Losses recognised $M
Residential mortgage	9,696	11	67	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	9,696	11	67	-

(1) Certain comparative information has been restated to conform to presentation in the current period.

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

Securitisation Facility Type	30/06/11 Exposure $M	31/12/10 Exposure $M	30/06/10 Exposure $M
Liquidity support facilities	**438**	346	767
Warehouse facilities	**4,534**	4,993	4,759
Derivative transactions	**2,295**	1,788	1,386
Holdings of securities (banking book)	**1,953**	1,944	1,744
Other	**6**	11	29
Total securitisation exposures in the banking book	**9,226**	9,082	8,685
Holdings of securities (trading book)	**56**	43	139
Total securitisation exposures	**9,282**	9,125	8,824

APS 330 Table 9g (i) – Analysis of securitisation exposure by risk weighting(1)

	30 June 2011	
Risk Weight Band	**Exposure $M**	**Capital requirement $M**
≤ 25%	7,888	888
> 25% ≤ 35%	342	120
> 35% ≤ 50%	-	-
> 50% ≤ 75%	142	106
> 75% ≤ 100%	296	256
> 100% ≤ 650%	541	1,300
> 650% < 1250%	-	-
Total (1)	9,209	2,670

	31 December 2010	
Risk Weight Band	**Exposure $M**	**Capital requirement $M**
≤ 25%	8,117	934
> 25% ≤ 35%	201	70
> 35% ≤ 50%	2	1
> 50% ≤ 75%	370	271
> 75% ≤ 100%	56	56
> 100% ≤ 650%	259	562
> 650% < 1250%	-	-
Total (2)	9,005	1,894

	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 (2)	8,828	1,569

(1) As a result of a review of the securitisation portfolio, trading book exposures are now included in this table to account for the associated credit risk.

(2) Securitisation exposures held in the trading book are subject to the VaR capital model based capital calculation and were reported in the market risk sections of this report; they are not included in this table.

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

	30 June 2011		
Underlying Asset Type	Deductions from Tier One Capital $M	Deductions from Tier Two Capital $M	Total $M
Residential mortgage	8	8	16
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	29	29	58
Other	-	-	-
Total	37	37	74

	31 December 2010		
Underlying Asset Type	Deductions from Tier One Capital $M	Deductions from Tier Two Capital $M	Total $M
Residential mortgage	14	9	23
Credit cards and other personal loans	-	-	-
Auto and equipment finance	2	2	4
Commercial loans	25	25	50
Other	-	-	-
Total	41	36	77

	30 June 2010		
Underlying Asset Type	Deductions from Tier One Capital $M	Deductions from Tier Two 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

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

	30 June 2011					
	Aggregate drawn exposure		Aggregate IRB capital charge against Bank's retained shares from:		Aggregate IRB capital charge against investor's shares of:	
	Sellers interest	Investor's interest	Drawn balances	Undrawn lines	Drawn balances	Undrawn lines
Underlying Asset Type	$M	$M	$M	$M	$M	$M
Residential mortgage	-	-	-	-	-	-
Credit cards and other personal loans	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-

	31 December 2010					
	Aggregate drawn exposure		Aggregate IRB capital charge against Bank's retained shares from:		Aggregate IRB capital charge against investor's shares of:	
	Sellers interest	Investor's interest	Drawn balances	Undrawn lines	Drawn balances	Undrawn lines
Underlying Asset Type	$M	$M	$M	$M	$M	$M
Residential mortgage	-	-	-	-	-	-
Credit cards and other personal loans	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-

	30 June 2010					
	Aggregate drawn exposure		Aggregate IRB capital charge against Bank's retained shares from:		Aggregate IRB capital charge against investor's shares of:	
	Sellers interest	Investor's interest	Drawn balances	Undrawn lines	Drawn balances	Undrawn lines
Underlying Asset Type	$M	$M	$M	$M	$M	$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 Tables 9g (page 61).

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

	Half year ended 30 June 2011	
Underlying Asset Type	**Value of loans sold or originated into securitisation $M**	**Recognised gain or loss on sale $M**
Residential mortgage	2,873	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial loans	-	-
Other	-	-
Total	2,873	-

	Half year ended 31 December 2010	
Underlying Asset Type	**Value of loans sold or originated into securitisation $M**	**Recognised gain or loss on sale $M**
Residential mortgage	1,000	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial loans	-	-
Other	212	-
Total	1,212	-

	Half year ended 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	-	-

APS 330 Table 9j (ii) – New facilities provided in six month reporting period

New Facilities Provided	**30/06/11 Notional amount $M**	**31/12/10 Notional amount $M**	**30/06/10 Notional amount $M**
Liquidity support facilities	**-**	-	-
Warehouse facilities	**308**	308	-
Derivative transactions	**78**	4	-
Other	**-**	-	-
Total	**386**	312	-

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 2011	
Equity Investments	**Balance sheet value $M**	**Fair value [2] $M**
Value of listed (publicly traded) equities	954	909
Value of unlisted (privately held) equities	1,243	1,243
Total [1]	2,197	2,152

(1) Equity holdings comprise; $1,712 million Investments in Associates, $29 million Assets Held for Sale and $456 million Available for Sale Securities.

(2) Fair value represents the quoted price of listed securities. The difference between balance sheet value and fair value is due to the Group's listed securities being equity accounted as required under the Australian Accounting Standards.

	31 December 2010	
Equity Investments	**Balance sheet value $M**	**Fair value [2] $M**
Value of listed (publicly traded) equities	578	504
Value of unlisted (privately held) equities	1,578	1,578
Total [1]	2,156	2,082

(1) Equity holdings comprise; $1,683 million Investments in Associates, $29 million Assets Held for Sale and $444 million Available for Sale Securities.

(2) Fair value represents the quoted price of listed securities. The difference between balance sheet value and fair value is due to the Group's listed securities being equity accounted as required under the Australian Accounting Standards.

	30 June 2010	
Equity Investments	**Balance sheet value $M**	**Fair value [2] $M**
Value of listed (publicly traded) equities	578	548
Value of unlisted (privately held) equities	1,427	1,427
Total [1]	2,005	1,975

(1) Equity holdings comprise; $1,490 million Investments in Associates, $40 million Assets Held for Sale and $475 million Available for Sale Securities.

(2) Fair value represents the quoted price of listed securities. The difference between balance sheet value and fair value is due to the Group's listed securities being equity accounted as required under the Australian Accounting Standards.

	Half year ended		
Gain/Losses on Equity Investments	**30/06/11 $M**	**31/12/10 $M**	**30/06/10 $M**
Cumulative realised gains in reporting period	**-**	-	1
Total unrealised losses (gains)	**24**	(8)	1
Total unrealised gains included in Tier One/Tier Two Capital	**11**	20	15

Risk Weighted Assets	30/06/11 $M	31/12/10 $M	30/06/10 $M
Equity investments subject to a 300% risk weight	**1,197**	424	441
Equity investments subject to a 400% risk weight	**916**	1,856	1,979
Total RWA	**2,113**	2,280	2,420

Equity Credit Exposure	30/06/11 $M	31/12/10 $M	30/06/10 $M
Equity investments subject to a 300% risk weight	**399**	141	147
Equity investments subject to a 400% risk weight	**229**	464	495
Total equity credit exposure	**628**	605	642

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, ASB and Bankwest.

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 ALCO. The central Market Risk Management (MRM) unit provides support to the Risk Committee and ALCO in the performance of their MRM 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 MRM 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.

It should be noted that because VaR is driven by historical observations, it is not an estimate of the maximum economic loss that the Group could experience from an extreme market event. As a result of this limitation, management also uses stress testing to measure the potential for economic loss at 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 (MRM)	Global oversight by MRM and PARM	• 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 (MRM)			
Interest Rate Risk in the Banking Book	CBA Domestic & Offshore: • Group Treasury	Portfolio Analysis and Risk Management (PARM)		• Market Risk Forum • CBA ALCO and Working ALCO • ASB ALCO • PTBC ALCO • Bankwest ALCO • Pipeline Committee	
	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 • Portfolio Analysis and Risk Management			
Non-Traded Market Risk in Life Insurance	Wealth Management: • The Colonial Mutual Life Assurance Society Pty Limited (CMLA)	• Wealth Risk Management • Portfolio Analysis and Risk Management (PARM)		CMLA ALCO	
Non-Traded Equity Risk	CBA Domestic & Offshore: • Wealth Management: Corporate Financial Services Global Asset Management (CFS GAM) & Corporate Financial Services Investments (CFSI) • Institutional Banking & Markets	• Wealth Risk Management • Market Risk Management (MRM)		CBA ALCO	
Lease Residual Value Risk	CBA Domestic & Offshore: • Institutional Banking & Markets	• Market Risk Management (MRM)		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 markets products and provides 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 and services 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. Thus Traded Market Risk is managed under a clearly defined risk appetite within the market risk policy and limit structure approved by the Risk Committee of the Board. Risk is monitored by an independent MRM function

Capital Calculation Methods

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

Consequently, general market risk regulatory capital is calculated for 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.

The breakdown of Traded Market Risk RWA by modelling method is summarised below:

Traded Market Risk RWA by Modelling Approach	30/06/11 $M	31/12/10 $M	30/06/10 $M
Internal model Method	1,418	1,724	1,465
Standard Method	1,744	2,149	2,038
Total Traded Market Risk RWA	3,162	3,873	3,503

APS 330 Table 10b – Traded Market Risk under the standard method

Exposure Type	30/06/11 $M	31/12/10 $M	30/06/10 $M
Interest Rate risk	127.0	163. 2	156. 1
Equity risk	5.4	4. 6	4. 4
Foreign Exchange risk	1.9	1. 2	1. 3
Commodity risk	5.2	2. 9	1. 2
Total	139.5	171. 9	163. 0
Risk Weighted Asset equivalent (1)	1,743.8	2,148. 8	2,037. 5

(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 VaR at Risk Over the Reporting Period			
Average VaR (1)	Mean value $M	Maximum value $M	Minimum value $M	As at balance date $M
Over the 6 months to 30 June 2011	39	58	30	30
Over the 6 months to 31 December 2010	41	65	29	46
Over the 6 months to 30 June 2010	41	50	34	43

Summary Table of the Number of Back-Testing Outliers (2)	
Over the 6 months to 30 June 2011	-
Over the 6 months to 31 December 2010	-
Over the 6 months to 30 June 2010	-

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

Internal Model Approach – VaR Outliers

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

	Over the Reporting Period 1 January 2011 to 30 June 2011	
	Hypothetical loss	VaR 99%
Date	$M	$M
-	-	-

	Over the Reporting Period 1 July 2010 to 31 December 2010	
	Hypothetical loss	VaR 99%
Date	$M	$M
-	-	-

	Over the Reporting Period 1 January 2010 to 30 June 2010	
	Hypothetical loss	VaR 99%
Date	$M	$M
-	-	-

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 the Group Executive undertaking activities with Non-Traded Market Risk. The Group's Risk division performs risk measurement and monitoring activities of Non-Traded Market Risk. Ownership and management responsibility for CBA domestic operations are assumed by Group Treasury. Management actions conventionally include hedging activities using a range of policy approved derivative instruments. Independent management of the Non-Traded Market Risk activities of offshore banking subsidiaries is delegated to the Chief Executive Officer (CEO) 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 measures and manages the impact of interest rate risk in two ways:

(i) Next 12 Months' Earnings

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

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

Earnings risk is measured through 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 change to the balance sheet product mix, growth, funding and pricing strategies is incorporated.

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

The figures in APS Table 14b represent expected unfavourable net change in the price of assets and liabilities, held for purposes other than trading, based on a 200 basis point parallel rate shock (increase).

(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). An 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 mark-to-market basis is measured and included in the regulatory capital for IRRBB. The embedded loss or gain measures the difference between the book value and economic value of banking book activities, based on transfer-priced assets and liabilities.

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.

Structural Foreign Exchange Risk

Structural Foreign Exchange Risk is the risk that movements in foreign exchange rates may have an adverse effect on the Group's Australian dollar earnings and economic value when the Group's foreign currency denominated earnings and capital are translated into Australian dollars. The Group's only material exposure to this risk arises from its New Zealand banking and insurance subsidiaries. This risk is managed in accordance with the following Risk Committee of the Board approved principles:

- Permanently deployed capital in a foreign jurisdiction is not hedged; and
- Earnings from the Group's New Zealand banking and insurance subsidiaries, forecast over a one year horizon, are hedged.

The management of structural foreign exchange risk is regularly reported to the Group's ALCO.

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 2011 VaR measure is $67 million (30 June 2010: $140 million) (refer also to section 7 "Equity Risk").

Market Risk in Insurance Businesses

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 requirements or the lack of investments that substantially align cash flows with the cash payments to be made to policyholders.

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. Shareholders' funds in the Australian Life Insurance businesses are invested 81% in income assets (cash and fixed interest) and 19% in growth assets (shares and property), as at 30 June 2011.

APS 330 Table 14b – Interest Rate Risk in the Banking Book

	Change in Economic Value		
	30/06/11	31/12/10	30/06/10
Stress Testing: Interest Rate Shock Applied	$M	$M	$M
AUD			
200 basis point parallel increase	**(109)**	(293)	69
200 basis point parallel decrease	**82**	334	(54)
NZD			
200 basis point parallel increase	**(104)**	(119)	(134)
200 basis point parallel decrease	**112**	126	142
Other			
200 basis point parallel increase	**(6)**	(6)	(6)
200 basis point parallel decrease	**6**	6	6

	30/06/11	31/12/10	30/06/10
Regulatory RWA	$M	$M	$M
Interest rate risk in the banking book [(1)]	**9,699**	17,033	10,272

(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 Lease Residual Value Risk on assets such as industrial, mining, rail, aircraft, marine technology, healthcare and other equipment. A lease residual value guarantee exposes the business to the movement in second-hand asset prices. The Lease Residual Value Risk within the Group is controlled through a risk management framework approved by the Risk Committee of the Board. The Standard has a risk limit framework, which includes asset, geographic and maturity concentration limits and stress testing which is performed by the independent MRM function.

Liquidity and Funding Risk

Overview

The Group's liquidity and funding policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to 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 are designed to complement the Group's liquidity policies by providing for an optimal 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 across its Retail Banking Services, Business and Private Banking, Institutional Banking and Markets, Wealth Management, Bankwest, and Asian businesses, during periods of unfavourable market conditions.

The Group's funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type, investor location, jurisdiction, currency and concentration, on a cost effective basis. This objective applies to the Group's wholesale and retail funding activities. The Group's customer deposit funding accounted for 61% of its total funding requirements at 30 June 2011.

The Risk Management Framework for Liquidity and Funding

The Group's liquidity and funding policies are approved by the Board and agreed with APRA. The Group has an Asset and Liability Committee whose 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.

Larger domestic subsidiaries, such as Bankwest and subsidiaries within the Colonial Group, also apply their own liquidity and funding methods to address their specific needs. 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 a relatively small banking subsidiary in Indonesia that manages its own 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;
- A minimum level of assets are retained in highly liquid form;
- 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, 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 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 the agreed 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;
- 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; and
- The Group’s various short term funding programs 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.

The Group’s key funding tools include:

- 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 programs, which includes its: Australian dollar Negotiable Certificates of Deposit; Australian dollar bank bills; Asian Transferable Certificates of Deposit program; Australian, U.S. and Euro Commercial Paper programs; Bankwest Euro Commercial Paper Program; U.S. Extendible Notes program; Australian dollar Domestic Debt Program; U.S. Medium Term Note Program; Euro Medium Term Note Program; and its Medallion and Swan securitisation programs.

At 30 June 2011 virtually all 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, people, systems or from external events. The Group is continually faced with issues or incidents that have the potential to disrupt normal Group operations, exposing the Group to loss or harmful reputation and/or regulatory scrutiny.

Capital is attributed to operational risks according to the Group's Economic Capital Framework using the Group's AMA methodology for operational risk.

The Group's Operational Risk Management Framework

Operational Risk Objectives

The Group's operational risk management framework supports the achievement of its financial and business goals.

The following 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.

Within the Group, accountability for operational risk has been structured into "Three Lines of Defence" as per Section 5.1.

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

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 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, the Group's Australian Financial Services Licence and Australian Credit Licences. The CRMF incorporates a number of components including Group Policies, a Compliance Obligations Register and a Compliance Review program to monitor compliance with policies.

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. 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 and benchmarks.

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. 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)

	30/06/11	31/12/10	30/06/10
	$M	$M	$M
Advanced measurement approach	**18,113**	16,234	16,684
Standardised approach	**3,995**	3,815	3,599
Total operational risk RWA	**22,108**	20,049	20,283

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	30/06/11 $M	31/12/10 $M	30/06/10 $M
Ordinary share capital	**23,602**	23,083	23,081
Add back treasury shares [1]	**294**	301	298
Ordinary share capital for regulatory purposes	**23,896**	23,384	23,379

(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 following reserves qualify as Tier One Capital

Reserves [1]	30/06/11 $M	31/12/10 $M	30/06/10 $M
General reserve	**978**	1,155	1,248
Capital reserve	**328**	323	319
Foreign currency translation reserve [2]	**(934)**	(912)	(545)
Total reserves balance included in regulatory capital	**372**	566	1,022

(1) Regulatory Capital excludes Cash flow hedge reserve, Employee compensation reserve, Available for Sale investment 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 balance 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. This primarily includes allowance for expected dividends and expected share issues associated with the dividend reinvestment program.

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

	30/06/11 $M	31/12/10 $M	30/06/10 $M
Retained earnings and current period profits	**11,826**	10,534	9,938
Less expected dividend	**(2,930)**	(2,045)	(2,633)
Add back estimated reinvestment under dividend reinvestment plan [1]	**733**	511	-
Retained earnings adjustment for non-consolidated subsidiaries [2]	**227**	230	392
Other	**(189)**	(63)	(52)
Total included in regulatory capital	**9,667**	9,167	7,645

(1) Dividend Reinvestment Plan (DRP) in respect of the June 2011 final dividend is to be satisfied through the issue of shares, with the assumed reinvestment rate based on reinvestment experience as approved by APRA. The DRP in respect of the December 2010 interim dividend was satisfied by the issue of shares. The DRP in respect of the June 2010 final dividend was satisfied in full by an on market purchase and transfer of shares.

(2) Represents cumulative current year profit and retained earnings adjustments for subsidiaries not consolidated for regulatory purposes. This includes adjustments to the extent to which retained earnings from non-consolidated subsidiaries have not been repatriated to the Bank in dividends (June 2011: $525 million, December 2010: $522 million, June 2010: $360 million). The retention of these profits are used to fund the future growth of these operations. This has been offset by the one-off write back adjustments upon adoption of IFRS 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.

Innovative and non-innovative capital instruments consisted of the following instruments as at 30 June 2011:

Innovative Capital (1)	30/06/11 $M	31/12/10 $M	30/06/10 $M
PERLS III	**1,147**	1,147	1,147
Trust preferred securities 2003	**512**	540	642
Trust preferred securities 2006	**939**	939	939
ASB preference shares	**505**	505	505
Perpetual exchangeable floating rate notes (2)	**128**	198	236
Total Innovative Capital	**3,231**	3,329	3,469

(1) Represents AUD equivalent net of issue cost.

(2) In February 2011, $65 million Exchangeable floating rate notes were redeemed.

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

PERLS III

Perpetual Exchangeable Repurchaseable Listed Shares (PERLS III)

	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 April 2016
Step-up Rate	Margin increase by a one time step-up of 1.00% p.a.
Distributions	Non-cumulative
Mandatory Conversion	No

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

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 512m	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.
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

Trust Preferred Securities

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

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 non-controlling 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	Non-controlling interests	Non-controlling 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

Instrument	Exchangeable floating rate note	Undated floating rate note
Amount USD	USD 37.5m	USD 100m
Amount AUD	AUD 35m	AUD 93m
Tier One Class	Innovative	Innovative
Issue Date	11 Jul 1988	15 Oct 1986
Distribution Rate	6 mth LIBOR + 0.15% p.a.	6 mth LIBOR + 0.0625%
Distribution Frequency	Semi-annually in arrears	Semi-annually in arrears
Accounting Treatment	Debt	Debt
Franking	No	No
Step-up Date	No	No
Step-up Rate	N/A	N/A
Distributions	Non-cumulative	Non-cumulative
Mandatory Conversion	No	No

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

Non-Innovative Capital [1]	30/06/11 $M	31/12/10 $M	30/06/10 $M
PERLS IV	**1,443**	1,443	1,443
PERLS V	**1,964**	1,964	1,964
Total Non-Innovative Capital	**3,407**	3,407	3,407

(1) Represents AUD equivalent net of issue costs.

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

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	PERLSV
Instrument	Stapled Security	Stapled Security
Amount AUD	AUD 1,465m	AUD 2,000m
Tier One Class	Non-Innovative Tier One	Non-innovative Tier-One
Issue Date	12 Jul 2007	14 Oct 2009
Earliest Buy-Out Date	31 Oct 2012	31 Oct 2014
Distribution Rate	3m AUD-BBSW +1.05%p.a.	3m AUD-BBSW +3.4% p.a.
Distribution Frequency	Quarterly in arrears	Quarterly in arrears
Accounting Treatment	Debt	Debt
Franking	Franked floating rate distribution	Franked floating rate distribution
Step-up Date	No	No
Step-up Rate	N/A	N/A
Distributions	Non-cumulative	Non-cumulative
Mandatory Conversion	31 October 2012, where Mandatory Conversion Conditions are satisfied	31 October 2014, where Conversion Conditions are satisfied

Tier One Capital Deductions

Tier One Capital Deductions - 100%	30/06/11 $M	31/12/10 $M	30/06/10 $M
Goodwill	**(8,306)**	(8,382)	(8,470)
Capitalised expenses	**(252)**	(242)	(288)
Capitalised computer software costs	**(1,297)**	(1,100)	(950)
Defined benefit superannuation plan surplus	**(53)**	(255)	(221)
General reserve for credit losses [1]	**(132)**	(106)	(90)
Deferred tax	**(287)**	(47)	(96)
Total Tier One Capital deductions - 100%	**(10,327)**	(10,132)	(10,115)

(1) Capital deduction at 30 June 2011 of $132 million after tax (December 2010: $106 million; June 2010 $90 million) 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%	30/06/11 $M	31/12/10 $M	30/06/10 $M
Equity investments in other companies and trusts	**(317)**	(328)	(323)
Equity investments in non consolidated subsidiaries (net of intangibles)	**(526)**	(539)	(518)
Expected impairment loss (before tax) in excess of eligible credit provisions (net of deferred tax)	**(817)**	(748)	(830)
Other deductions	**(396)**	(390)	(328)
Total Tier One Capital deductions - 50%	**(2,056)**	(2,005)	(1,999)

Tier Two Capital

Upper Tier Two Capital	30/06/11 $M	31/12/10 $M	30/06/10 $M
Residual capital in excess of prescribed limits transferred from Tier One Capital (1)	**-**	-	225
Prudential general reserve for credit losses (net of tax) (2)	**620**	618	603
Asset revaluation reserve (3)	**86**	85	87
Upper Tier Two note and bond issues	**336**	350	382
Other	**124**	108	83
Total Upper Tier Two Capital	**1,166**	1,161	1,380

(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) 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.

(3) APRA allows only 45% of asset revaluation reserve to be included in Tier Two.

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

	Perpetual Subordinated Debt (Commonwealth Bank)	Perpetual Subordinated Debt (Bankwest)
Amount JPY	JPY 20b	JPY 9b
Amount AUD	AUD 232m	AUD 104m
Issued	25 Feb 1999	30 May 1996
Maturity	Undated	Undated
Call Option	Redeemable at option of the Bank	Redeemable at option of the Bank
Distribution Rate	Up to 28 Sept 2029 – 4.775%	Up to 30 May 2016 – 4.55%
Distribution Frequency	Semi-annually in arrears	Semi-annually in arrears
Accounting treatment	Debt	Debt
Step-up Date	28 Sept 2029	30 May 2016
Step-up Rate	After 28 Sept 2029 – 6 month JPY-LIBOR-BBA plus 170 bps	After 30 May 2016 – mid five year fixed Yen swap rate +220bp
Distributions	Cumulative with no compounding	Cumulative with no compounding

Lower Tier Two Capital

The Group has a number of subordinated debt issues across multiple currencies on issue. In order to qualify as Lower Tier Two Capital the following criteria are 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 5 years to maturity.

Lower Tier Two Capital	Currency	Amount $M	Issue	Maturity	30 June 2011 $M	31 December 2010 $M	30 June 2010 $M
AUD Denominated							
Subordinated Note	AUD	275	Dec-89	Dec-14	**220**	220	275
Subordinated Note	AUD	25	Apr-99	Apr-29	**25**	25	25
Subordinated Note	AUD	300	Nov-05	Nov-15	**-**	-	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
					1,445	1,445	1,800
USD Denominated							
Subordinated Note	USD	250	Jun-03	Jun-18	**233**	246	292
Subordinated Note	USD	100	Jun-03	Jun-18	**93**	98	117
Subordinated Note	USD	61	Mar-05	Mar-25	**-**	-	71
Subordinated Note	USD	200	Jun-06	Jul-16	**186**	197	234
Subordinated Note	USD	300	Sep-06	Sep-16	**279**	295	350
Subordinated Note	USD	650	Dec-16	Dec-16	**605**	639	759
					1,396	1,475	1,823
JPY Denominated							
Subordinated Note	JPY	30,000	Oct-95	Oct-15	**347**	362	395
Subordinated Note	JPY	10,000	May-04	May-34	**-**	-	132
Subordinated Note	JPY	10,000	Nov-05	Nov-35	**116**	121	132
Subordinated Note	JPY	5,000	Mar-06	Mar-18	**58**	60	66
					521	543	725
GBP Denominated							
Subordinated Note	GBP	150	Jun-03	Dec-23	**225**	228	264
					225	228	264
NZD Denominated							
Subordinated Note	NZD	350	May-05	Apr-15	**216**	265	284
Subordinated Note	NZD	200	Jun-06	Jun-16	**-**	150	161
Subordinated Note	NZD	370	Nov-07	Nov-17	**286**	281	300
					502	696	745
EUR Denominated							
Subordinated Note	EUR	1,000	Aug-09	Aug-19	**1,350**	1,308	1,429
					1,350	1,308	1,429
CAD Denominated							
Subordinated Note	CAD	150	Nov-05	Nov-15	**-**	-	167
Subordinated Note	CAD	150	Nov-05	Nov-15	**-**	-	167
Subordinated Note	CAD	300	Oct-07	Oct-17	**289**	295	334
					289	295	668
Total Lower Tier Two notes and bonds on issue					**5,728**	5,990	7,454
Less holdings on own Lower Tier Two Capital					**(89)**	(35)	(16)
Total Lower Tier Two Capital [1]					**5,639**	5,955	7,438

(1) Balance eligible for inclusion in Lower Tier Two (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.

10.3 List of Supplemental Tables and Diagrams

10.4 Glossary

Term	Definition
Australian Accounting Standards	The Australian Accounting Standards as issued by the Australian Accounting Standards Board.
ADI	Authorised Deposit-taking Institution - includes banks, building societies and credit unions which are authorised by APRA to take deposits from customers.
AIRB	Advanced Internal Ratings Based approach - used to measure credit risk in accordance with the Group's Basel 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's 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 the Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement").
Corporate	APS asset class – includes commercial credit risk where annual revenues exceed $50 million, 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 ADIs exposures to related entities.
General Reserve for Credit Losses	APS 220 requires the Group to establish a reserve that covers credit losses prudently estimated, but not certain to arise, over the full life of all individual facilities making up the business of the ADI. Most of the Group's collective provisions are included in the General Reserve for Credit Losses. An excess of required General Reserve for Credit Losses over the Group's collective provisions is recognised as a deduction from Tier One 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 and interest is considered doubtful. These provisions are established based primarily on estimates of realisable value of collateral taken. These provisions are as reported in the Group's Financial Statements in accordance with the Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement"). Also known as individually assessed provisions or IAP.
IRRBB	Interest Rate Risk in the Banking Book - is the risk that the Bank's profit derived from Net Interest Income (interest earned less interest paid), in current and future periods, is adversely impacted from changes in interest rates. This is measured from two perspectives; firstly by quantifying the change in the net present value of the balance sheet's future earnings potential and secondly, as the anticipated change to the Net Interest Income which is reported in the Bank's Income Statement. The APS117 IRRBB regulatory capital requirement is calculated using the net present value approach.
Level 1	Represents the ADI and each subsidiary of the ADI that has been approved as an extended licence entity by 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 and all of it's subsidiary entities other than non-consolidated subsidiaries. This is the basis of which this report has been produced.
Level 3	The conglomerate group including the Group's insurance and wealth management business.
LGD	Loss Given Default – the fraction of 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.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
RWA	Risk Weighted Assets – the value of the Group's on and off-balance sheet assets are adjusted 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 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 the Australian Accounting Standards and that portion of provisions assessed on a collective basis which are deemed ineligible to be included in the General Reserve for Credit Losses (which are primarily collective provisions on some defaulted assets).
Tier One Capital	Tier One Capital is the highest quality of capital available to the Group and reflects the permanent and unrestricted commitment of funds that are freely available to absorb losses. It comprises: • Fundamental Capital (share capital, retained earnings and reserves); • Residual Capital (innovative and non innovative); and • Prescribed Regulatory deductions.
Tier Two Capital	Tier Two Capital represents those capital items that fall short of the necessary conditions to qualify as Tier One Capital. There are two main classes, upper and lower Tier Two.