Commonwealth Bank of Australia

ACN 123 123 124

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Basel II Pillar 3 - Capital Adequacy and Risk Disclosures

Quarterly Update as at 31 March 2009

Background

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

The Bank is accredited with advanced Basel II status. This update of the Bank's capital adequacy and risk disclosures has been prepared primarily in accordance with APRA Prudential Standard APS 330 which requires the Bank to report its assessment of capital adequacy on a Level 2 basis.

At 31 December 2008, Bank of Western Australia Ltd ("Bankwest") operated under the Basel I methodology and APRA allowed the Bank to treat Bankwest as a non-consolidated subsidiary for regulatory and capital purposes. Effective from 1 January 2009, BankWest has adopted the standardised Basel II methodology and has been consolidated at Level 2. **To understand the movements over the last quarter, 31 March 2009 pro forma results excluding Bankwest have been provided, which are directly comparable to 31 December 2008. Both of these results treat Bankwest on a non-consolidated basis.**

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

More detailed qualitative and quantitative disclosure of the Bank's capital adequacy and risk disclosures for the year ended 30 June 2008 and six months to 31 December 2008 are available on the Bank's corporate website (www.commbank.com.au).

1. Group Capital Ratios

	31 March 2009	31 December 2008[1]
	%	%
Tier One	8.33	8.75
Tier Two	2.61	2.64
Total Capital	10.94	11.39

(1) Bankwest treated as a non-consolidated subsidiary

The Bank maintains a strong capital position. The Tier One and Total Capital ratios as at 31 March 2009 were 8.33% and 10.94% respectively and include the consolidation of Bankwest.

The Tier One and Total Capital ratios as at 31 March 2009 under the UK Financial Services Authority (FSA) method of calculating regulatory capital are 10.81% and 13.16% respectively. As previously advised, the consolidation of Bankwest compressed the Group's Tier One ratio by 33 basis points. This reflects the impact of incorporating Bankwest's own risk weighted assets into the overall Group numbers, partially offset by the ability to recognise the provisional discount on acquisition and the removal of the capital deduction for equity invested into Bankwest.

A number of capital initiatives were undertaken during the March 2009 quarter including:

- Issue of $865 million worth of shares in March 2009 with respect to the Share Purchase Plan; and
- Issue of $405 million worth of shares in March 2009 to satisfy the Dividend Reinvestment Plan in respect of the interim dividend for the 2009 financial year.

The following redemptions were undertaken during the quarter:

- PERLS II securities ($750 million), which were classified as Innovative Tier One instruments, redeemed in March 2009; and
- $500 million of subordinated lower Tier Two debt redeemed February 2009.

2. Risk Weighted Assets

Risk weighted assets (RWA)	31 March 2009 $M	31 March 2009 pro forma excl Bankwest $M	31 December 2008 $M
Credit Risk			
Advanced IRB approach			
Corporate[1]	91,397	91,397	93,131
Sovereign	1,898	1,898	2,144
Bank	8,614	10,414	12,510
Residential mortgage	50,382	50,382	45,231
Qualifying revolving retail	5,754	5,754	5,562
Other retail	6,407	6,407	5,479
Other assets			-
Impact of the Basel II scaling factor [2]	9,867	9,867	9,843
Total RWA subject to Advanced IRB	**174,319**	**176,119**	**173,900**
Specialised lending	**25,493**	**25,493**	**26,624**
Subject to Standardised approach			
Corporate[1]	19,643	5,484	6,143
Sovereign	403	403	430
Bank	381	183	116
Residential mortgage	19,510	1,070	316
Other retail	4,646	348	348
Other assets	8,651	8,038	8,763
Total RWA subject to standardised approach	**53,234**	**15,526**	**16,116**
Securitisation	**2,641**	**2,555**	**2,890**
Equity exposures	**1,887**	**1,877**	**1,701**
Total RWA for credit risk exposures	**257,574**	**221,570**	**221,231**
Traded Market Risk	**4,371**	**4,089**	**4,138**
Interest Rate Risk in the Banking Book	**5,985**	**5,985**	**0**
Operational Risk	**17,510**	**15,045**	**13,920**
Total Risk Weighted Assets	**285,440**	**246,689**	**239,289**

(1) Corporate includes Basel II asset classes Corporate, SME Corporate and SME Retail.
(2) APRA requires RWA that are derived from the IRB risk-weight functions be multiplied by a scaling factor of 1.06 (refer glossary).

RWA were $285.4 billion as at 31 March 2009, representing an increase of $46.1 billion or 19% on the 31 December 2008 level of $239.3 billion. Excluding Bankwest, the increase was $7.4 billion or 3% on the 31 December 2008 level.

For Credit Risk, the addition of Bankwest (under Basel II standardised approach) increased Credit RWA by $36 billion. Without Bankwest and after eliminating RWA associated with the Bank's funding of Bankwest, Credit RWA increased $0.3 billion in the quarter with the following notable movements:

- For the retail portfolios there was a $6.3 billion increase in RWA. This was primarily driven by the growth in retail exposure from robust home loan growth, a slight deterioration in retail portfolio performance (with arrears trending higher) and changes to credit risk factors.
- For the non-retail portfolios there was a $5.2 billion reduction in RWA. This was a function of downward migration in the Bank and Corporate (both large and SME corporates) segments being more than offset by the impact of a fall in exposure and change to credit risk factors.

For other risks, Interest Rate Risk in the Banking Book (IRRBB) RWA increased by $6 billion from zero at December 2008 with a modest rise in repricing and yield curve risk no longer completely offset by continuing embedded gains. There was also a small reduction in Traded Market Risk RWA. Operational Risk RWA increased by $3.6 billion with $2.5 billion of this increase from the consolidation of Bankwest.

3. Credit Risk Exposure

Total Exposure[1]	On Balance Sheet $M	Off Balance Sheet Non-Market related $M	Off Balance Sheet Market Related $M	31 March 2009 Total $M
Advanced IRB approach				
Corporate[2]	105,096	32,733	5,299	143,128
Sovereign	22,707	1,296	733	24,736
Bank	28,528	3,636	9,225	41,389
Residential mortgage	239,431	53,333	-	292,764
Qualifying revolving retail	7,477	3,999	-	11,476
Other retail	4,864	1,050	-	5,914
Total Advanced IRB approach	**408,103**	**96,047**	**15,257**	**519,407**
Specialised lending	**20,161**	**6,792**	**588**	**27,541**
Standardised approach				
Corporate[2]	17,451	3,252	743	21,446
Sovereign	580	1	-	581
Bank	657	45	6	708
Residential mortgage	40,561	822	-	41,383
Other retail	4,529	245	-	4,774
Other assets	23,076	-	-	23,076
Total Standardised approach	**86,854**	**4,365**	**749**	**91,968**
Total exposures[1]	**515,118**	**107,204**	**16,594**	**638,916**

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

Total Exposure[1]	On Balance Sheet $M	Off Balance Sheet Non-Market related $M	Off Balance Sheet Market Related $M	31 March 2009 pro forma excl Bankwest Total $M
Advanced IRB approach				
Corporate[2]	105,096	32,733	5,299	143,128
Sovereign	22,707	1,296	733	24,736
Bank	46,603	3,636	9,647	59,886
Residential mortgage	239,431	53,333	-	292,764
Qualifying revolving retail	7,477	3,999	-	11,476
Other retail	4,864	1,050	-	5,914
Total Advanced IRB approach	**426,178**	**96,047**	**15,679**	**537,904**
Specialised lending	**20,161**	**6,792**	**588**	**27,541**
Standardised approach				
Corporate[2]	5,040	2,371	-	7,411
Sovereign	430	-	-	430
Bank	594	-	6	600
Residential mortgage	2,780	17	-	2,797
Other retail	348	-	-	348
Other assets	21,969	-	-	21,969
Total Standardised approach	**31,161**	**2,388**	**6**	**33,555**
Total exposures[1]	**477,500**	**105,227**	**16,273**	**599,000**

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

Total Exposure[1]	On Balance Sheet $M	Off Balance Sheet Non-Market related $M	Off Balance Sheet Market Related $M	31 December 2008 Total $M
Advanced IRB approach				
Corporate[2]	106,649	34,317	9,731	150,697
Sovereign	23,718	1,452	1,247	26,417
Bank	49,614	2,690	13,425	65,729
Residential mortgage	226,506	48,839	-	275,345
Qualifying revolving retail	7,326	3,871	-	11,197
Other retail	4,783	955	-	5,738
Total Advanced IRB approach	**418,596**	**92,124**	**24,403**	**535,123**
Specialised lending	**20,461**	**7,302**	**632**	**28,395**
Standardised approach				
Corporate[2]	5,351	1,941	12	7,304
Sovereign	479	-	-	479
Bank	376	-	-	376
Residential mortgage	612	-	-	612
Other retail	348	-	-	348
Other assets	19,127	-	-	19,127
Total Standardised approach	**26,293**	**1,941**	**12**	**28,246**
Total exposures[1]	**465,350**	**101,367**	**25,047**	**591,764**

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

Total Credit Risk exposure increased $47.1 billion (8%) during the March quarter. This was the result of a $9.7 billion decrease in exposure offsetting the consolidation of $56.8 billion in Bankwest exposures.

Excluding the impact of the consolidation of Bankwest's own exposures the following changes occurred:

- For the retail portfolios, there was a $17.9 billion increase in exposure. Most of this was due to a $17.4 billion increase in residential mortgages exposure as the First Home Owners Grant and lower interest rates fuelled an increase in applications.

- For the non-retail portfolios, there was a $34.4 billion decrease in exposure with most of this a function of:

- A reduction in exposures to Banks with most of this reduction due to the elimination of Bankwest funding upon consolidation.
- A reduction in the reported on balance sheet exposure for repurchase agreements affecting Bank and Sovereign exposures. This has had minimal impact on the reported RWAs.
- A reduction in market related off balance sheet exposure for Bank and Corporate portfolios associated with derivative and hedging transactions.

4. Past Due and Impaired Exposures, Provisions and Reserves

CBA including Bankwest (1) — **31 March 2009**

Exposure type	Impaired loans $M	Past due loans ≥ 90 days $M	Specific provision balance $M	Quarter Actual losses(2) $M
Corporate	2,987	430	1,310	58
Sovereign	-	-	-	-
Bank	51	-	48	-
Residential mortgage	265	1,596	74	5
Qualifying revolving and Other retail	96	250	89	101
Total	**3,399**	**2,276**	**1,521**	**164**

(1) Bankwest has been accounted for on a provisional estimates basis as at 31 March 2009.
(2) Actual losses equals write-offs from specific provisions, write-offs direct from collective provisions less recoveries of amounts previously written off for the three months ending 31 March 2009. This does not equate to Impairment Expense during the quarter.

CBA excluding Bankwest — **31 March 2009 pro forma excl Bankwest**

Exposure type	Impaired loans $M	Past due loans ≥ 90 days $M	Specific provision balance $M	Quarter Actual losses(1) $M
Corporate	2,234	204	969	58
Sovereign	-	-	-	-
Bank	51	-	48	-
Residential mortgage	211	1,338	60	5
Qualifying revolving and Other retail	8	244	1	101
Total	**2,504**	**1,786**	**1,078**	**164**

(1) Actual losses equals write-offs from specific provisions, write-offs direct from collective provisions less recoveries of amounts previously written off for the three months ending 31 March 2009. This does not equate to Impairment Expense during the quarter.

CBA excluding Bankwest — **31 December 2008**

Exposure type	Impaired loans $M	Past due loans ≥ 90 days $M	Specific provision balance $M	Quarter Actual losses(1) $M
Corporate	1,673(2)	278	801	16
Sovereign	-	-	-	-
Bank	52	-	46	-
Residential mortgage	212(2)	1,044	47	9
Qualifying revolving and Other retail	7	172	2	80
Total	**1,944**	**1,494**	**896**	**105**

(1) Actual losses equals write-offs from specific provisions, write-offs direct from collective provisions less recoveries of amounts previously written off for the three months ending 31 December 2008. This does not equate to Impairment Expense during the quarter.
(2) A reallocation of $28 million has been made from Residential Mortgages to Corporate with no change to the total reported at December 2008.

General Reserves for Credit Losses(1) comprises:	31 March 2009 $M	31 December 2008 $M
Collective provisions	2,954	2,474
Other credit provisions	4	4
Collective & Other Provisions	**2,958**	**2,478**
Tax effect	887	743
Total General Reserves for Credit Losses	**2,071**	**1,735**

(1) Bankwest has been accounted for on a provisional estimates basis as at 31 March 2009 and 31 December 2008.

Bankwest has been accounted for on a provisional estimates basis at 31 March 2009 and 31 December 2008. Bankwest consolidation in March has resulted in an addition to the reporting of Impaired Assets (+$895 million), Past due loans ≥ 90 days (+$490 million), Specific Provision balance (+$443 million) and Actual Losses (+$5 million).

A continued deterioration in economic conditions has resulted in an:

- Increase in impaired Corporate assets during the quarter. Specific provisions have been raised appropriately for this increase in impaired assets; and

- Increase in arrears in both the Australian and New Zealand residential mortgage portfolios.

For the Qualifying revolving and Other retail portfolios (credit cards and personal loans), the increase in impaired assets is driven by Bankwest policy to not write-off loans at 180 days past due. This is being reviewed to align to the Bank's policy. These loans are provided for in the specific provisions.

5. Classification of exposures and glossary

Classification of exposures

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

Glossary

Term	Definition
ADI	Authorised Deposit-taking Institution includes banks, building societies and credit unions which are authorised by the APRA to take deposits from customers.
AIRB	Advanced Internal Ratings Based approach used to measure credit risk in accordance with the Bank's Basel II accreditation approval provided by APRA 10 December 2007.
APRA	Australian Prudential Regulation Authority. The regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia.
Basel II	Refers to the Basel Committee on Banking Supervision revised framework for International Convergence of Capital Measurement and Capital Standards issued in June 2006.
IRB	Internal Ratings Based – The approach measuring credit risk focusing on SME and Retail exposures.

Term	Definition
Level 1	The ADI plus extended licensed entities. This is the lowest level at which the Group reports its capital adequacy to APRA.
Level 2	The level at which the Bank reports its capital adequacy to APRA being the consolidated banking group comprising the ADI, its immediate locally incorporated non-operating holding company, if any, and all their subsidiary entities other than non-consolidated subsidiaries. This is the basis on which this report has been produced.
RWA	Risk Weighted Assets.
Scaling factor	A key objective of the Basel Committee on Banking Supervision is to broadly maintain the aggregate level of capital in the global financial system post the implementation of Basel II. To attain the objective, the Committee applies a scaling factor to the risk-weighted asset amounts for credit risk under the IRB approach. The current best estimate of the scaling factor using quantitative impact study data is 1.06. National authorities will continue to monitor capital requirements during the implementation period of the revised Framework. Moreover, the Committee will monitor national experiences with the revised Framework.