

# Basel III Pillar 3

**Capital Adequacy and Risks  
Disclosures as at 30 September 2017**



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# Introduction

## 1. Introduction

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

This document is prepared in accordance with Board approved policy and quarterly reporting requirements set out in APRA's prudential standard APS 330 "Public Disclosure". It presents information on the Group's capital adequacy and Risk Weighted Asset (RWA) calculations for credit risk including securitisation, market risk, Interest Rate Risk in the Banking Book (IRRBB) and operational risk.

This document also presents information on the Group's leverage ratio in accordance with prescribed methodology.

The Group is required to report its assessment of capital adequacy on a Level 2 basis. Level 2 is defined as the consolidated banking group excluding the insurance and funds management businesses and entities through which securitisation of Group assets are conducted.

The Group is predominantly accredited to use the Advanced Internal Ratings Based (AIRB) approach for credit risk and Advanced Measurement Approach (AMA) for operational risk. The Group is also required to assess its traded market risk and IRRBB requirement under Pillar 1 of the Basel capital framework.

This document is unaudited, however, it has been prepared consistent with information that has been subject to review by an external auditor and published elsewhere or has been supplied to APRA.

The Group's capital adequacy and risk disclosures for the year ended 30 June 2017 are available on the Group's corporate website:

[www.commbank.com.au/about-us/investors/shareholders](http://www.commbank.com.au/about-us/investors/shareholders)

### Group Capital Ratios

The Group's Basel III Common Equity Tier 1 (CET1) APRA ratio was 10.1% at 30 September 2017, in line with 30 June 2017.

After allowing for the impact of the 2017 final dividend (which included the issuance of shares at a 1.5% discount under the Dividend Reinvestment Plan (DRP)), the CET1 (APRA) ratio increased 55 basis points in the quarter. This was driven by capital generated from earnings, and marginally lower risk weighted assets, offset by the maturity of a further \$350 million of Colonial debt. The final tranche of the Colonial debt is due to mature in the half year to June 2018 (\$315m, a decrease of approximately 7 basis points of CET1).

The Group's Basel III internationally comparable CET1 ratio as at 30 September 2017 was 15.8% compared to 15.6% at 30 June 2017. The internationally comparable basis aligns with the APRA study entitled "International capital comparison study" (13 July 2015).

In September 2017 the Group announced the sale of its Australia and New Zealand life insurance operations to AIA Group Limited. The transaction is expected to result in an uplift to CET1 (APRA and Internationally Comparable) of 70 and 50 basis points respectively.

### Capital Initiatives

During the quarter the DRP in respect of the 2017 final dividend was satisfied by the allocation of approximately \$1,573 million of ordinary shares, representing a participation rate of 39.5%.

In October 2017, the Group issued a EUR1 billion subordinated note that is Basel III compliant Tier 2 capital. This will add an additional 34 basis points in Tier 2 capital over and above the 30 September 2017 reported level.

### Leverage Ratio

The Group's Leverage Ratio, which is defined as Tier 1 Capital as a percentage of exposures, was 5.2% at 30 September 2017 (30 June 2017: 5.1%) on an APRA basis and 5.9% (30 June 2017: 5.8%) on an internationally comparable basis.

	30 Sep 17	30 Jun 17
	%	%
Common Equity Tier 1	10.1	10.1
Tier 1	12.1	12.1
Tier 2	2.0	2.1
<b>Total Capital (APRA)</b>	<b>14.1</b>	<b>14.2</b>
<b>Common Equity Tier 1 (Internationally Comparable) <sup>(1)</sup></b>	<b>15.8</b>	<b>15.6</b>

(1) Analysis aligns with the 13 July 2015 APRA study titled "International capital comparison study".

## 2. Risk Weighted Assets

Risk weighted assets are calculated using 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 for rated exposures where APS 120 prohibits the Group

using the ratings-based approach. The ratings-based approach is used for securitisation exposures rated by External Credit Assessment Institutions (ECAI) where APS 120 allows or requires.

### APS 330 Table 3a to 3e – Basel III capital requirements (RWA)

Asset Category	Risk Weighted Assets		Change in RWA for September 2017 quarter	
	30 Sep 17	30 Jun 17	\$M	%
<b>Credit Risk</b>				
<b>Subject to AIRB approach <sup>(1)</sup></b>				
Corporate	71,919	74,663	(2,744)	(3.7)
SME corporate	32,947	33,067	(120)	(0.4)
SME retail	4,728	4,838	(110)	(2.3)
SME retail secured by residential mortgage	2,655	2,766	(111)	(4.0)
Sovereign	2,136	2,154	(18)	(0.8)
Bank	11,802	12,598	(796)	(6.3)
Residential mortgage	135,797	134,969	828	0.6
Qualifying revolving retail	8,993	9,414	(421)	(4.5)
Other retail	14,758	15,101	(343)	(2.3)
<b>Total RWA subject to AIRB approach</b>	<b>285,735</b>	<b>289,570</b>	<b>(3,835)</b>	<b>(1.3)</b>
<b>Specialised lending</b>	<b>56,533</b>	<b>58,752</b>	<b>(2,219)</b>	<b>(3.8)</b>
<b>Subject to standardised approach</b>				
Corporate	1,037	1,202	(165)	(13.7)
SME corporate	368	510	(142)	(27.8)
SME retail	5,969	6,172	(203)	(3.3)
Sovereign	238	271	(33)	(12.2)
Bank	102	136	(34)	(25.0)
Residential mortgage	5,168	5,017	151	3.0
Other retail	2,893	2,925	(32)	(1.1)
Other assets	5,531	5,291	240	4.5
<b>Total RWA subject to standardised approach</b>	<b>21,306</b>	<b>21,524</b>	<b>(218)</b>	<b>(1.0)</b>
Securitisation	1,531	1,584	(53)	(3.3)
Credit valuation adjustment	4,592	4,958	(366)	(7.4)
Central counterparties	830	871	(41)	(4.7)
<b>Total RWA for credit risk exposures</b>	<b>370,527</b>	<b>377,259</b>	<b>(6,732)</b>	<b>(1.8)</b>
Traded market risk	5,059	4,650	409	8.8
Interest rate risk in the banking book	27,013	21,404	5,609	26.2
Operational risk	33,750	33,750	-	-
<b>Total risk weighted assets</b>	<b>436,349</b>	<b>437,063</b>	<b>(714)</b>	<b>(0.2)</b>

(1) Pursuant to APRA requirements, RWA amounts derived from AIRB risk weight functions have been multiplied by a scaling factor of 1.06.

#### Risk Weighted Assets

Total Group RWA decreased by \$0.7 billion or 0.2% on the prior quarter to \$436.3 billion.

#### Credit Risk RWA

Credit risk RWA decreased \$6.7 billion or 1.8% on the prior quarter to \$370.5 billion. This was primarily due to:

- Improved credit quality across most portfolios;
- Reduction of exposure across corporate portfolios;
- Foreign currency movements; and
- Refresh of credit risk estimates across some non-retail portfolios.

These decreases were partly offset by an increase in risk weighted assets for Australian residential mortgages reflecting both growth in exposures and APRA's minimum capital requirements.

#### Traded Market Risk RWA

Traded market risk RWA increased by \$0.4 billion or 8.8% on the prior quarter to \$5.1 billion. This was mainly due to increases in the internal model measured interest rate exposures.

#### Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA increased \$5.6 billion or 26.2% on the prior quarter to \$27.0 billion. This was driven by interest rate risk management activity and higher interest rate levels, offset by model enhancements.

#### Operational Risk RWA

Operational risk RWA have remained unchanged during the quarter representing the regulatory minimum threshold.

Operational risk RWA are regularly assessed to consider material changes in the operational risk profile.

# Credit Risk

## 3. Credit Risk

### 3.1 Credit Risk Exposures

The following tables detail credit risk exposures subject to AIRB and Standardised approaches.

**APS 330 Table 4a – Credit risk exposures by portfolio type and modelling approach**

Portfolio Type	30 September 2017				Average exposure for September 2017 quarter <sup>(1)</sup>	Change in exposure for September 2017 quarter <sup>(2)</sup>	
	Off balance sheet			Total			
	On balance sheet	Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M	\$M	%
<b>Subject to AIRB approach</b>							
Corporate	73,621	48,639	6,752	<b>129,012</b>	129,777	(1,530)	(1. 2)
SME corporate	45,632	9,149	559	<b>55,340</b>	55,146	388	0. 7
SME retail	7,009	3,188	-	<b>10,197</b>	10,243	(92)	(0. 9)
SME retail secured by residential mortgage	4,327	1,427	-	<b>5,754</b>	5,804	(100)	(1. 7)
Sovereign	80,901	1,187	1,621	<b>83,709</b>	88,061	(8,704)	(9. 4)
Bank	32,149	2,228	8,494	<b>42,871</b>	42,978	(213)	(0. 5)
Residential mortgage	475,433	73,583	-	<b>549,016</b>	547,691	2,650	0. 5
Qualifying revolving retail	9,649	17,215	-	<b>26,864</b>	26,990	(252)	(0. 9)
Other retail	7,745	3,116	-	<b>10,861</b>	10,943	(164)	(1. 5)
<b>Total AIRB approach</b>	<b>736,466</b>	<b>159,732</b>	<b>17,426</b>	<b>913,624</b>	917,633	(8,017)	(0. 9)
<b>Specialised lending</b>	<b>53,098</b>	<b>10,779</b>	<b>646</b>	<b>64,523</b>	65,783	(2,521)	(3. 8)
<b>Subject to standardised approach</b>							
Corporate	854	190	17	<b>1,061</b>	1,364	(606)	(36. 4)
SME corporate	273	82	12	<b>367</b>	439	(143)	(28. 0)
SME retail	4,951	962	44	<b>5,957</b>	6,058	(202)	(3. 3)
Sovereign	431	61	-	<b>492</b>	508	(33)	(6. 2)
Bank	346	1	-	<b>347</b>	398	(102)	(22. 6)
Residential mortgage	10,375	1,680	-	<b>12,055</b>	11,854	402	3. 4
Other retail	2,788	102	-	<b>2,890</b>	2,906	(32)	(1. 1)
Other assets	9,776	-	-	<b>9,776</b>	9,635	282	3. 0
Central counterparties	-	-	5,612	<b>5,612</b>	5,649	(74)	(1. 3)
<b>Total standardised approach</b>	<b>29,794</b>	<b>3,078</b>	<b>5,685</b>	<b>38,557</b>	38,811	(507)	(1. 3)
<b>Total credit exposures <sup>(3)</sup></b>	<b>819,358</b>	<b>173,589</b>	<b>23,757</b>	<b>1,016,704</b>	1,022,227	(11,045)	(1. 1)

(1) The simple average of exposures as at 30 September 2017 and 30 June 2017.

(2) The difference between exposures as at 30 September 2017 and 30 June 2017.

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

## 3.1 Credit Risk Exposures (continued)

APS 330 Table 4a – Credit risk exposures by portfolio type and modelling approach (continued)

Portfolio Type	30 June 2017				Average exposure for June 2017 quarter <sup>(1)</sup>	Change in exposure for June 2017 quarter <sup>(2)</sup>	
	Off balance sheet			Total			
	On balance sheet	Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M	\$M	%
<b>Subject to AIRB approach</b>							
Corporate	72,930	50,677	6,935	130,542	128,141	4,803	3.8
SME corporate	45,380	8,991	581	54,952	55,072	(241)	(0.4)
SME retail	7,136	3,153	-	10,289	10,229	121	1.2
SME retail secured by residential mortgage	4,453	1,401	-	5,854	5,906	(103)	(1.7)
Sovereign	88,977	1,171	2,264	92,412	92,219	386	0.4
Bank	32,537	2,519	8,028	43,084	42,297	1,574	3.8
Residential mortgage	474,059	72,308	-	546,367	543,688	5,357	1.0
Qualifying revolving retail	9,906	17,210	-	27,116	27,186	(141)	(0.5)
Other retail	7,867	3,158	-	11,025	10,974	103	0.9
<b>Total AIRB approach</b>	<b>743,245</b>	<b>160,588</b>	<b>17,808</b>	<b>921,641</b>	<b>915,712</b>	<b>11,859</b>	<b>1.3</b>
<b>Specialised lending</b>	<b>54,236</b>	<b>12,093</b>	<b>716</b>	<b>67,045</b>	<b>67,179</b>	<b>(269)</b>	<b>(0.4)</b>
<b>Subject to standardised approach</b>							
Corporate	1,005	223	439	1,667	1,422	490	41.6
SME corporate	397	112	1	510	462	97	23.5
SME retail	5,143	951	65	6,159	6,057	203	3.4
Sovereign	499	26	-	525	511	29	5.8
Bank	448	-	-	448	498	(99)	(18.1)
Residential mortgage	10,015	1,639	-	11,654	11,533	241	2.1
Other retail	2,821	100	-	2,921	2,876	90	3.2
Other assets	9,494	-	-	9,494	9,437	114	1.2
Central counterparties	-	-	5,686	5,686	5,403	565	11.0
<b>Total standardised approach</b>	<b>29,822</b>	<b>3,051</b>	<b>6,191</b>	<b>39,064</b>	<b>38,199</b>	<b>1,730</b>	<b>4.6</b>
<b>Total credit exposures <sup>(3)</sup></b>	<b>827,303</b>	<b>175,732</b>	<b>24,715</b>	<b>1,027,750</b>	<b>1,021,090</b>	<b>13,320</b>	<b>1.3</b>

(1) The simple average of exposures as at 30 June 2017 and 31 March 2017.

(2) The difference between exposures as at 30 June 2017 and 31 March 2017.

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

# Credit Risk

## 3.2 Past Due and Impaired Exposures, Provisions and Reserves

All provisions for impairment assessed on an individual basis in accordance with the Australian Accounting Standards are classified as specific provisions in accordance with APS 220 "Credit Quality". Most of the collective provisions raised under the Australian Accounting Standards are included in the General Reserve for Credit Losses (GRCL), however, certain collective provisions not eligible for inclusion in the GRCL are classified as specific provisions. This includes, for example, collective provisions on unsecured retail products 90 days or more past due.

### Reconciliation of Australian Accounting Standards, APS 220 based credit provisions and APS 330 Table 4c – General reserve for credit losses

	<b>30 September 2017</b>		
	<b>General</b>	<b>Specific</b>	<b>Total</b>
	<b>reserve for</b>	<b>provision</b>	<b>provisions</b>
	<b>credit losses</b> <sup>(1)</sup>	<b>provision</b> <sup>(1)</sup>	<b>provisions</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Collective provision <sup>(2)</sup>	2,493	250	2,743
Individual provisions <sup>(2)</sup>	-	931	931
<b>Total provisions</b>	<b>2,493</b>	<b>1,181</b>	<b>3,674</b>
Additional GRCL requirement <sup>(3)</sup>	570	-	570
<b>Total regulatory provisions</b>	<b>3,063</b>	<b>1,181</b>	<b>4,244</b>

(1) Provisions classified according to APS 220 "Credit Quality".

(2) Provisions according to the Australian Accounting Standards.

(3) The Group has recognised a deduction from CET1 of \$570 million in order to maintain the required minimum GRCL.

	<b>30 June 2017</b>		
	<b>General</b>	<b>Specific</b>	<b>Total</b>
	<b>reserve for</b>	<b>provision</b>	<b>provisions</b>
	<b>credit losses</b> <sup>(1)</sup>	<b>provision</b> <sup>(1)</sup>	<b>provisions</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Collective provision <sup>(2)</sup>	2,486	261	2,747
Individual provisions <sup>(2)</sup>	-	980	980
<b>Total provisions</b>	<b>2,486</b>	<b>1,241</b>	<b>3,727</b>
Additional GRCL requirement <sup>(3)</sup>	589	-	589
<b>Total regulatory provisions</b>	<b>3,075</b>	<b>1,241</b>	<b>4,316</b>

(1) Provisions classified according to APS 220 "Credit Quality".

(2) Provisions according to the Australian Accounting Standards.

(3) The Group has recognised a deduction from CET1 of \$589 million in order to maintain the required minimum GRCL.

## 3.2 Past Due and Impaired Exposures, Provisions and Reserves (continued)

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

**APS 330 Table 4b – Impaired, past due, specific provisions and write-offs charged by portfolio**

Portfolio	As at 30 September 2017			Quarter ended 30 September 2017	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance <sup>(1)</sup>	Net charges for individual provisions	Actual losses <sup>(2)</sup>
	\$M	\$M	\$M	\$M	\$M
Corporate including SME, specialised lending and central counterparties	1,761	384	663	(5)	48
Sovereign	-	-	-	-	-
Bank	9	-	9	-	-
Residential mortgage	1,204	2,194	346	27	29
Qualifying revolving retail	120	-	61	-	63
Other retail	150	25	102	1	99
<b>Total</b>	<b>3,244</b>	<b>2,603</b>	<b>1,181</b>	<b>23</b>	<b>239</b>

(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 quarter ended 30 September 2017.

Portfolio	As at 30 June 2017			Quarter ended 30 June 2017	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance <sup>(1)</sup>	Net charges for individual provisions	Actual losses <sup>(2)</sup>
	\$M	\$M	\$M	\$M	\$M
Corporate including SME, specialised lending and central counterparties	1,677	401	711	94	122
Sovereign	-	-	-	-	-
Bank	9	-	9	-	-
Residential mortgage	1,204	2,243	343	44	32
Qualifying revolving retail	131	-	65	-	66
Other retail	166	25	113	1	105
<b>Total</b>	<b>3,187</b>	<b>2,669</b>	<b>1,241</b>	<b>139</b>	<b>325</b>

(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 quarter ended 30 June 2017.

# Credit Risk

## 3.3 Securitisation

### APS 330 Table 5a – Total securitisation activity for the reporting period

Underlying Asset Type	For the 3 months to 30 September 2017	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	730	-
Credit cards and other personal loans	200	-
Auto and equipment finance	96	-
Commercial loans	-	-
Other	-	-
<b>Total</b>	<b>1,026</b>	<b>-</b>

Underlying Asset Type	For the 3 months to 30 June 2017	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	3,762	-
Credit cards and other personal loans	-	-
Auto and equipment finance	1,058	-
Commercial loans	-	-
Other	-	-
<b>Total</b>	<b>4,820</b>	<b>-</b>

### APS 330 Table 5b – Summary of total securitisation exposures retained or purchased

Securitisation Facility Type	As at 30 September 2017		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	-	149	149
Warehouse facilities	3,814	3,302	7,116
Derivative facilities	51	13	64
Holdings of securities	7,661	-	7,661
Other	-	-	-
<b>Total securitisation exposures</b>	<b>11,526</b>	<b>3,464</b>	<b>14,990</b>

Securitisation Facility Type	As at 30 June 2017		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	-	122	122
Warehouse facilities	4,161	2,904	7,065
Derivative facilities	62	14	76
Holdings of securities	7,535	-	7,535
Other	-	-	-
<b>Total securitisation exposures</b>	<b>11,758</b>	<b>3,040</b>	<b>14,798</b>

## 4. Leverage Ratio

The Group's leverage ratio, defined as Tier 1 Capital as a percentage of total exposures, was 5.2% at 30 September 2017 on an APRA basis and 5.9% on an internationally comparable basis.

The BCBS has advised that the leverage ratio will migrate to a Pillar 1 minimum capital requirement of 3% from 1 January 2018. The BCBS will confirm the final calibration in 2017.

<b>Summary Group Leverage Ratio</b>	<b>30 Sep 17</b>	<b>30 Jun 17</b>	<b>31 Mar 17</b>	<b>31 Dec 16</b>
Tier 1 Capital (\$M)	52,592	52,684	50,008	50,218
Total Exposures (\$M) <sup>(1)</sup>	1,011,801	1,027,958	1,012,495	1,018,931
<b>Leverage Ratio (APRA) (%)</b>	<b>5.2</b>	5.1	4.9	4.9
<b>Leverage Ratio (Internationally Comparable) (%) <sup>(2)</sup></b>	<b>5.9</b>	5.8	5.6	5.5

(1) Total exposures is the sum of on Balance Sheet exposures, derivatives, Securities Financing Transactions (SFTs), and off Balance Sheet exposures, net of any Tier 1 regulatory deductions, as outlined in APS 110 "Capital Adequacy".

(2) The Tier 1 Capital included in the calculation of the internationally comparable leverage ratio aligns with the 13 July 2015 APRA study titled "International capital comparison study", and includes Basel III non-compliant Tier 1 instruments that are currently subject to transitional rules.

# Glossary

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<b>Term</b>	<b>Definition</b>
Additional Tier 1 Capital	Additional Tier 1 Capital is a Basel III defined concept and consists of high quality capital that essentially includes providing a permanent and unrestricted commitment of funds, is freely available to absorb losses, ranks behind the claims of depositors and other more senior creditors in the event of a wind-up, and provides for fully discretionary capital distributions.
Australian Accounting Standards	The Australian Accounting Standards as issued by the Australian Accounting Standards Board.
Authorised Deposit-taking Institution (ADI)	Includes banks, building societies and credit unions which are authorised by APRA to take deposits from customers.
Advanced Internal Ratings Based (AIRB) Approach	Used to measure credit risk in accordance with the Group's Basel III accreditation that allows the Group to use internal estimates of PD, LGD and EAD for the purposes of calculating regulatory capital.
Advanced Measurement Approach (AMA)	Used to measure operational risk in accordance with the Group's Basel III accreditation that allows the Group to use its own internal model for the purposes of calculating regulatory capital.
Australian Prudential Regulation Authority (APRA)	The regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia.
ADI Prudential Standards (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	Basel asset class – includes claims on ADIs 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.
Basel III	Refers to the Basel Committee on Banking Supervision's framework for more resilient banks and banking systems issued December 2010 (revised June 2011) and Capital requirements for bank exposures to central counterparties (July 2012).
CBA	Commonwealth Bank of Australia – the head entity of the Group.
Central counterparty (CCP)	A clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, thereby ensuring the future performance of open contracts.
Common Equity Tier 1 (CET1) Capital	The highest quality of capital available to the Group reflecting the permanent and unrestricted commitment of funds that are freely available to absorb losses. It comprises ordinary share capital, retained earnings and reserves less prescribed deductions.
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	Basel asset class – includes commercial credit risk where annual revenues exceed \$50 million.
Credit Valuation Adjustment (CVA) Risk	The risk of mark-to-market losses related to deterioration in the credit quality of a derivative counterparty.

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<b>Term</b>	<b>Definition</b>
Exposure at Default (EAD)	The extent to which a bank may be exposed upon default of an obligor.
External Credit Assessment Institution (ECAI)	For example Moody's Investor Services, S&P Global Ratings or Fitch Ratings.
Extended Licensed Entity (ELE)	APRA may deem an entity 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 (GRCL)	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 CET1.
Impaired Assets	Facilities are classified as impaired where there is doubt as to whether the full amounts due, including interest and other payments due, will be achieved in a timely manner.
Individual Provisions	Provisions made against individual facilities 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 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.
Interest Rate Risk in the Banking Book (IRRBB)	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 earned over 12 months. The APS117 IRRBB regulatory capital requirement is calculated using the net present value approach.
Level 1	Represents the ADI and each entity of the ADI that has been approved as an Extended Licensed Entity by APRA.
Level 2	The level at which the Group reports its capital adequacy to APRA being the consolidated banking group comprising the ADI and all of its subsidiary entities other than the insurance and funds management entities and entities through which securitisation of Group assets is conducted. This is the basis on which this report has been produced.
Level 3	The conglomerate group including the Group's insurance and wealth management business.
Leverage Ratio	Tier 1 Capital divided by Total Exposures, with this ratio expressed as a percentage.
Loss Given Default (LGD)	The fraction of EAD that is not expected to be recovered following default.
Other Assets	Basel asset class – primarily includes Cash, Investments in Related Entities, Fixed Assets and Margin Lending.
Other Retail	Basel asset class – primarily includes retail credit exposures not otherwise classed as a residential mortgage, SME retail or a qualifying revolving retail asset.
Past due	Facilities are past due when a contracted amount, including principal or interest, has not been met when due or it is otherwise outside contracted arrangements.
Probability of Default (PD)	The likelihood that a debtor fails to meet an obligation or contractual commitment.
Qualifying Revolving Retail (QRR)	Basel 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	Basel asset class – retail exposures secured by residential mortgage property.

# Glossary

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<b>Term</b>	<b>Definition</b>
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
Risk Weighted Assets (RWA)	The value of the Group's On and Off Balance Sheet assets are adjusted by risk weights calculated according to various APRA prudential standards. 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 AIRB approach of 1.06.
Securitisation	Basel asset class – Group-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities.
SME Corporate	Basel asset class – 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	Basel asset class – Small and Medium Enterprise (SME) exposures up to \$1 million that are not secured by residential mortgage property.
SME Retail Secured by Residential Mortgage	Small and Medium Enterprise (SME) exposures up to \$1 million that are partly or fully secured by residential mortgage property.
Sovereign	Basel asset class – primarily includes claims on Australian and foreign governments, central banks (including Reserve Bank of Australia), international banking agencies and regional development banks.
Specialised Lending	Basel asset classes subject to the supervisory slotting approach and which include Income Producing Real Estate (IPRE), object finance, project finance and commodity finance.
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).
Stressed VaR	Stressed Value at Risk uses the same methodology as Value at Risk (VaR) except that the historical data used is taken from a one year observation period of significant market volatility as seen during the Global Financial Crisis.
Tier 1 Capital	Comprises CET1 and Additional Tier 1 Capital.
Tier 2 Capital	Capital items that fall short of the necessary conditions to qualify as Tier 1 Capital.
Total Exposures (as used in the Leverage Ratio)	The sum of On Balance Sheet items, derivatives, securities financing transactions (SFTs), and Off Balance Sheet items, net of any Tier 1 regulatory deductions that are already included in these items, as outlined in APS 110 "Capital Adequacy" (APS 110) Attachment D.

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