Determined to offer strength in uncertain times.

Basel II Pillar 3

Capital Adequacy and Risk Disclosures as at 30 June 2008

WINNER Money MAGAZINE AWARDS 2008 BANK OF THE YEAR

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Commonwealth Bank of Australia ACN 123 123 124

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1. Introduction

Since the release of the revised Basel framework in 2004, risk management activities have deepened at the Commonwealth Bank of Australia. This could not have occurred at a better time. The actions of management within the Group in developing robust policies and processes have helped guide us away from the global excesses affecting many of the world's major banks.

We have a strong risk culture that encourages business areas to engage risk professionals embedded within their areas, early when assessing new business and other risks facing us. We place a high reliance on determining the return on the risks taken.

Internal views of risk are primarily based on how we judge expected losses plus how we allocate capital based on an economic view of losses should extreme events occur. We set goals and budgets, then measure the performances of our business substantively based on "profit after capital charge" measures. We note that like most financial institutions the Group's "cost of risk" (in the form of our credit provisions and the rental cost of allocated capital) is second only to staff costs. Full cost efficiency, therefore, requires that we carefully select among our risk-taking activities.

We are delighted to add new Basel asset class risk descriptions and disclose information to help users understand how we manage ourselves, as we believe the market will come to appreciate how disciplined we are with respect to risk. The implementation of Basel II has reduced the absolute level of risk weighted assets and impacted on the amounts of eligible capital both at Tier 1 and Total Capital levels. APRA discretionary rules that are applied to Australian regulated banks calculate risk weighted assets conservatively compared to other jurisdictions. This has the appearance of the Group reporting lower capital ratios. This effect is detailed in section 3.3 of this document. However, whilst the Basel II regime is bedding down and given the recent market turmoil, our target ranges of 6.5% to 7.0% (Tier 1) and 10% to 12% (Total Capital) will be maintained.

Finally, achieving Basel II advanced accreditation is a significant recognition of the Group's ability to measure and manage risk. We would like to thank the hard work of a lot of our people across many areas of the Group including Business Units, Risk Management, Finance, Group Treasury, Enterprise Technology and Investor Relations in achieving this result.

1.1 Basel II Overview

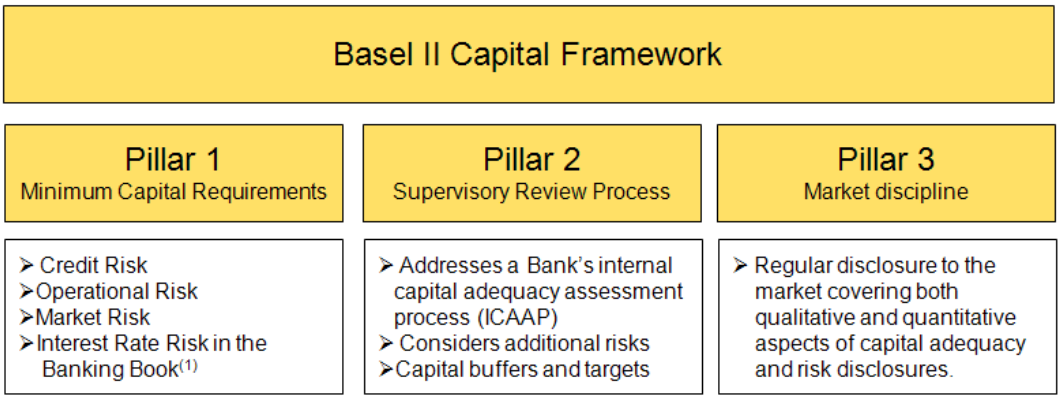
The Commonwealth Bank of Australia (the Bank) is an Authorised Deposit-taking Institution ("ADI") and is subject to regulation by the Australian Prudential Regulation Authority ("APRA") under the authority of the Banking Act 1959. The Bank and all of its banking subsidiaries, as defined in section 2 of this document, will be referred to as "the Banking Group" unless otherwise stated.

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

- Level 1 – the Bank and APRA approved Extended Licensed Entities (ELE).
- Level 2 – the Banking Group.
- Level 3 – the conglomerate group including the Group's insurance and wealth management businesses (the Group).

The Group is required to report the calculation of risk weighted assets and assessment of capital adequacy on a Level 2 basis (refer section 2 for further details on the scope of application).

APRA has set minimum regulatory capital requirements for banks that are consistent with the International Convergence of Capital Measurement and Capital Standards: A Revised Framework ("Basel II") issued by the Basel Committee on Banking Supervision ("The Basel Committee"). These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by banks. The framework is based on three pillars.



(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 risk weighted assets and the assessment of capital adequacy in accordance with Pillar 1. The work undertaken to achieve advanced accreditation leverages off efforts that were commenced by the Group in 1994 when our credit risk measurement system for corporate and client exposures was first introduced. Increased sophistication in the Group's risk measurement and management systems has seen significantly increasing flexibility in decision making and capital management. Adoption of the methodology prescribed under the advanced approach was effective from 1 January 2008.

As a result of receiving advanced Basel II accreditation, the advanced internal ratings based approach (AIRB) for credit risk and the advanced measurement approaches (AMA) for operational risk have been adopted in the calculation of RWA. There is an agreed methodology for measuring market risk for traded assets, which remains unchanged from Basel I. In addition, APRA has also introduced a requirement to calculate a capital charge for interest rate risk in the banking book (IRRBB), which was effective from 1 July 2008.This additional requirement is quite unique, only in Australia has their regulatory body also required Pillar 1 capitalisation of IRRBB.

Under Pillar 2, APRA requires each bank to have in place an Internal Capital Adequacy Assessment Process (ICAAP). The Group's initial ICAAP was approved by the Board in April 2008 and submitted to APRA. The ICAAP document provides details on:

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

The ICAAP will be updated and formally approved by the Board and submitted to APRA on an annual basis.

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

In this document, the Group presents information on its capital adequacy and risk weighted assets calculations for credit, market and operational risks according to the Basel II rules. This document has been prepared in accordance with a Board approved policy and the requirements set out in APRA Prudential Standard APS 330.

APRA requested the Group defer the release of its first Pillar 3 disclosures until the last quarter of 2008. This was to align with when the other major Australian banks release their documents and to aid in comparative analysis. Subsequent qualitative and quantitative disclosures will be made as part of the Group's annual financial reporting at 30 June each year. Detailed quantitative information will be released at the Group's half year with summarised quantitative information released as at each other quarter end. The respective reports will be published within 40 business days of each quarter end and will be published on the Group's corporate website (www.commbank.com.au).

The Group is not required to have its Prudential Disclosures audited by an external auditor. However, the disclosures have been prepared consistent with information otherwise published or supplied to APRA that has been subject to review by an external auditor.

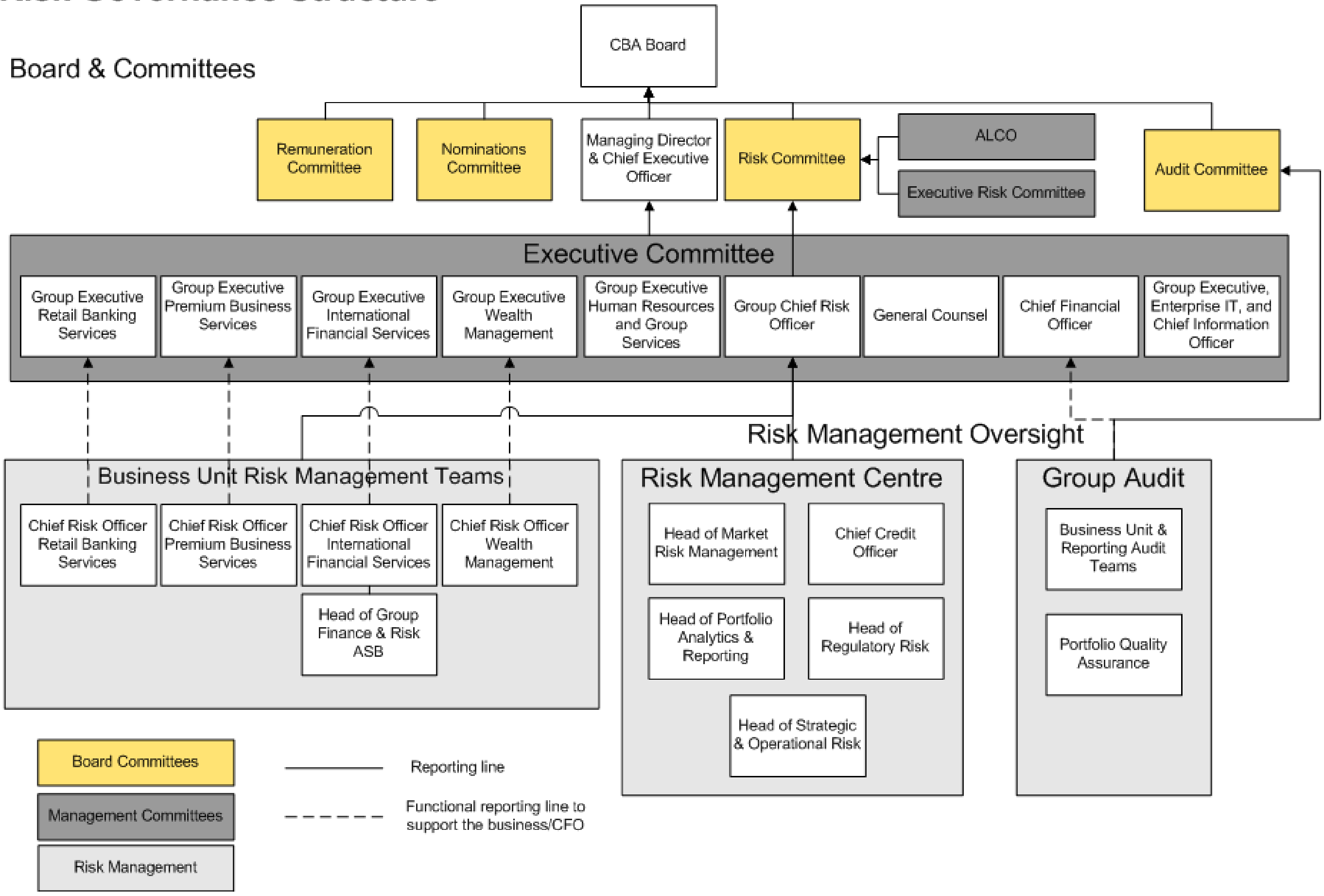
1.2 Risk Management in the Group

The Bank's Board has a comprehensive framework of Corporate Governance Guidelines which are designed to properly balance performance and conformance and thereby allow the Group to undertake, in an effective manner, the prudent risk-taking activities which are the basis of its business. The Guidelines and the practices of the Group comply with the revised 'Corporate Governance Principles and Recommendations' published in August 2007 by the Australian Securities Exchange (ASX) Limited's Corporate Governance Council.

The Board carries out the legal duties of its role in accordance with the Group's values of trust, honesty and integrity and having regard to the interests of the Group's customers, staff, shareholders and the broader community in which the Group operates. The role and responsibilities of the Board of Directors are set out in the Board Charter and include the establishment of governance committees (refer the Corporate Governance section of the Group's 2008 Annual Report for further information).

The Risk Governance Structure of the Group is illustrated in the following chart.

Risk Governance Structure



The Risk Committee of the Board oversees credit, market (traded and non-traded), funding and liquidity, operational and strategic business, business continuity, compliance and security risks assumed by the Group in the course of carrying on its business. A primary action is to construct the Group's risk appetite for consideration by the Board in its role of oversight of the Internal Capital Adequacy Assessment Process, which is updated on at least an annual basis.

The Risk Committee guides the setting of risk appetite for credit risks, considers the Group's credit policies and ensures that management maintains a set of credit underwriting standards designed to achieve portfolio outcomes consistent with the Group's risk/return expectations. The Board's Audit Committee reviews the Group's credit portfolios and recommendations by management for provisioning for loan impairment.

The Risk Committee approves risk management policies and procedures for market, funding and liquidity risks incurred or likely to be incurred in the Group's business. It guides the setting of risk appetite for traded and non-traded market risks, including the establishment of limits for these risk exposures. The Risk Committee reviews progress in implementing management procedures and identifying new areas of exposure relating to market, funding and liquidity risk.

The Risk Committee guides the setting of risk appetite for operational risks, including ratification of the Group's operational risk policies for approval by the Board and reviews and informs the Board of the measurement and management of operational risk. Operational risk is a basic line management responsibility within the Group, consistent with the policies established by the Risk Committee. A range of insurance policies maintained by the Group mitigates some operational risks, with insurance risk coverage levels disclosed to the Risk Committee for comment.

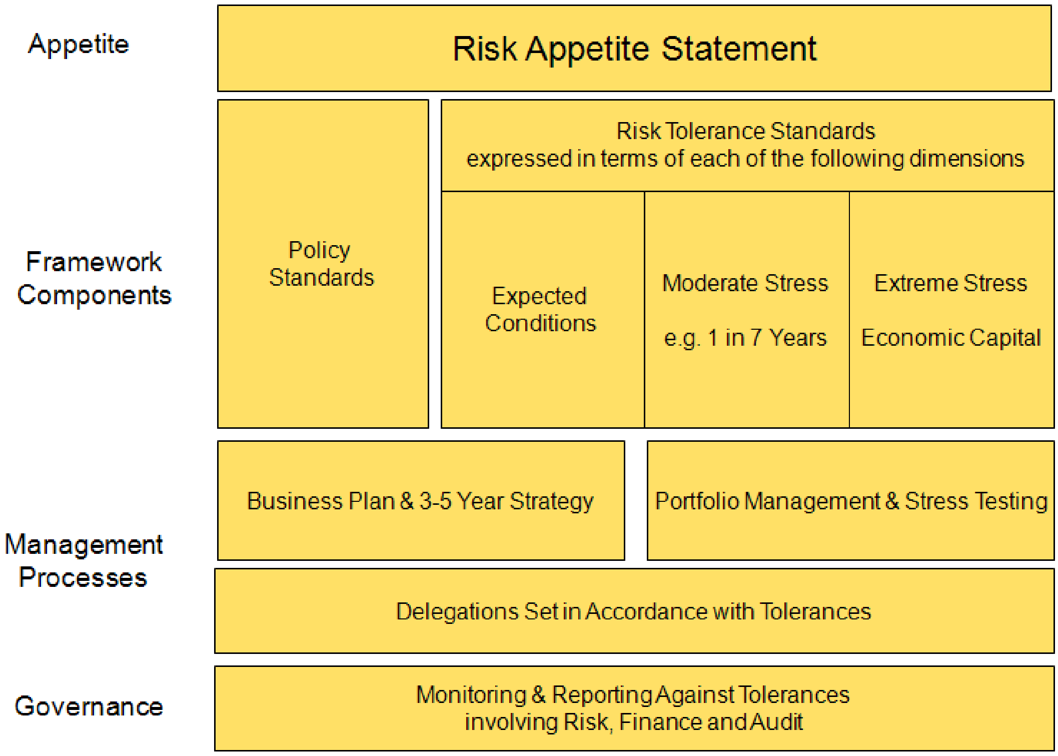
The Risk Committee oversees risk management of compliance risk through the Group's Compliance Risk Management Framework, which provides for assessment of compliance risks, implementation of controls, monitoring and testing of framework effectiveness, and the escalation, remediation and reporting of compliance incidents and control weaknesses.

The Risk Committee meets at least seven times each year and at least annually with the Group Chief Risk Officer, in the absence of other management, to allow the Risk Committee to form a view on the independence of the function.

The Group has in place an integrated risk management framework to identify, assess, manage and report risks and risk adjusted returns on a consistent and reliable basis. This framework requires each business to manage the outcome of its risk taking activities, and enjoy the resulting risk adjusted returns. Risk management professionals employed in each Business Unit measure risks and provide advice on what risks might be taken for better returns. These risk professionals report to the Group Chief Risk Officer, who in turn reports to the CEO and has direct reporting requirements to the Risk Committee. Independent review of the risk management framework is carried out through Group Audit.

1.3 Risk Appetite

The Group's risk appetite is the level of risk we are prepared to accept in pursuit of our business objectives and strategies. It is consistent with both our risk taking capacity and our requirement for positive and sustainable risk adjusted returns for our shareholders. In February 2008, the Risk Committee approved a revised approach to Risk Appetite as illustrated in the chart below.



This approach is in the process of being more clearly articulated across the business.

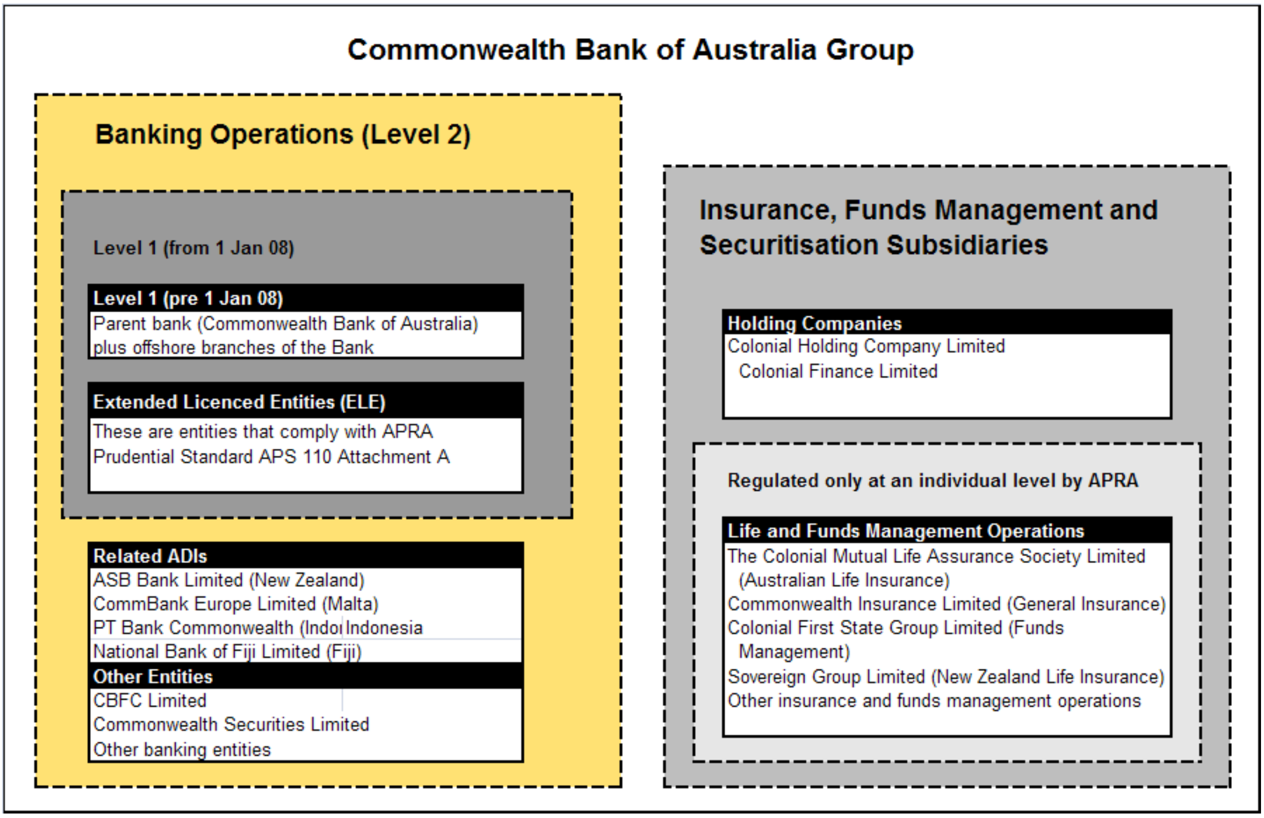
2. Scope of Application

This document has been prepared in accordance with APRA Prudential Standard APS 330 “Capital Adequacy: Public Disclosure of Prudential Information” for the Commonwealth Bank of Australia and all of its banking subsidiaries (known as “Level 2” or “the Banking Group”).

All entities which are consolidated for accounting purposes are included within the Group capital adequacy calculations except for:

- The insurance and funds management operations; and,
- The entities through which securitisation of Group assets are conducted.

This is summarised in the chart below.



The 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.

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.

3. Capital

3.1 Capital Structure

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 is the aggregate of Tier One and Tier Two Capital.

The Group has a range of capital instruments and mechanisms that it uses to manage its Tier One and Tier Two Capital.

Tier One Capital instruments comprises 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 2 Capital – instruments that are essentially permanent in nature; and
- Lower Tier 2 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 appendix 8.1.

Basel II Regulatory Capital

Table 1 details the Group's regulatory capital as at 30 June 2008.

Table 1

Regulatory Capital	**30 June 2008 $M**
Tier 1 Capital	
Paid-up ordinary share capital	15,991
Reserves	788
Retained earnings	5,191
Current year earnings	1,824
Minority interests	13
Total Fundamental Capital	23,807
Residual Capital	
Innovative Tier 1 Capital	4,110
Non-innovative Tier 1 Capital	1,443
less residual in excess of prescribed limits transferred to Tier Two	(1,359)
Total Residual Capital	4,194
Gross Tier 1 Capital	28,001
Deductions from Tier 1 Capital	
Goodwill	(8,010)
Other deductions from Tier 1 Capital	(1,576)
50/50 deductions from Tier 1 Capital	(1,624)
Total Tier 1 Capital only deductions	(11,210)
Net Tier 1 Capital	16,791
Tier 2 Capital	
Upper Tier 2 Capital	1,700
Lower Tier 2 Capital	6,937
Gross Tier 2 Capital	8,637
Deductions from Tier 2 Capital	
50/50 deductions from Tier 2 Capital	(1,624)
Total Tier 2 Capital only deductions	(1,624)
Net Tier 2 Capital	7,013
Total Capital base	23,804

This information is consistent with the information provided in the Group's 2008 Annual Report.

Due to a number of differences between accounting and regulatory capital, a reconciliation of the key items has been provided in appendix 8.1.

3.2 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.

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

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

Capital adequacy is measured by means of a risk based capital ratio. The capital ratios reflect capital (Tier One, Tier Two and Total Capital) as a percentage of total risk weighted assets ("RWA"). RWA represents an allocation of risks associated with the Group's assets and other related exposures.

The Group's capital ratios throughout Financial Year 2008 were in compliance with both APRA minimum capital adequacy requirements (Tier One Capital 4% and Total Capital 8%) and the Board Approved Target Ranges of Tier One Capital 6.5 to 7% and Total Capital 10 to 12%.

The Group is required to inform APRA immediately of any breach or potential breach of the minimum capital adequacy requirements, including details of remedial action taken or planned to be taken.

In August 2008, APRA advised the Group of its Prudential Capital Ratio (PCR). The PCR is effective from 31 July 2008 and 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 has no impact on the Group's current capital target ranges of 6.5-7.0% for Tier One and 10-12% for Total Capital.

The PCR is subject of an on-going review by APRA and will be formally reassessed on an annual basis. APRA have advised that the PCR not be publicly disclosed under any circumstances.

Regulatory Capital Requirements for Other Significant ADIs in the Group

ASB Bank Limited

ASB Bank Limited (ASB Bank) is subject to regulation by the Reserve Bank of New Zealand ("RBNZ"). RBNZ applies a similar methodology to APRA in calculating regulatory capital requirements. In December 2007 ASB Bank received advanced Basel II accreditation from the Reserve Bank of New Zealand. ASB Bank was in compliance with the regulatory capital requirements at all times throughout the current financial year.

Regulatory Capital Requirements for Life 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.

The Group owns Colonial Mutual Life Assurance Society Limited ("CMLA"), a life insurance company operating in Australia. Life insurance business previously written by Commonwealth Insurance Holdings Limited ("CIHL") was transferred into CMLA effective 30 June 2007.

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 Insurers", issued by the New Zealand Society of Actuaries.

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

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

The Group's life insurance and funds management companies held assets in excess of regulatory capital requirements at 30 June 2008. The Group's Australian and New Zealand life insurance and funds management businesses held $949 million of assets in excess of regulatory solvency requirements at 30 June 2008.

Risk Weighted Assets

Risk weighted assets are calculated in accordance with the advanced internal ratings based approach (AIRB) for the majority of the Group's credit risk exposure. The advanced measurement approach (AMA) for operational risk has been adopted in the calculation of RWA. There is an agreed methodology for measuring market risk for traded assets, which remains unchanged from Basel I. APRA has also introduced a requirement to calculate a capital charge for interest rate risk in the banking book (IRRBB), which was effective from 1 July 2008. The RWA equivalent of IRRBB risk will be included in the Group's 30 September 2008 disclosures.

Risk weighted assets for certain entities and product categories within the Group are calculated under the standardised approach, e.g. the banking operations in Fiji, Indonesia and Malta (refer to page 20 of this document for more details). Table 2 provides a breakdown of the Group's risk weighted assets by major risk type and Basel II risk type.

Table 2

Risk weighted assets	**30 June 2008 $M**
Credit Risk	
Subject to Advanced IRB approach	
Corporate	81,431
Sovereign	1,802
Bank	5,292
Residential Mortgage	39,128
Qualifying revolving retail	6,070
Other retail	5,274
Other Assets	-
Impact of Regulatory Scaling Factor	8,340
Total risk weighted assets subject to Advanced IRB approach	**147,337**
Specialised lending exposures	**21,053**
Subject to Standardised approach	
Corporate	5,347
Sovereign	84
Bank	320
Residential Mortgage	241
Other retail	-
Other Assets	9,229
Total risk weighted assets subject to standardised approach	**15,221**
Securitisation exposures	**3,536**
Equity exposures	**293**
Total risk weighted assets for credit risk exposures	**187,440**
Market risk – Traded	**4,501**
Operational risk	**13,560**
Total risk weighted assets (1)	**205,501**

(1) Risk Weighted Assets for Interest Rate Risk in the Banking Book is not included in this table as it was not effective until 1 July 2008.

Capital ratios (%)	**30 June 2008**
Level 2 Total Capital ratio	11.58%
Level 2 Tier 1 Capital ratio	8.17%
ASB Total Capital ratio	11.82%
ASB Tier 1 Capital ratio	9.41%

3.3 Regulatory Capital Frameworks Comparison

Our auditors, PricewaterhouseCoopers, have worked with the Group and the Australian Bankers Association (ABA) in identifying, in principle, the key differences between the APRA and UK Financial Services Authority[1] method of calculating regulatory capital. These differences are highlighted in the table below:

Item	Items impacting published total capital adequacy ratio	Impact on Bank's ratio 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 is partially offset by APRA making allowance for expected shares to be issued under a dividend reinvestment plan.	Increase
Equity investments	Under APRA rules some **equity investments** are treated as a deduction 50% from Tier 1 Capital and 50% from Tier 2 Capital. Under the FSA, these equity investments are treated as Total Capital deductions or as RWA.	Increase
Hybrid limits	APRA imposes a Residual Capital limit of 25% of Tier 1 Capital. Under FSA rules this limit is 50%, with more flexible transition rules.	Increase Tier 1, Total Capital neutral
Value of in force (VIF)	VIF at acquisition is treated as goodwill and intangibles and therefore is deducted at Tier 1 by APRA. FSA allows VIF to be included in Tier 1 Capital but deducted from Total Capital.	Increase Tier 1, Total Capital neutral

(1) FSA refers to the Financial Services Authority, the primary regulatory of financial services industry in the United Kingdom.
(2) IRRBB refers to Interest Rate Risk in the Banking Book (refer to section 7.2 for further detail).

The following table estimates the impact on the Group's capital as at 30 June 2008 of the differences between APRA prudential requirements for calculating risk weighted assets and those of the UK regulator:

	Net Fundamental Capital [1]	Tier 1 Capital	Total Capital
Reported risk weighted capital ratios at 30 June 2008	**6.1%**	**8.2%**	**11.6%**
Less: IRRBB impact[2]	(0.4%)	(0.6%)	(0.9%)
1 July Pro-forma – APRA	**5.7%**	**7.6%**	**10.7%**
RWA treatment – mortgages[3], margin loans	0.8%	0.8%	1.3%
IRRBB risk weighted assets	0.4%	0.6%	0.9%
Future dividends (net of Dividend Reinvestment Plan)	0.7%	0.8%	0.7%
Equity investments	0.2%	0.3%	0.0%
Total Adjustments	**2.1%**	**2.5%**	**2.9%**
30 June 2008 – Normalised – FSA	**7.8%**	**10.1%**	**13.6%**
Additional adjustments per ABA work			
Tax impact in EL v EP calculation	0.1%	0.1%	0.3%
Value of in force (VIF) deductions[4]	0.7%	0.7%	0.0%
Application of UK FSA Tier 1 Hybrid limits	0.0%	0.7%	0.0%
Total additional Adjustments	**0.8%**	**1.5%**	**0.3%**
30 June 2008 - Normalised – FSA	**8.6%**	**11.6%**	**13.9%**

(1) Represents Fundamental Tier 1 Capital net of Tier 1 deductions.
(2) IRRBB (Interest Rate Risk in the Banking Book) became effective for the Group from 1 July 2008.
(3) Based on APRA 20% Loss Given Default (LGD) floor compared to FSA 10% and the Group's downturn LGD loss experience.
(4) VIF at acquisition is treated as goodwill and intangibles and therefore is deducted at Tier 1 by APRA. FSA allows VIF to be included in Tier 1 Capital but deducted from Total Capital.

A more detailed comparison is available on the ABA website www.bankers.asn.au.

4. 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 Board's Risk Committee and senior management as discussed in section 1.2 "Risk Management in the Group" of this document.

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; and
- Credit Risk Measurement.

Each will be discussed in turn:

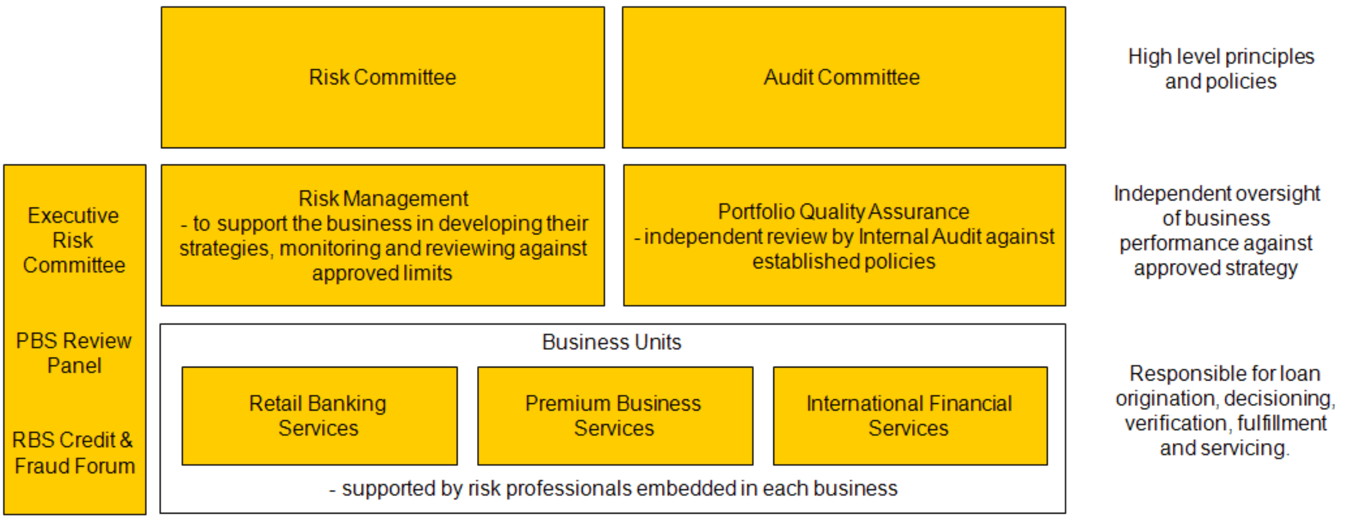
Credit Risk Management Principles and Portfolio Standards

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/return expectations. The Risk Committee usually meets every two months, and more often if required.

The Group has clearly defined credit policies for the approval and management of credit risk. Formal credit standards apply to all credit risks, with specific portfolio standards applying to all major lending areas. The portfolio standards incorporate income/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 comprised of the following:
- A large credit exposure policy for aggregate exposures to individual, commercial, industrial, financial institutions and sovereign client groups;
- A system of industry limits and targets for exposures by industry; and
- A system of country limits for geographic exposures.

The chart below illustrates the three levels of control in the management of credit risk in the Group.



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The Group assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment. Collateral security usually, in the form of real estate or a floating charge over assets, is generally taken for business credit except for major sovereign, bank and corporate counterparties 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 judgement 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 section 4.2 for further detail).

4.1 General Disclosures

Table 3 (a)

Credit Risk Exposure by Portfolio Type	30 June 2008 As at $M	30 June 2008 Average[1] $M
Corporate	80,576	78,736
Bank	30,249	33,532
Sovereign	10,812	12,861
SME Corporate	48,709	48,537
SME Retail	12,404	11,310
Residential Mortgage	248,083	242,065
Other Retail	5,835	5,926
Qualifying Revolving	10,886	10,504
Specialised Lending	23,312	24,291
Other Assets	18,035	17,293
Total exposures [2]	**488,901**	**485,055**

1 – Basel II advanced accreditation for the Group applied from 1 January 2008.
2 – Total credit risk exposures do not include equities or securitisation exposures.

Table 3 (b)

Credit Risk Exposure by Geographic Distribution and Portfolio Type	30 June 2008 Australia $M	New Zealand $M	Other $M	Total $M
Corporate	58,637	6,701	15,238	80,576
Bank	6,641	588	23,020	30,249
Sovereign	3,622	1,638	5,552	10,812
SME Corporate	36,937	10,307	1,465	48,709
SME Retail	10,472	1,912	20	12,404
Residential Mortgage	215,421	32,011	651	248,083
Other Retail	4,591	1,242	2	5,835
Qualifying Revolving	10,886	-	-	10,886
Specialised Lending	20,296	349	2,667	23,312
Other Assets	15,240	602	2,193	18,035
Total exposures [1]	**382,743**	**55,350**	**50,808**	**488,901**

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

Table 3 (c)

Credit Risk Exposure by Industry Sector and Portfolio Type	Residential Mortgage $M	Other Personal $M	Asset Finance $M	Sovereign $M	Bank $M	Other Finance $M	Agriculture $M	Mining $M
	30 June 2008 Industry Sector							
Corporate	-	-	820	-	-	15,701	1,393	4,638
Bank	-	-	-	-	30,249	-	-	-
Sovereign	-	-	8	10,804	-	-	-	-
SME Corporate	-	-	3,058	-	-	3,683	9,975	373
SME Retail	-	-	3,526	-	-	479	1,793	29
Residential Mortgage	248,083	-	-	-	-	-	-	-
Other Retail	-	5,835	-	-	-	-	-	-
Qualifying Revolving	-	10,886	-	-	-	-	-	-
Specialised Lending	-	-	-	-	-	380	38	812
Other Assets	-	7,975	-	-	-	-	-	-
Total exposures [1]	**248,083**	**24,696**	**7,412**	**10,804**	**30,249**	**20,243**	**13,199**	**5,852**

Credit Risk Exposure by Industry Sector and Portfolio Type	Manufacturing $M	Energy $M	Construction $M	Retail/ Wholesale Trade $M	Transport and Storage $M	Property $M	Other $M	Total $M
	Industry Sector							
Corporate	12,577	5,139	1,247	7,156	7,815	10,686	13,404	80,576
Bank	-	-	-	-	-	-	-	30,249
Sovereign	-	-	-	-	-	-	-	10,812
SME Corporate	2,463	218	1,919	4,390	1,078	10,863	10,689	48,709
SME Retail	561	18	1,058	1,802	348	1,301	1,489	12,404
Residential Mortgage	-	-	-	-	-	-	-	248,083
Other Retail	-	-	-	-	-	-	-	5,835
Qualifying Revolving	-	-	-	-	-	-	-	10,886
Specialised Lending	221	3,199	197	160	3,680	13,394	1,231	23,312
Other Assets	-	-	-	-	-	-	10,060	18,035
Total exposures [1]	**15,822**	**8,574**	**4,421**	**13,508**	**12,921**	**36,244**	**36,873**	**488,901**

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

Table 3 (d)

Credit Risk Exposure by Contractual Maturity and Portfolio Type	30 June 2008 Contractual Maturity ≤ 12 months $M	1 ≤ 5 years $M	> 5 years $M	No specified maturity $M	Total $M
Corporate	9,824	59,845	10,557	350	80,576
Bank	20,818	3,561	5,870	-	30,249
Sovereign	2,588	5,790	2,434	-	10,812
SME Corporate	5,119	28,151	15,429	10	48,709
SME Retail	993	4,772	6,629	10	12,404
Residential Mortgage	10,008	7,107	195,649	35,319	248,083
Other Retail	1,252	3,108	12	1,463	5,835
Qualifying Revolving	-	-	-	10,886	10,886
Specialised Lending	1,219	19,457	2,636	-	23,312
Other Assets	6,578	1,228	60	10,169	18,035
Total exposures [1]	**58,399**	**133,019**	**239,276**	**58,207**	**488,901**

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

Table 3 (e)

Industry Sector	30 June 2008 Impaired loans $M	Past due loans ≥ 90 days $M	Specific provision balance $M	Actual Losses [1] $M
Home loans	194	846	41	23
Other Personal	16	124	99	313
Asset Finance	56	22	14	44
Sovereign	-	-	-	-
Bank	-	1	-	-
Other Finance	62	-	31	9
Agriculture	16	20	4	3
Mining	-	1	-	-
Manufacturing	168	1	113	-
Energy	-	-	-	-
Construction	14	9	9	1
Wholesale / Retail trade	10	15	8	13
Transport and Storage	-	3	1	1
Property	59	24	20	3
Other	88	46	27	16
Total exposures	**683**	**1,112**	**367**	**426**

1 - Actual losses equals write-offs from specific provisions, write-offs direct from collective provisions less recoveries of amounts previously written off for the twelve months ending 30 June 2008.

Table 3 (f)

Geographic Region	30 June 2008 Impaired loans $M	Past due loans ≥ 90 days $M	Specific provision balance $M
Australia	620	989	336
New Zealand	29	44	17
Other	34	79	14
Total	**683**	**1,112**	**367**

The Group held $1,400m in total provisions and reserves as at 30 June 2008 for losses across the above regions.

Provisioning for Impairment

The Group assesses and measures credit losses in accordance with statutory financial accounting requirements under the Corporations Act and Australian Accounting Standards Board (AASB) Standards, 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.

APRA Prudential Standard APS 220 Credit Quality 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.

The Group has determined that its individually assessed provisions comply with APRA's prudential requirements with respect to assessing specific provisions and that its collective and other credit provisions are consistent with APRA's requirements.

APRA Prudential Standard APS 111 Capital Adequacy: Measurement of Capital requires the Group to reduce Tier 1 and Tier 2 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). Refer page 33 of the Group's 2008 Annual Report on Capital Adequacy for further detail on the impact of this adjustment.

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 that an impairment loss on loans, advances and other receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short-term balances are not discounted.

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

Individually assessed provisions are made against individual facilities in the risk rated managed segment where exposure aggregates to $250,000 or more, and a loss of $10,000 or more is expected. These provisions are assessed as the difference between an asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Individually assessed provisions (in bulk) are also made against statistically managed segments to cover facilities which are not well secured and past due 180 days or more, and against the risk rated segment for exposures aggregating to less than $250,000 and 90 days or more past due.

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 at the balance sheet date.

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

- Risk rated segment - the risk rating system, including the frequency of default and loss given default rates, and loss history are considered; or
- Retail segment - the history of arrears and losses are reviewed for the various portfolios.

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

Table 3 (g) – Provisions for Impairment

	30 June 2008			
Movement in Collective Provisions and Reserves	**Collective Provisions $M**	**Off Balance Sheet Provisions $M**	**Other Credit Related Provisions $M**	**Total Provisions and Reserves $M**
Balance at 1 January 2008[1]	1,084	28	22	1,134
Total charge against profit and loss	597	4	-	601
Net transfer between provisions	(334)	-	-	(334)
Recoveries	37	-	-	37
Adjustments for exchange rate fluctuations and other items	(14)	-	-	(14)
Write-offs	(24)	-	-	(24)
Total Collective Provisions and Reserves	**1,346**	**32**	**22**	**1,400**
Tax effect[2]				420
General Reserve for Credit Losses[2]				**980**

(1) Reflects the balance of provisions and reserves from the implementation of the Basel II framework for the Group.
(2) The General Reserve for Credit Losses is a regulatory definition which requires loan loss provisions to be reported net of tax.

	30 June 2008
Movement in Specific Provisions	**Total $M**
Balance at 1 January 2008[1]	268
Net transfer between provisions	334
Adjustments for exchange rate fluctuations and other items	3
Write-offs	(238)
Total Specific Provisions	**367**

(1) Reflects the balance of specific provisions from the implementation of the Basel II framework for the Group.

Portfolio Approach

In portfolios or segments considered by the Group as immaterial by the size of exposure, the Standardised approach has been taken. Portfolios where the Standardised approach has been taken include:

- Commonwealth Bank of Australia:
    - Overdrawn Private Accounts – Retail
    - Retail SMEs – Overdrawn Accounts
    - Corporate SMEs – Non-rated / Non-scored
    - Margin Lending

- ASB Bank Limited
    - Personal Loans
    - Credit Cards
    - Margin Lending

- All exposures in the following entities:
    - Commonwealth Development Bank of Australia
    - Commbank Europe Limited
    - National Bank of Fiji Ltd
    - PT Bank Commonwealth (Indonesia)

A breakdown of the Group's credit risk exposure under the Advanced versus Standardised approaches is summarised in the table below.

Table 3 (h)

	30 June 2008
	Exposure $M
Advanced approach	
Corporate	135,338
Sovereign	10,587
Bank	29,318
Residential Mortgage	247,574
Qualifying Revolving Retail	10,886
Other Retail	5,484
Other	-
Total advanced approach	**439,187**
Specialised Lending	23,312
Standardised approach	
Corporate	6,350
Sovereign	225
Bank	931
Residential Mortgage	510
Other Retail	351
Other Assets	18,035
Total standardised approach	**26,402**
Total exposures [1]	**488,901**

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

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

4.2 Portfolios Subject to Internal Ratings Based Approaches

The measurement of credit risk is based on an internal credit risk rating system, and uses analytical tools to calculate expected and unexpected loss for the credit portfolio. A credit risk measurement system for corporate client / 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 (probability of default and loss given default).

This has subsequently been enhanced as the result of reviewing outcomes against projections and the alignment of internal ratings with external rating agency grades. To provide greater granularity for risk management and for origination/pricing purposes, in 1998 the five pass grade rating scale was expanded to sixteen for the more sophisticated end of the corporate curve. The Group has also been using scorecards for over 15 years in its Consumer Retail business. SME Retail applications 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.

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

As a result of the Group's long standing, rigorous approach to the measurement of credit risk and strong processes and controls, APRA granted advanced Basel II accreditation to the Group on 10 December 2007 for the purpose of calculating the Group's capital requirements under Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk.

The credit risk portfolio has two major segments, Risk Rated and Retail:

(i) Risk Rated

The Risk Rated Segment comprises exposures to bank, sovereign and corporate obligors. Commercial exposures less than $1 million that are required to be risk rated and individually managed under the Group's internal credit policy are classified under the small and medium enterprise (SME) corporate asset class.

Obligors that are risk rated have their PD Rating assigned either via Expert Judgement and/or by using the appropriate PD Rating Calculator. Obligors whose PD Ratings are assigned via Expert Judgement include Banks, Sovereigns and large corporate clients of the Institutional Bank. Under Expert Judgement, PD ratings are assigned based on the expert knowledge of the credit officer conducting the review. The credit officer may use multiple rating inputs, including internal rating and the ratings assigned by an external rating agency, benchmark rating criteria, market or other relevant information to assist with the rating decision.

For the Middle Market and Local Business Banking segments, PD Calculators are the primary method of assigning a PD Rating. PD Calculators are statistical models designed to replicate the rating process under Expert Judgment with different models tailored to different industry segments. Ratings are assigned based on the responses to a series of questions relating to the financial condition of the client'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.

Both the Expert Judgement and PD calculator rating methods target a common rating descriptor for each risk grade. The rating descriptors are the same, regardless of how the rating is assigned and all ratings map to the same PD Masterscale which allocates probabilities of default to each PD grade. For ratings assigned by Expert Judgement, there are eighteen non-default grades (A0 through to G) and one default grade (H) as shown in Table 4(b). For ratings assigned via the PD Calculators, there are eleven non-default grades (A2, B2, C2, D1, D2, D3, E1, E2, E3, F and G) and one default grade (H).

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 both through the cycle (TTC) and point in time (PIT) approaches to rating assignment. 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 typical down-turn in the cycle. The rating approach (PIT or TTC) does not affect the long-run average PD for a particular rating, only the volatility of the observed default rate is impacted. The Group's rating criteria reflect both long-run and current considerations of the financial health of an obligor.

PD Ratings fall within the following categories:

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

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

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 client will not be able to meet future repayments or service alternative acceptable repayment arrangements e.g. the client has been declared bankrupt;
- A credit officer has determined that full recovery of both principal and interest is unlikely. This may be the case even if all the terms of the client's credit facilities are currently being met; and
- A credit obligation is sold at a material credit related economic loss.

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

Table 4(a) shows the mapping of the Group's internal rating scale for risk rated exposures to external rating agencies.

Table 4 (a)

Description	Internal rating	Probability of default
Exceptional	A0, A1, A2, A3	0.00% - 0.05%
Strong	B1, B2, B3, C1, C2, C3	0.05% - 0.50%
Pass	D1, D2, D3, E1, E2, E3	0.50% - 4.40%
Weak/doubtful	F, G	>4.40%
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

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.

(ii) Retail

The Retail Segment covers a number of sub-segments including housing loan, credit card, personal loan facilities, some leasing products and most secured commercial lending up to $1 million. These portfolios are managed on a delinquency band approach (e.g. actions taken when loan payments are greater than 30 days past due differ from actions when payments are greater than 60 days past due) and are reviewed by the relevant Business Credit Support and Monitoring Unit. Commercial lending up to $1 million is reviewed as part of the Client Quality Assurance process and oversight is provided by the independent Portfolio Quality Assurance unit. Facilities in the Retail segment become classified for remedial management by centralised units based on delinquency band.

Financial assets in the Retail Segment are classified as secured or unsecured. Unsecured facilities (e.g. credit cards) are written off once they reach 180 days past due (unless arrangements have been made). 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 Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (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 or a write-off amount exists against the facility.

PD estimates are based on a long-run average default rate for the Bank's historical data. Where relevant, observation points are randomly selected over the data period to reduce seasonality effects and take account of dynamic characteristics such as behaviour scores and delinquency. Decision trees are used to define 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 pools meaningfully differentiate risk. Model results are calibrated to obtain long-run PDs that reflect the central tendency over a full economic cycle.

EAD and LGD are derived using data from accounts that were in default during any given month within the observation period. EAD is estimated as the exposure at the point of default, relative to the limit applying to the account 12 months prior to default. LGD is estimated as the net present value of the post default cash flows, including an allowance for internal and external costs. 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. 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.

Credit Risk Measurement

The measurement of credit risk uses analytical tools to calculate both (i) expected and (ii) unexpected loss for the credit portfolio.

(i) Expected Loss

The Expected Loss (EL) is the product of:

- Probability of Default (PD);
- Exposure at Default (EAD); and,
- Loss Given Default (LGD) that would be expected to occur, given the obligor has defaulted.

The expected loss is a cost associated with granting credit and is priced into the interest margin charged to the customer.

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 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 Table 4(b).

Table 4 (b)

Portfolio Segment	PD Rating Methodology
Bank, sovereign and large corporate exposures	Expert Judgement assigned risk rating
Middle Market and Local Business Banking exposures	PD Calculator(s) assigned risk rating
SME Retail exposures < $1m	SME Behaviour Score assigned PD pools
Consumer Retail exposures	PD pools are assigned using product specific Application Scorecards up to 9 months (depending on the product). Behavioural Scorecards are then used assigned PD pools.

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. For committed facilities such as fully drawn loans and advances this will generally be the higher of the limit or outstanding balance. EAD for committed facilities is measured as a dollar amount based on the drawn and undrawn components 12 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 commercial facilities, the Group applies a credit conversion factor of 100%. For uncommitted facilities the EAD will generally be the outstanding balance only.

The LGD, expressed as a percentage, is the estimate of the expected economic loss as a percentage of the EAD. LGD is measured as the net present value of the post default cash flows including all proceeds from asset sales, costs, write-offs and recoveries.

LGD is impacted by:

- The level of security cover and the type of collateral held;
- Liquidity and volatility of collateral value; and
- Loan workout costs (effectively the costs of providing a facility that is not generating an interest return) and management expenses (realisation costs).

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. In some instances such as certain types of consumer loans, (e.g. credit cards) a client's facilities may not be secured by formal collateral.

Main collateral types include:

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

(ii) Unexpected Loss

In addition to expected loss, the unexpected loss for each portfolio segment is calculated based on a given level of confidence that the magnitude of the unexpected loss will not be exceeded with a known probability. The unexpected loss represents the difference between the expected loss 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 unexpected loss. 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 the unexpected loss not be exceeded.

The economic capital measure takes 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 and 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.

Credit Risk Exposure Subject to the Basel II Advanced Approach

Table 5 (a) provides a breakdown of the Group's credit risk for non-retail exposures that qualify for calculation of RWA under the Basel II Advanced Internal Ratings Based (AIRB) approach. The breakdown is provided by Basel asset class by probability of default.

Table 5 (a)

	30 June 2008						
	PD Grade						
Non-retail [1]	**0 < 0.03% $M**	**0.03% < 0.15% $M**	**0.15% < 0.5% $M**	**0.5% < 3% $M**	**3% < 10% $M**	**10% < 100% $M**	**Default $M**
Total Exposure							
Corporate	-	30,463	35,766	54,479	12,690	1,163	777
Sovereign	-	10,155	361	62	9	-	-
Bank	-	27,461	1,586	269	2	-	-
Total	**-**	**68,079**	**37,713**	**54,810**	**12,701**	**1,163**	**777**
Undrawn commitments							
Corporate	-	10,972	12,431	10,649	748	107	34
Sovereign	-	1,547	304	14	-	-	-
Bank	-	1,940	563	187	2	-	-
Total	**-**	**14,459**	**13,298**	**10,850**	**750**	**107**	**34**
Exposure-weighted average EAD ($M)							
Corporate	-	2.55	1.72	0.07	4.28	0.01	0.28
Sovereign	-	1.45	1.29	0.02	8.49	-	-
Bank	-	6.56	4.30	1.11	0.00	-	-
Exposure-weighted average LGD (%)							
Corporate	-	59.7	55.7	37.6	40.4	42.4	39.8
Sovereign	-	36.1	65.0	65.0	65.0	-	-
Bank	-	54.0	58.7	62.6	62.9	-	-
Exposure weighted-average risk weight (%)							
Corporate	-	26.2	56.5	68.5	87.8	201.7	295.5
Sovereign	-	12.8	99.9	155.1	203.2	-	-
Bank	-	14.9	40.1	107.9	197.4	-	-

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

Table 5 (b) provides a breakdown of the Group's credit risk for retail exposures that qualify for calculation of RWA under the Basel II Internal Ratings Based (IRB) approach. The breakdown is provided by Basel asset class by probability of default.

Table 5 (b)

	30 June 2008						
	PD Grade						
Retail [1]	**0 < 0.1% $M**	**0.1% < 0.3% $M**	**0.3% < 0.5% $M**	**0.5% < 3% $M**	**3% < 10% $M**	**10% < 100% $M**	**Default $M**
Total Exposure							
Residential Mortgage	43,966	91,766	39,944	60,884	7,172	2,989	852
Qualifying revolving retail	-	3,277	101	4,507	2,353	528	121
Other retail	85	-	542	3,833	643	328	52
Total	**44,051**	**95,043**	**40,587**	**69,224**	**10,168**	**3,845**	**1,025**
Undrawn commitments							
Residential Mortgage	16,063	12,800	2,415	11,078	344	18	1
Qualifying revolving retail	-	1,760	59	1,501	321	49	11
Other retail	84	-	451	333	26	4	-
Total	**16,147**	**14,560**	**2,925**	**12,912**	**691**	**71**	**12**
Exposure-weighted average EAD ($M)							
Residential Mortgage	0.140	0.185	0.330	0.131	0.133	0.165	0.234
Qualifying revolving retail	0.000	0.003	0.006	0.004	0.006	0.004	0.007
Other retail	0.003	0.000	0.003	0.005	0.004	0.003	0.003
Exposure-weighted average LGD (%)							
Residential Mortgage	20.0	20.0	20.5	21.8	21.4	20.3	20.5
Qualifying revolving retail	-	83.9	85.9	84.5	85.3	85.3	84.8
Other retail	35.8	-	65.2	90.0	93.2	89.9	87.5
Exposure weighted-average risk weight (%)							
Residential Mortgage	2.4	7.6	15.4	27.2	74.5	108.5	-
Qualifying revolving retail	-	10.2	13.8	36.6	123.9	215.7	-
Other retail	6.8	-	32.0	97.0	142.8	163.9	1.4

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

Analysis of Losses

The following tables provide an analysis of the Group's financial losses by portfolio type (Table 5(c)) and a comparison of those losses against the Group's internal estimate of Expected Loss and regulatory expected loss estimates (Table 5(d)).

Table 5 (c) – Analysis of Losses

	30 June 2008		
	Losses in reporting period		
Portfolio Type	**Gross write-offs $M**	**Recoveries $M**	**Actual losses $M**
Corporate	102	(12)	90
Sovereign	-	-	-
Bank	-	-	-
Residential Mortgage	24	(1)	23
Qualifying revolving retail	195	(38)	157
Other retail	182	(26)	156
Total	**503**	**(77)**	**426**

Table 5 (d) – Historical Loss Analysis

	30 June 2008		
Historical Loss Analysis by Portfolio Type	**Actual loss $M**	**Bank internal model expected loss estimate $M**	**Regulatory expected loss estimate $M**
Corporate	90	649	1,095
Sovereign	-	1	3
Bank	-	9	9
Residential Mortgage	23	167	640
Qualifying revolving retail	157	249	401
Other retail	156	167	227
Total	**426**	**1,242**	**2,375**

There are a number of reasons as to why the actual losses will be different to Expected Loss (internal model and regulatory estimate):

- Actual losses are historical (prior year) and are based on the quality of the assets in the prior year and recent economic conditions.
- Expected losses measure economic losses and include costs (e.g. internal workout costs) not included in actual losses.
- Bank internal expected loss is a forward estimate of the loss rate given the quality (grade distribution) of the assets at a point in time based on the Group's estimated long run PDs and LGDs. In most years actual losses to be below long run losses.
- Regulatory expected loss is based on the quality of exposures at a point in time using long run PDs and stressed LGDs as required by APRA. Again, in most years actual losses would be below the regulatory expected loss estimate.

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

The Standardised approach has been used by the Group where portfolios or segments are considered as immaterial by the size of exposure (refer Table 3(h)).

The risk weights pertaining to Retail and SME Corporate portfolios have been applied in accordance with prudential standard APS112 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 loan to value ratio (LVR) and whether mortgage insurance is held.

For larger Corporate, Bank and Sovereign exposures in our offshore entities including Commbank Europe Limited, National Bank of Fiji Ltd and PT Bank Commonwealth (Indonesia), the Group's internal Risk Rating has been aligned to recognised long-term ratings and equivalent rating grades provided by external credit assessment institutions (ECAI) including Standard & Poor's, Moody's Investors Service.

Table 6

	30 June 2008
Standardised approach exposures [1]	**Exposure after risk mitigation [1] $M**
Risk weight	
0%	3,805
20%	8,561
35%	326
50%	719
75%	56
100%	12,923
150%	12
>150%	-
Capital Deductions	-
Total	**26,402**

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

Specialised lending exposures subject to supervisory slotting [2]	**Total credit exposure [1] $M**
Risk weight	
0%	44
70%	12,774
90%	7,029
115%	2,132
250%	1,333
Total	**23,312**

(1) Total credit risk exposures do not include equities or securitisation exposures.
(2) APRA requires certain specialised lending exposures including Income Producing Real Estate, Object and Project Finance to be assigned specific risk weights according to "slotting" criteria defined by the regulator.

Equity exposures	**Total credit exposure $M**
Risk weight	
300%	54
400%	33
Total	**87**

4.4 Credit Risk Mitigation

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

The Group restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of Balance Sheet assets and liabilities as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

The Group Chief Risk Officer (or delegate) is responsible for approving acceptable collateral types.

The type, liquidity and carrying costs on collateral held is a key determination of the Loss Given Default (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 extended for LGD purposes 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 Chief Risk Officer or delegate), at no more than the current fair value under which the property could be sold under 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 monitored regularly and where appropriate, re-valued.
  - 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.
  - 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 risks for the collateral. Continuous monitoring processes that are appropriate for the specific exposures (either immediate or contingent) attributable to the collateral are used as a risk mitigant. The main non-real estate collateral types include:

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

The Group applies a Risk Committee approved Large Credit Exposure Policy (LCEP). This policy governs the authority of management with regard to the amount of credit provided to any single counterparty after applying the Aggregation Policy within the Risk Rated segment and Probability of Default rating.

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

Usage of LCEP limits is determined by the aggregate exposure weighted average limit utilisation for a group of related counterparties, and is subject to Risk Committee approved constraints.

Management reports to the Risk Committee each quarter, on a total credit risk exposure basis:

- All exposures at, or greater than, the LCEP limits - including those resulting from PD deterioration.
- Outcomes relative to agreed strategies to reduce or alter exposures.

- All exposures ceasing to exceed LCEP limits since the last report.
- All relevant borrower specific credit submissions are to prominently demonstrate relative compliance with LCEP.

Credit risk concentrations limits have been developed to ensure portfolio diversification and prevent credit risk concentrations. 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 portfolios performance. Action is taken where necessary to reduce the volatility of losses.

Apart from the taking of collateral mentioned above, other forms of credit risk mitigation are used by banks to either reduce or transfer credit risk. This may be achieved by purchasing/obtaining of a credit default swap (credit derivative) and/or guarantee. To be an eligible mitigant, the credit default swap or guarantee must be contractually binding, have legal certainty and be non-cancellable. The table below discloses the Group's coverage of exposure by credit default swaps and guarantees.

Table 7

	30 June 2008			
	Total Exposure [1] $ M	**Exposures Covered by Guarantees $M**	**Exposures Covered by Credit Derivatives $M**	**Coverage %**
Advanced approach				
Corporate	135,338	827	60	0.7
Sovereign	10,587	-	-	0.0
Bank	29,318	652	257	3.1
Residential Mortgage	247,574	-	-	0.0
Qualifying revolving retail	10,886	-	-	0.0
Other retail	5,484	-	-	0.0
Other	-	-	-	0.0
Total advanced approach	**439,187**	**1,479**	**317**	**0.4**
Specialised Lending	23,312	-	-	0.0
Standardised approach				
Corporate	6,350	-	-	0.0
Sovereign	225	-	-	0.0
Bank	931	-	-	0.0
Residential Mortgage	510	-	-	0.0
Other retail	351	-	-	0.0
Other Assets	18,035	-	-	0.0
Total standardised approach	**26,402**	**-**	**-**	**0.0**
Total exposures	**488,901**	**1,479**	**317**	**0.4**

1 - Credit derivatives that are treated as part of synthetic securitisation structures are excluded from the credit risk mitigation disclosures and included within those relating to securitisation.

4.5 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 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 of the transaction can be positive or negative to either counterparty to the transaction. 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 client. Economic Capital is allocated to CCR exposures in proportion to the contributions of those exposures to total Economic Capital, after taking into account correlation and diversification impacts across risk types.

Wrong-way Risk is a risk associated with counterparty credit risk. There are two types of wrong-way risk, general and specific.

General wrong-way risk arises when the probability of default of counterparties is positively correlated with general market risk factors. Specific wrong-way risk arises when the exposure to a particular counterpart is positively correlated with the probability of default of the counterparty due to nature of the transactions with the counterparty.

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

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

Collateralised Counterparty Credit Risk

Long term debt ratings are used as references within approximately 75 per cent of ISDA Master Agreement and Credit Support Annexes (CSA) to determine the Thresholds and Minimum Transfer Amount increments that both the Group and counterparties adhere to. Generally, the lower a counterparty's rating the lower the Threshold and Minimum Transfer Amount given to that counterparty. In some instances, an independent or initial margin amount may also be introduced resulting from a low rating.

These terms are agreed between the principal and counterparty during the negotiation of the ISDA Master Agreement and CSA. Risk Managers provide sign off on terms of the CSA prior to the documentation being executed. Upon execution of a CSA with a counterparty, all possible thresholds levels for each credit ratings level are input into the collateral management system together with the credit ratings. The system monitors the threshold limits outlined in the CSA.

The long term debt ratings are taken from two main providers, Moody's Investors Service, Inc and Standard & Poor's Ratings Services rating agencies. 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.

The aim of collateral stress testing is to determine the effect that both a 1 and 2 credit ratings downgrade would have on the Group's collateral obligation to its counterparties and determine the actual increased USD amount required to meet these obligations. The Group analyses the resulting movement of in Threshold and Minimum Transfer Amount, at a counterparty level to determine the effect of the credit downgrades at a counterpart basis or against the Group as a whole. Stress testing has been carried out by the Collateral Group within PBS since March 2007.

The actual posting obligation figures provide a 'worst case' scenario based on all counterparties making full collateral calls that the Group sees against itself. For most months in 2008 the data shows that as a result of 1 credit rating fall the Group would be in a position to receive collateral albeit in a marginally decreasing percentile range. Likewise for a credit rating drop by 2 ratings. Large variances of the Group's collateral obligations occurring in 2008 correlates with the volatility of the markets.

4.6 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 securitisation: 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.
- Synthetic transaction: a securitisation whereby only the credit risk, or part of the credit risk of a pool of assets is transferred to a third party via credit derivatives. The pool of assets remains on the Group's balance sheet.

Securitisation Activities

Bank 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 Bank Originated mortgages.

Third Party Securitisations – 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 Group can also provide warehouse funding to these entities (with similar levels of credit protection) prior to effecting a capital markets transaction. The nature of the underlying assets are similar to those that the Group would normally support in a non securitised form including residential and commercial mortgages, credit cards, vehicle loans, and equipment financing.

The purchase of asset/mortgage backed securities for trading, portfolio investment or liquidity operations.

The provision of swaps to an externally rated securitisation SPV where the Group is neither the arranger nor originator of the respective securities or underlying assets.

As at 30 June 2008 the Group also had two sponsored SPV conduits Prime Investment Entity Limited (PIE) and Shield Series 50 (Medallion CP). These SPVs held term assets that were funded through the Commercial Paper (CP) market and were backed by a Group liquidity facility which in the absence of liquidity in the CP markets were fully drawn. The underlying assets from both entities were consolidated into the Group's accounts. These assets were approved under the Group's risk framework and were subject to mark to market framework.

The PIE conduit was closed on 23 October 2008. PIE's assets comprised a mix of investment grade corporate and asset backed securities. Medallion CP assets comprise AAA prime Residential Mortgage-Backed Securities (RMBS) issued under the Group's Medallion program. These RMBS are repurchase eligible collateral with the Reserve Bank of Australia (RBA).

For contingent liquidity, the Group created a RMBS portfolio of A$15.6 billion in May 2008 through the Medallion Trust. This was increased to A$38.8 billion in November 2008. The Group may consider increasing the portfolio further if instability in the financial markets continues. These bonds 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 an opportunistic rather than core external funding source which under Basel II may provide favourable regulatory outcomes.

For our clients, securitisation generally provides access to domestic and international capital markets and is also a key primary source of investment product for our institutional and middle market investor base and credit trading activities.

The Group, in undertaking this intermediation role, receives fee based income and collateral business in markets trading and other banking products.

Regulator Compliance

The Australian Prudential Regulation Authority's (APRA) requirements in managing the capital and risks associated with securitisation activities and exposures are set out in its Prudential Standard APS 120 and Prudential Practice Guide APG 120. 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 has applied to APRA for accreditation to use the Internal Assessment Approach (IAA) under the Internal Ratings-Based Approach hierarchy detailed in APS120 to determine the relevant risk-weight for non-rated securitisation exposures. For facilities provided to an Asset Backed Commercial Paper (ABCP) securitisation or to a non-rated securitisation warehouse, the Group applied for accreditation to use the Internal Assessment Approach (IAA). This application is currently being reviewed by APRA. For the period ended 30 June 08, the interim IAA approved by APRA was used.

For externally rated exposures the Group uses the Ratings-Based Approach for regulatory capital purposes.

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

Risk Management Framework

Risk Assessment

Where the Group arranges either a Bank Originated or Third Party Securitisation transaction, the capital markets issuance will be rated by at least one of the External Credit Assessment Institutions ("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 also 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 securitisation exposure is held through a warehouse structure prior to terming out via the debt capital markets, the probability of default and loss given default are also benchmarked using the accepted rating methodologies of ECAI and where applicable use the KMV Portfolio Manager provided by Moody's KMV.

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 framework includes weekly 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 appropriate badged delegations. Risk Management's Premium Business Services-Financial Institutions Group is currently 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 and for particularly large transactions may be referred to the Board's Risk Committee.

Each Bank 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 regulator compliance.

Exposure Aggregation

Securitisation SPVs are generally 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 are mostly not aggregated for either Group or APRA respective Large Credit Exposure Policy or prudential standard compliance. Aggregation is assessed on a case-by-case basis having regard to the proposed structure. The Group will also consider the broader relationship or banking exposures to the proposed originator and/or issuing entities.

Bank 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.

Support facilities provided are not to include any support outside of the explicit contracted obligations. 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 Bank 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 Bank Originated Securitisation

Any purchases of either securities issued by the SPV or assets of the 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) of the public securities outstanding issued by a SPV under a Bank Originated Securitisation.

The aggregated value of all securities held by the Group under its various 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).

Accounting Framework

Bank Originated securitisations take the form of a sale of Bank Originated financial assets or a credit risk transfer through the use of funded credit derivatives to a securitisation SPV. These SPVs then issue various security tranches to investors. The financial assets included in a securitisation are 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. When applying this principle to the Bank Originated securitisation assets the Group does not derecognise the assets sold into the securitisation SPVs.

Securitisation SPVs are consolidated for accounting but not for tax or capital attribution.

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 1 Capital.

The securitisation start up costs related to Medallion transactions ($7m as at 30 June 08) is deducted from the Group's Tier 1 Capital.

Securitisation Exposures by Asset Type

Table 8 (a)

Traditional securitisations				**30 June 2008**
	Total outstanding exposures securitised			
Underlying asset	**Bank originated assets (1) $M**	**Third party originated assets (2) $M**	**Facilities provided (3) $M**	**Other (Manager Services) $M**
Residential mortgage	11,676	-	3,723	-
Credit cards and other personal loans	-	-	40	-
Auto and equipment finance	-	-	431	-
Commercial loans	-	-	-	-
Other	-	-	406	-
Total	**11,676**	**-**	**4,600**	**-**

(1) Bank originated assets comprise the Medallion Trusts excluding Medallion 2008 ($15.6bn created in May 2008) which is for contingent liquidity purposes.
(2) The Group does not have any indirect origination that is, using third party to originate exposures into an SPV without those exposures having appeared on the Group's Balance Sheet.
(3) Facilities provided include liquidity facilities, derivatives, etc, provided to the Medallion Trusts and facilities provided to clients' ABCP securitisation programmes.

Synthetic securitisations				**30 June 2008**
	Total outstanding exposures securitised			
Underlying asset	**Bank originated assets $M**	**Third party originated assets $M**	**Facilities provided $M**	**Other (Manager Services) $M**
Residential mortgage	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**-**	**-**	**-**

30 June 2008

Total securitisations

	Total outstanding exposures securitised			
Underlying asset	**Bank originated assets (1) $M**	**Third party originated assets (2) $M**	**Facilities provided (3) $M**	**Other (Manager Services) $M**
Residential mortgage	11,676	-	3,723	-
Credit cards and other personal loans	-	-	40	-
Auto and equipment finance	-	-	431	-
Commercial loans	-	-	-	-
Other	-	-	406	-
Total	**11,676**	**-**	**4,600**	**-**

(1) Bank originated assets comprise the Medallion Trusts excluding Medallion 2008 ($15.6bn created in May 2008) which is for contingent liquidity purposes.
(2) The Group does not have any indirect origination that is, using third party to originate exposures into an SPV without those exposures having appeared on the Group's Balance Sheet.
(3) Facilities provided include liquidity facilities, derivatives, etc, provided to the Medallion Trusts and facilities provided to clients' ABCP securitisation programmes.

Analysis of past due and impaired securitisation exposures by asset type

Table 8 (b)

30 June 2008

	Bank originated assets securitised			
Underlying asset	**Outstanding exposure $M**	**Impaired $M**	**Past due $M**	**Losses recognised $M**
Residential mortgage	11,676	-	31	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**11,676**	**-**	**31**	**-**

Analysis of securitisation exposure by facility type

Table 8 (c)

Securitisation facility type	30 June 2008 Exposure $M
Liquidity facilities	1,766
Funding facilities	6,653
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Derivative transactions	2,252
Holdings of securities (Banking Book)	3,260
Other	-
Total securitisation exposures in the banking book	**13,931**
Holdings of securities (Trading Book)	870
Total securitisation exposures	**14,801**

Analysis of securitisation exposure by risk weighting

Table 8 (d)

	30 June 2008	
Risk weight band	**Exposure $M**	**Capital requirement $M**
≤ 25%	11,882	1,948
>25 ≤ 35%	-	-
>35 ≤ 50%	-	-
>50 ≤ 75%	1,972	1,479
>75 ≤ 100%	63	63
>100 ≤ 650%	14	46
>650 < 1250%	-	-
1250% (Deduction)	-	-
Total (1)	**13,931**	**3,536**

(1) Securitisation exposures held in the Trading Book are subject to the VaR capital model under market risk and are not included in the above.

Analysis of securitisation exposure deductions by asset type

Table 8 (e)

	30 June 2008		
Securitisation exposures deducted from capital Underlying asset type	**Deductions from Tier 1 Capital $M**	**Deductions from Tier 2 Capital $M**	**Total $M**
Residential mortgage	7	-	**7**
Credit cards and other personal loans	-	-	**-**
Auto and equipment finance	-	-	**-**
Commercial loans	-	-	**-**
Other	-	-	**-**
Total	**7**	**-**	**7**

Analysis of securitisation exposure subject to early amortisation

Table 8 (f)

Securitisations subject to early amortisation	Aggregate drawn exposure		Aggregate IRB capital charge against Bank's retained shares from:		Aggregate IRB capital charge against investor's shares of:	
						30 June 2008
Underlying asset type	**Seller's interest $M**	**Investors' interest $M**	**Drawn balances $M**	**Undrawn lines $M**	**Drawn balances $M**	**Undrawn lines $M**
Residential mortgage	-	-	-	-	-	-
Credit cards and other personal loans	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

Analysis of securitisation exposure by asset type since 1 January 2008

Table 8 (g)

Securitisation activity - current reporting period		**30 June 2008**
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	**-**	**-**

Analysis of new facilities provided by since 1 January 2008

Table 8 (h)

	30 June 2008
New facilities provided	**Notional amount $M**
Liquidity facilities	-
Funding facilities	750
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Derivative transactions	-
Other	-
Total	**750**

5. 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 Board's 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. Should the market for an equity instrument become stale, a valuation technique is applied based on observable market data.

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 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.

Table 9

	30 June 2008	
Equity investments	**Balance sheet value $M**	**Fair value $M**
Value of listed (publicly traded) equities	897	897
Value of unlisted (privately held) equities	913	913
Total[(1)]	**1,810**	**1,810**

(1) Equity holdings comprise; $906m Investments in Associates, $597m Assets Held for Sale, $293m Available for Sale Securities, and $14m Assets at Fair Value through Income Statement

Gains (losses) on equity investments	**$M**
Cumulative realised gains (losses) in reporting period	369
Total unrealised gains (losses)	190
Total unrealised gains (losses) included in Tier 1/Tier 2 Capital	48

Risk weighted assets	**$M**
Equity investments subject to a 300% risk weight	161
Equity investments subject to a 400% risk weight	132
Total risk weighted assets by equity asset class	**293**

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

6. Operational Risk

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

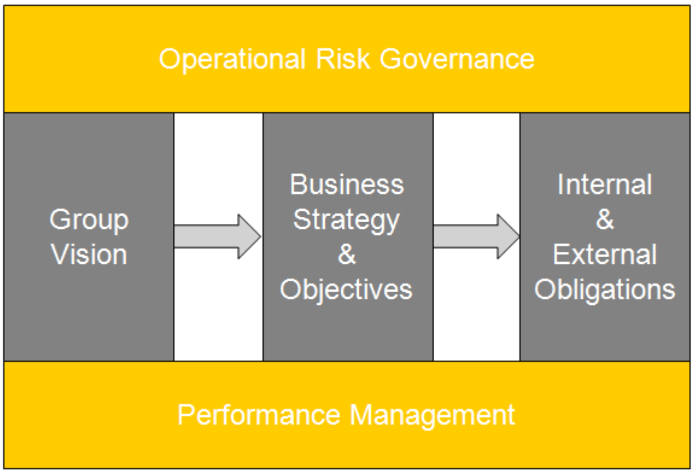
Risks that arise from lending activity or changes in market conditions are not operational risks, but credit and market risks respectively.

Capital is attributed to operational risks, according to the Bank's Economic Capital Framework using the Bank's Advanced Measurement Approach (AMA) methodology for Operational Risk.

The Group's Operational Risk Management Framework

Operational Risk Objectives

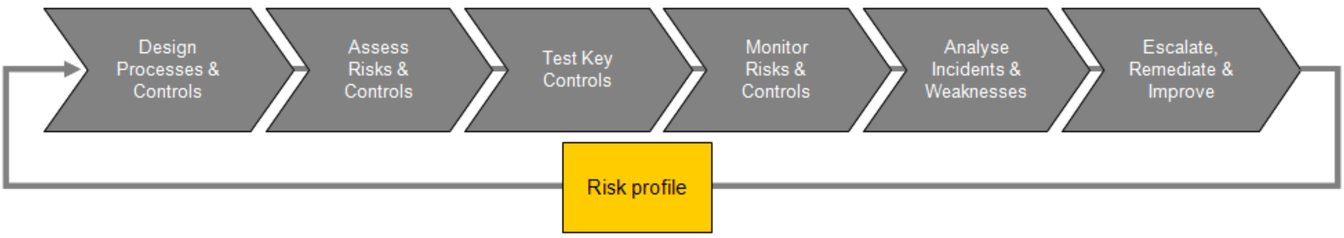
The Group's operational risk management objectives support the Group's Vision, achieving financial targets and satisfying licencing and other regulatory obligations.



The following detailed objectives have been approved by the Board's 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;
- making decisions based on an informed risk-return analysis and appropriate standards of professional practice; and
- achieving business growth and enhancing financial performance through efficient and effective operational processes.

Operational Risk Management Process



The Operational Risk Management Process is integral to the achievement of the Group's operational and strategic business risk objectives and must be embedded within business practices across the Group. It comprises eight core components: Governance and Internal Control Environment; Business Objectives & Strategy; Design Processes & Controls; Assess Risks & Controls; Test Key Controls; Monitor Risks & Controls; Analyse Incidents & Weaknesses; Escalate, Remediate & Improve.

Roles and Responsibilities

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

Three Layers of Assurance

Within the Group, accountability for risk management has been structured into "Three Layers of Assurance" as illustrated in the chart below.

Layer 1 – Business Management

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

Layer 2 – Risk Management & Compliance

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

Layer 3 – Internal and External Audit

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

Operational Risk Structure within the Group

The Group's operational risk management framework is designed to cover all types of operational risk that may occur in the Group.

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

Responsibilities of Group Functions

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

Strategic Business Risk

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

- Economic;
- Competitor;
- Social trends; or
- Regulatory.

Strategic business risk is taken into account when defining business strategy and objectives. The Risk Committee receives reports on business plans, major projects and change initiatives (including the Group's current relocation program "NOVA" and the Core System Modernisation Project). The Risk committee monitors progress and reviews successes compared to plans.

Economic capital for strategic business risk is also attributed to all Business Units. This allocation is made based on weighted average scores of the potential volatility of the Group's net profit after tax due to each of the four key casual factors outlined above.

Further development of this framework will continue through 2008/09.

Risk Mitigation through Insurance

The Group is able to achieve risk diversification and a higher risk tolerance than at a business unit level. Insurance is purchased as a Group function to achieve economies of scale, leverage risk diversification and the same cover irrespective of business location.

The Group's risk tolerance, risk transfer strategies, claims history, insurer security ratings, insurer performance, market pricing and program structure modelling are all considered in the sourcing of the optimal program.

The role of the Group Insurance function within Risk Management is to match cost effective insurance risk transfer with the types of unexpected losses from operational risks. This requires an understanding of insurance availability, premiums and business unit operational risks, and is considered against the Group's capacity and appetite to self-insure various risks.

The Group appoints an insurance and insurance risk management service provider to deliver the optimal insurance program. In addition the service provider provides risk & claims management advice.

The responsibilities for the appointment of service providers, management of the service arrangements and monitoring service provider performance are formally documented.

Overseas located subsidiaries have both local insurance policies and are part of the Group insurance program. Group Insurance ensures that there is an integrated insurance program and co-ordinate the program with the overseas locations and the service provider.

Management of insurance claims, both insured and self-insured, requires effective communication and resolution of claims issues through business partnering, management of service providers, identification of risk treatment strategies, evaluation of potential reputation issues and compliance with insurance policy terms and conditions. Group Insurance co-ordinate claims management with service providers, business units and insurers to achieve resolution.

Effective supplier risk management requires utilization of insurance clauses to provide a standard of protection for the Group. The standard ensures suppliers have the right type of and quantity of insurance. Group Insurance and Legal Services provide standard clauses. Group Insurance provides advice to business units in regard to the application of the standards and in regard to supplier requests for variations to the standards.

Some of the Group's insurance policies contain an exclusion of cover when the Group limits the Group's right of recourse against a negligent supplier. A review of limitation of liability provisions of major supply arrangements ensures the Group protects its insurance cover.

Group Insurance provides a service to business units for insurance advice, expertise and solutions. Group Insurance sign-off is provided in relation to projects (e.g. structured finance projects), new products, new subsidiaries, joint venture investments, mergers and acquisitions.

Group Insurance manages self-insurance arrangements for the Group's motor fleet. This includes management of the claims manager, co-ordination with the fleet manager, service to business units and employees.

Legal Services Human Resources manages the Comcare self insured workers compensation and rehabilitation self insurance licence arrangements for the Group. Insurance is purchased to protect the Group from a major loss event.

The Group places insurance for both owned and managed fund assets. Reference to the corporate program refers to risks borne directly by the Group. Reference to managed funds program refers to insurance arrangements where the Group, as fund manager, is required to arrange insurance cover for fund assets.

Group Insurance reports to the Board in relation to the placement of Directors' and Officers' liability insurance. Subsidiary boards require Group Insurance to submit an annual review of insurances to satisfy the Directors that an appropriate risk insurance risk transfer program is in place. Annually a report is prepared for the executive committee reporting on the insurance program and renewal.

Use of Internal and External Factors in the Advanced 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 – with multiple businesses each considered against the twenty BIS Level 2 risk types. Each intersection of a business and a Level 2 risk type is referred to as the Business / Risk Type ("BuRT"). The approach has a two-fold benefit:

(i) to model risk and the tail event potential accurately; and
(ii) to align to the organisation dimension where the business owns and manages their risk.

To continue this and capture the best business judgments in the scenario analysis process, the Group allows businesses to assess their key risks (within a particular Level 2 risk type) at the exposure level with separate frequency and severity judgements.

These exposure level judgements are simulated to provide an annual loss distribution for the exposure that is 'played back' to the business subject matter experts to ensure their judgements have been captured appropriately.

These exposure annual loss distributions are aggregated to the BuRT level, resulting in an annual loss distribution for the risk type within the respective business unit. However separate frequency and severity distributions are required at the BuRT levels to:

- Combine with other information sources (e.g. Internal Loss data);
- Model insurance mitigation; and
- Incorporate frequency dependence modelling.

The BuRT level frequency and severity distributions are aggregated using Monte Carlo simulation to produce capital results for the Group and its businesses.

The Group has developed an operational risk modelling system called "OpRA" to perform the measurement cycle function. OpRA has been subject to independent review by external audit firms KPMG and E&Y as part of the Group's obligations under APRA's AMA accreditation process.

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 OpRA; and
- Internal Loss Data (captured in SONAR, 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; and
- Risk Indicators (developed and recorded in OpRA) are used in the scenario analysis process.

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 which is calibrated to the Group's overall target debt rating in the market.

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 allocation 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 those business lines.

7. Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates, foreign exchange prices, commodity and equity prices, credit spreads, and implied volatility levels for all assets and liabilities where options are transacted.

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 Premium Business Services (PBS) Institutional Banking and Markets business.

The predominant non-traded market risk is interest rate risk in the Group's banking book. Other non-traded market risks are liquidity risk, funding risk, structural foreign exchange risk arising from capital investments in offshore operations, non-traded equity price risk, market risk arising from the insurance business and residual value risk.

APRA has specifically requested Australian banks implementing the Basel II framework to incorporate regulatory capital for interest rate risk in the banking book in their assessment of total capital from 1 July 2008. The measurement of market risk for traded assets remains unchanged from the original Basel I approach.

Market Risk Management Governance Overview

The Group's appetite for market risk is determined by the Board's Risk Committee and expressed in terms of a 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.

Risk Type	Owned By	Reviewed By	Oversight	Senior Management Oversight Committees	
Traded Market Risk	CBA Domestic & Offshore: •PBS Institutional Banking & Markets •Group Treasury Liquidity Operations	•Market Risk Management	Global monitoring by Market Risk Management	•Market Risk Committee •CBA ALCO •ASB ALCO •PTBC ALCO	Board Risk Committee
	International Banking Subsidiaries •ASB Treasury & Financial Markets New Zealand •PTBC Treasury (Indonesia)	•IFS Risk Management with support by •ASB Group Finance & Risk Management (New Zealand) •PTBC Risk Management (Indonesia)			
Non-Traded Market Risk (including Interest Rate Risk In the Banking Book)	CBA Domestic & Offshore: •PBS Institutional Banking & Markets •Group Treasury •Wealth Management Colonial Mutual Life Assurance (CMLA)	•Market Risk Management •Wealth Management Risk Management		CBA ALCO Market Risk Committee CMLA ALCO ASB ALCO PTBC ALCO CNB ALCO	
	International Banking Subsidiaries •ASB Treasury & Financial Markets (New Zealand) •PTBC Treasury (Indonesia) •CNB International & Treasury (Fiji)	•IFS Risk Management with support by: •ASB Group Finance & Risk Management (New Zealand) •PTBC Risk Management (Indonesia) •CNB Finance (Fiji)			
Residual Value Risk	CBA Domestic & Offshore: •PBS Institutional Banking & Markets - Structured Asset Finance	•Market Risk Management		•Residual Value Risk Committee	
Seed Funding Risk	Globally by: •Wealth Management Colonial First State Global Asset Management & Colonial First State Investments	Globally by: •Wealth Management Risk Management		•Seed Trust Risk Committee •CBA ALCO	

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

Market risk may be generated only 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. On a monthly basis the ALCO and senior management committees review market risk performance against risk/return expectations. The Risk Committee usually meets every two months or more often, if required, and addresses the operation of the market risk management framework together with any issues that may arise.

Market Risk Measurement

The Group uses Value-at-Risk (VaR) as one of the measures of traded and some non-traded market risk. VaR measures potential loss using historically observed market volatility and correlation between different markets. The measured VaR for traded market risk uses two years of daily market movements. The same approach is used to measure VaR for non-traded risk based on six years of daily movements.

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 banking book interest rate risk and insurance business market risk.

Because VaR is not an estimate of the maximum economic loss that the group could experience from an extreme market event, management employs additional risk mitigating techniques, including stress testing. Stress testing measures the potential for economic loss at significantly higher confidence levels than 97.5%. Management then uses these results in decisions to manage the economic impact on market risk positions.

7.1 Traded Market Risk

The Group trades and distributes financial markets products and provides risk management services to clients on a global basis.

The objectives of the Group's financial markets activities are to:
- Provide risk management 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. All trading positions are valued at fair value and taken to profit and loss on a mark to market basis. Market liquidity risk is controlled by concentrating trading activity in highly liquid markets.

The Group measures and manages Traded Market Risk through a combination of VaR and stress test limits, together with other key controls including Permitted Instruments, Sensitivity Limits and term restrictions.

Capital Requirement using the Standard Method

The Group is accredited by APRA as an Internal Model user for Regulatory Capital calculation for our 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. A specific risk charge is also calculated for Debt and Equity risk. There are also a small number of products in our Trading Book where Regulatory Capital is determined using the Standard Method rather than the Internal Model. These are products where an approved pricing model exists in the Group's official Product Valuation and Trading Systems but the model is yet to be implemented and approved within the Internal Model risk engine. These products are then managed in a distinct portfolio with Regulatory Capital calculated as an add-on to that from the Internal Model.

As at 30 June 2008, Electricity Trading, Inflation linked products and a small number of path dependent Interest Rate Options were managed in this manner. The breakdown of the capital requirement is disclosed in table 10 below.

Table 10	**30 June 2008**
Market risk capital requirement	**Standard method $M**
Interest rate risk	218.4
Equity position risk	2.9
Foreign exchange risk	0.4
Commodity risk	3.7
Total	**225.4**
Risk weighted asset equivalent (1)	2,817.5

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

Capital Requirement using the Internal Models Approach for Trading Portfolios

The trading book is segregated into a portfolio hierarchy by asset class, geography/location and general instrument type covering:

- Interest rates;
- Credit Spreads;
- Commodities;
- Foreign Exchange; and,
- Equities.

The capital requirement for products eligible for inclusion in the Internal Model approach was $134.7m at 30 June 2008. The risk weighted asset equivalent for traded market risk using the internal models approach is $1,683.8m at 30 June 2008 (that is, the capital requirements multiplied by 12.5 in accordance with APRA Prudential Standard APS 110).

The Internal Model consists of historical simulation using two years of data to formulate relative market moves with a ten day horizon. The VaR value is determined from the 99% confidence level of the 520 equally weighted P/L values generated by the simulation process.

The stress tests applied to each portfolio cover all curve types: interest rates, credit spreads, commodities, foreign exchange and equities. The stresses consist of outright price/level movements and, where appropriate, modifying the slope and curvature of curves. The magnitude of the stresses is typically greater than a four standard deviation, one day movement. In addition, a range of historical scenarios is applied to investigate extreme market situations such as: Stock Market Crash (1987), Gulf War (1990), Asian Crisis (1997), LTCM/Russian Crisis (1998), Tech Wreck (2000) and the September 11 Attack (2001).

Each of the individual pricing models within the Internal Model has been independently validated in accordance with the Group’s Group Model Policy. The Internal Model, as a whole, is subject to back-testing against theoretical profit and loss.

Table 11

Value at Risk (VaR)	Over the reporting period 1 January 2008 to 30 June 2008 *Mean value* $M	*Maximum value* $M	*Minimum value* $M	As at 30 June 2008 $M
Aggregate VaR (10 day, 99%)	31.9	45.5	21.5	39.3

Comparison of VaR estimates to gains/losses	
Number of "outliers" incurred for the trading portfolio (1 day, 99%) over the reporting period Jan 2008 to June 2008.	6

The number of VaR exceptions, in table 12 below, reflects volatile risk factor returns over the reporting period. These have been under-represented in historical observation.

Table 12

Date	Hypothetical Loss $M	VaR 99% $M
12 June 2008	13.2	10.4
13 May 2008	6.6	4.6
17 April 2008	5.8	5.5
24 March 2008	5.0	4.2
18 March 2008	4.8	4.5
12 March 2008	7.9	4.2

7.2 Non-Traded Market Risk

Non-traded market risk activities are governed by the Group market risk framework approved by the Risk Committee. Implementation of the policy, procedures and limits for the Group is the responsibility of the Group Executive of the associated Business Unit with senior management oversight by the Group's Asset and Liability Committee. Independent management of the non-traded market risk activities of offshore banking subsidiaries is delegated to the CEO of each entity with oversight by the local Asset and Liability Committee.

Interest Rate Risk in the Banking Book

Interest rate risk in the Group's banking book (IRRBB) is the risk of adverse changes in expected net interest earnings in current and future years from changes in interest rates on mismatched assets and liabilities in the banking book. The objective is to manage interest rate risk to achieve stable and sustainable net interest earnings in the long term.

The Group measures and manages Banking Book interest rate risk in two ways:

(a) Next 12 months' earnings

The risk to net interest earnings over the next 12 months from changes in interest rates is measured on a monthly basis. Risk is measured assuming an instantaneous 100 basis point parallel movement in interest rates across the yield curve. Potential variations in net interest earnings are measured using a simulation model that takes into account the projected change in Banking Book asset and liability levels and mix. Assets and liabilities with pricing directly based on market rates are repriced based on the full extent of the rate shock that is applied. Risk on the other assets and liabilities (those priced at the discretion of the Group) are measured by taking into account both the manner in which the products have repriced in the past as well as the expected change in price based on the current competitive market environment.

(b) Economic Value

A 20-day 97.5% VaR measure is used to capture the economic impact of adverse changes in interest rates on all banking book assets and liabilities. This analysis measures the potential change in the net present value of cash flows of assets and liabilities. Cash flows for fixed rate products are included on a contractual basis, after adjustment for forecast prepayment activities. Cash flows for products repriced at the discretion of the Group are based on the expected repricing characteristics of those products.

Interest rate risk on banking book items is transferred from the originating business units to the treasury function under a matched-funds-transfer pricing framework. Products having contractual maturities and direct market-linked rates are transferred using their actual repricing schedules. Products with indeterminate maturities or discretionary rates are transferred via replicating portfolios, which consist of revolving transactions at market rates designed to approximate the average cash flow and repricing behaviour of the underlying client transactions. Modelling assumptions relating to the structure of replicating portfolios are regularly reviewed and adjusted as necessary.

The portion of total non-rate sensitive liabilities which funds rate-sensitive assets is assigned a repricing profile which is determined by the Board. The regulatory capital requirement for IRRBB is based, as required, on an investment term of capital of one year.

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 risk and yield curve risk - which arise from repricing mismatches between assets and liabilities - are jointly determined from the distribution of changes in the economic value of the banking book as a consequence of interest rate changes (overall level of the yield curve and the shape of the yield curve). A historical simulation Value-at-Risk (VaR) approach is used, with IRRBB regulatory capital determined with respect to a one year holding period and a 99% level of confidence. Interest rate scenarios are constructed over a historical observation period of six years.

2. Basis risk is measured as the risk of loss in earnings of the banking book arising from differences between the actual and expected interest margins on banking book items. The IRRBB regulatory capital requirement for basis risk is measured under a dynamic simulation approach, as the change in net interest income over a twelve month forecast period in response to an adverse change to implied forward cash rates.

3. Optionality risk is measured as the risk of loss in economic value owing to the existence of stand-alone or embedded options in the banking book, to the extent that such potential losses are not included in the measurement of repricing, yield curve or basis risks. Optionality risk arising from a departure from assumed prepayment behaviour is calculated from a stressed prepayment rate scenario by the VaR model. Optionality risk arising from the use of replicating portfolios for indeterminate maturity or discretionary rate items is measured by the VaR model under an applied mismatch between the underlying product balances and the unhedged term asset positions.

4. The embedded loss or gain in banking book items not accounted for on a marked-to-market basis is measured and included in the regulatory capital for IRRBB. The embedded loss or gain is measured as the difference between the book value of the banking book and the economic value of the banking book.

APRA has specifically requested Australian banks implementing the Basel II framework to incorporate regulatory capital for interest rate risk in the banking book in their assessment of total capital from 1 July 2008. The Group’s capital requirements and risk weighted asset equivalent for interest rate risk in the banking book will be included in the Group’s 30 September 2008 disclosures.

Structural Foreign Exchange Risk

Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Structural, Balance Sheet, foreign exchange risk is managed in accordance with principles approved by the Risk Committee. Hedging strategies are based on the source of the funds and the expected life of the investments. The Group principally hedges Balance Sheet foreign exchange risks except for long term investments in offshore branches and subsidiaries. The Group’s only significant structural foreign exchange exposure is within ASB.

Non-traded Equity Price Risk

The Group retains non-traded equity price risk through strategic investments and business development activities in divisions including PBS, IFS and Wealth Management. This activity is subject to governance arrangements approved by the Risk Committee, and is monitored on a centralised basis within the Market Risk Management function. The impact of a 10% change in fair value on the total non-traded equity price risk exposure at 30 June 2008 is $180 million (also refer section 5 on Equity Risk).

Market Risk in Insurance Businesses

A significant component of the Group's non-traded market risk activities result from the holding of assets related to the insurance business.

All financial assets within the life statutory funds directly support either the Group's life insurance or life investment contracts. The Group retains market risk on contracts with guaranteed liabilities. The Group manages this risk by the monthly monitoring and rebalancing of assets to contract liabilities. A small portion of financial assets held within the insurance business relate to shareholder funds; the majority of these are debt securities for which the interest rate risk is included within the Group's measurement of interest rate risk.

In addition, market risk in the life insurance business arises from mismatches between assets and liabilities. Guaranteed returns are offered on some classes of policy. These liabilities may not be easily hedged through matching assets. Wherever possible, the Group segregates policyholders' funds from Shareholders' funds and sets investment mandates that are appropriate for each.

Market risk arises when market movements reduce funds under administration and resulting fee income on investment-linked policies. Market risk also arises on returns obtained from investing life company Shareholders' capital.

As at 30 June 2008, Shareholders' funds in the life insurance business are invested 78% in income assets (cash and fixed interest) and 22% in growth assets (shares and property) with the asset mix varying from company to company. Policyholder funds are invested to meet the objectives of the policies in force.

The ability to match asset characteristics with policy obligations may be constrained by a number of factors including regulatory constraints, the lack of suitable investments as well as by the nature of the policy liabilities themselves.

A large proportion of policyholders' assets are held for investment linked policies where the policyholder takes the risk of falls in the market value of the assets.

A smaller proportion of policyholders' assets are held to support policies where life companies have guaranteed either the principal invested or the investment return ("guaranteed policies'") where investment mandates for these classes of policies emphasise lower volatility assets such as cash and fixed interest.

As at 30 June 2008, if credit spreads were to widen by 50 basis points, the impact on the Australian life insurance business would have been a loss of approximately $24 million before tax.

Liquidity risk is not a significant issue in life insurance companies. The life insurance companies in the Group hold substantial investments in highly liquid assets such as listed shares, government bonds and bank deposits. Furthermore, processing time for claims and redemptions enables each company to forecast and manage its liquidity needs.

Residual Value Risk

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

Liquidity and Funding Risk

Overview

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

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

The Group's liquidity and funding policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to borrow funds on an unsecured basis, or has sufficient quality assets to borrow against on a secured basis, or has sufficient quality liquid assets to sell to raise immediate funds without adversely affecting the Group's net asset value.

The Group's funding policies and risk management framework complement the Group's liquidity policies by ensuring an 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 during periods of unfavourable market conditions, such as have been experienced since August 2007.

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 retail funding base formed approximately 57% of its total funding requirements as at 30 June 2008.

The Risk Management Framework for Liquidity and Funding

The Group's liquidity and funding policies are approved by the Board and agreed with the Australian Prudential Regulation Authority ("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 CBFC Limited and subsidiaries within the Colonial Group, also apply their own liquidity and funding methods to address their specific needs.

The Group's New Zealand banking subsidiary, ASB Bank Limited ("ASB"), manages its own domestic liquidity and funding needs in accordance with its own liquidity policies and the policies of the Group. ASB's liquidity policy is also overseen by the Reserve Bank of New Zealand.
The Group also has relatively small banking subsidiaries in Indonesia and Fiji that manage their liquidity and funding on a similar basis.

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

Liquidity and Funding Policies and Management

The Group's liquidity and funding policies provide that:

- Balance sheet assets that cannot be liquidated quickly are funded with deposits or term borrowings that meet minimum maturity requirements with appropriate liquidity buffers;
- Short and long term wholesale funding limits are established and reviewed regularly based on surveys and analysis of market capacity;
- 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 un-drawn 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 Reserve Bank of Australia ("RBA") at any time. The second category is AAA and A-1+ rated Australian residential mortgage backed securities that meet certain minimum requirements.

At 30 June 2008 around 98% of the Group's Australian dollar liquid assets qualified for repurchase by the RBA at any time.

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 programmes are supplemented by the Interbank Deposit Agreement between the four major Australian banks. This agreement is similar to a standby liquidity facility that allows the Group to access funding in various crisis circumstances.
- Its consumer, small business and institutional deposit base;
- Its consumer retail funding base includes a wide range of retail transaction accounts, investment accounts, term deposits and retirement style accounts for individual consumers; and
- Its wholesale international and domestic funding programmes which includes its: Australian dollar Negotiable Certificates of Deposit programme; Transferable Certificate of Deposit programme; Australian dollar bank bill programme; Australian, U.S. and Euro Commercial Paper programmes; U.S. Extendible Notes programme; Australian dollar domestic borrowing programme; U.S. Medium Term Note Programme; Euro Medium Term Note Programme and its Medallion "Regulation AB" securitisation programme.

8. Appendices

8.1 Detailed Capital Disclosures

Tier One Capital

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	30 June 2008 $M
Ordinary share capital	15,727
add back treasury shares(1)	264
Ordinary share capital for regulatory purposes	**15,991**

(1) Represents shares of the Bank held by the Group's life insurance operations.

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

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

Reserves

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

Reserves	30 June 2008 $M
General reserve	1,252
Capital reserve	293
Foreign currency translation reserve(1)	(757)
Total reserves balance included in regulatory capital	**788**

(1) Excludes balances related to non consolidated subsidiaries.

Retained Earnings (including Current Year Earnings)

Through the use of dividend policy and strategy, retained earnings (including current period profits) are a significant mechanism by which the Group's capital is managed.

There are a number of reconciling items between accounting designated retained earnings and that amount which qualifies as Tier One Capital. This primarily includes allowance for expected dividends and expected share issues associated with the dividend reinvestment program.

Residual Tier One Capital

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

The Group is restricted to the extent to which residual capital qualifies as Tier One Capital, with any amounts in excess of 25% of Tier One Capital transferred to Upper Tier Two Capital. Innovative Capital is restricted to 15% of Tier One Capital, subject to transitional arrangements applicable till 1 January 2010. APRA has approved a maximum of $974 million in Innovative Tier One transitional relief.

As at 30 June 2008 $1,359 million of residual capital was transferred to upper Tier Two Capital as a result of this restriction.

Innovative Capital

The following innovative capital instruments were current at 30 June 2008.

Innovative Capital[1]	30 June 2008 $M
PERLS II	741
PERLS III	1,147
Trust Preferred Securities 2003	569
Trust Preferred Securities 2006	939
ASB Preference Shares	505
Perpetual Exchangeable Floating Rate Notes	209
Total Innovative Capital	**4,110**

(1) Represents AUD equivalent net of issue costs.

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

PERLS II and III

Perpetual Exchangeable Resettable Listed Securities (PERLS II) and Perpetual Exchangeable Repurchaseable Listed Shares (PERLS III) were issued in 2004 and 2006 respectively.

	PERLS II	PERLS III
Instrument	Unit in a trust	Perpetual preference share
Amount	AUD 750m	AUD 1,166m
Tier One Class	Innovative	Innovative
Issue Date	6 Jan 2004	6 Apr 2006
Earliest Buy-out Date	15 Mar 2009	6 Apr 2016
Distribution Rate	3M AUD-BBSW + 0.95% p.a.	3M AUD-BBSW + 1.05 -1.15% p.a.
Distribution Frequency	Quarterly in arrears	Quarterly in arrears
Accounting Treatment	Debt	Debt
Franking	Fully franked distributions	Fully franked distributions
Step-up Date	No	Yes; 6 Apr 2016
Step-up Rate	N/A	Margin increase by 1.00% per annum.
Distributions	Non-cumulative	Non-cumulative
Mandatory Conversion	No	No

PERLS II and III instruments are classified as Loan Capital in the Group's balance sheet. Further details are contained within Note 31 of the 2008 Annual Report.

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 596m	AUD 939m
Tier One Class	Innovative	Innovative
Issue Date	6 Aug 2003	15 Mar 2006
Earliest Buy-out Date	30 Jun 2015	15 Mar 2016
Distribution Rate	5.805% p.a.	6.024% p.a. to 15 Mar 2016
Distribution Frequency	Semi-annually in arrears	Semi-annually in arrears
Accounting Treatment	Debt	Equity
Franking	No	No
Step-up Date	No	Yes: 15 Mar 2016
Step-up Rate	N/A	LIBOR + 1.740% p.a.
Distributions	Non-cumulative	Non-cumulative
Mandatory Conversion	No	No

The TPS 2003 securities are classified as Loan Capital in the Group's balance sheet with further details contained within Note 31 of the 2008 Annual Report.

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

ASB Preference Shares

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

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

Perpetual Exchangeable Floating Rate Notes

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

Instrument	Exchangeable floating rate note	Exchangeable floating rate note	Undated floating rate note
Amount USD	37.5m	64m	100m
Amount AUD	39m	66m	104m
Issue Date	11 Jul 1988	22 Feb 1989	15 October 1986
Distribution Rate	6 mth LIBOR + 0.15% p.a.	6 mth LIBOR + 0.06% p.a.	6 mth LIBOR + 0.0625% on an actual / 360 day basis
Distribution Frequency	Semi-annually in arrears	Semi-annually in arrears	Semi-annually in arrears
Accounting Treatment	Debt	Debt	Debt
Franking			
Step-up Date	No	No	No
Step-up Rate	N/A	N/A	N/A
Distributions	Non-cumulative	Non-cumulative	Non-cumulative
Mandatory Conversion	No	No	No

These instruments are classified as Loan Capital in the Group's balance sheet. Further details are contained within Note 31 of the 2008 Annual Report

Non Innovative Capital	30 June 2008 $M
PERLS IV	1,465
Less issue costs	(22)
Total Non Innovative Capital	**1,443**

The Group's Perpetual Exchangeable Resaleable Listed Securities (PERLS IV), issued in July 2007, qualifies as Non Innovative Tier One Capital and are classified as Loan Capital in the Group's balance sheet with further details contained in Note 31 of the 2008 Annual Report.

PERLS IV was a retail domestic issue denominated in Australian dollars and is listed on the Australian Stock Exchange. It was the first non-innovative transaction undertaken by the Group.

	PERLS IV
Legal Form	Stapled Security
Issuer	Commonwealth Bank
Issue size	AUD1,465m
Issue date	12 July 2007
Earliest Buy-Out Date	August 2012
Accounting Classification	Debt
APRA Classification	Non-Innovative Tier One
Security Credit Rating	A+ (S&P) Aa3 (Moody's)
Distribution Rate	1Y AUD-BBSW + 1.05% p.a.
Distribution Frequency	Quarterly in arrears
Nature of distribution	Franked floating rate distribution
Rights if distribution not fully franked	Gross-up
Ranking in liquidation	Ranks as Preference Share
Reset to terms	No
Step-up	No
Mandatory conversion	31 October 2012, where Mandatory Conversion Conditions are satisfied

Tier Two Capital Instruments

The Group has on issue both Upper and Lower Tier Two Capital instruments

Upper Tier Two Capital

Upper Tier Two Capital is comprised of the following items:

	30 June 2008 $M
Residual Capital in excess of prescribed limit	1,359
Asset Revaluation Reserve (45% of balance)	88
Perpetual Subordinated Debt	196
Other	57
Total Upper Tier Two Capital	**1,700**

Perpetual Subordinated Debt

The Group only has one note on issue that qualifies as Upper Tier 2 Capital with the key features summarised below.

Amount JPY	JPY 20 billion
Amount AUD	AUD 196 million
Issued	25 February 1999
Maturity	Undated
Call Option	Redeemable at option of the Bank
Coupon	Up to 28 Sept 2029 - 4.775% After 28 Sept 2029 - 6 month JPY-LIBOR-BBA plus 170 bps

Lower Tier Two Capital

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

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

The Lower Tier Two debt on issue as at 30 June 2008 is summarised in the table below.

Lower Tier Two Loan Capital	Currency	Amount $M	Issue	Maturity	AUD $M
AUD Denominated					
Subordinated Note	AUD	275	Dec-1989	Dec-2014	275
Subordinated Note	AUD	25	Apr-1999	Apr-2029	25
Subordinated Note	AUD	300	Feb-2004	Feb-2014	300
Subordinated Note	AUD	200	Feb-2004	Feb-2014	200
Subordinated Note	AUD	300	Feb-2005	Feb-2015	300
Subordinated Note	AUD	300	Nov-2005	Nov-2015	300
Subordinated Note	AUD	200	Sep-2006	Sep-2016	200
Subordinated Note	AUD	150	May-2007	May-2017	150
Subordinated Note	AUD	350	May-2007	May-2017	350
					2,100
USD Denominated					
Subordinated Note	USD	300	Jun-2000	Jun-2010	128
Subordinated Note	USD	250	Jun-2003	Jun-2018	259
Subordinated Note	USD	100	Jun-2003	Jun-2018	104
Subordinated Note	USD	250	Jun-2004	Aug-2014	259
Subordinated Note	USD	250	Aug-2004	Aug-2014	259
Subordinated Note	USD	61	Mar-2005	Mar-2025	64
Subordinated Note	USD	200	Jun-2006	Jul-2016	207
Subordinated Note	USD	300	Sep-2006	Sep-2016	311
Subordinated Note	USD	650	Dec-2006	Dec-2016	674
					2,265
JPY Denominated					
Subordinated Note	JPY	30,000	Oct-1995	Oct-2015	293
Subordinated Note	JPY	10,000	May-2004	May-2034	97
Subordinated Note	JPY	10,000	Nov-2005	Nov-2035	97
Subordinated Note	JPY	5,000	Mar-2006	Mar-2018	49
					536
GBP Denominated					
Subordinated Note	GBP	150	Jun-2003	Dec-2023	307
NZD Denominated					
Subordinated Note	NZD	350	May-2005	Apr-2015	278
Subordinated Note	NZD	130	Jun-2006	Jun-2016	104
Subordinated Note	NZD	358	Nov-2007	Nov-2017	283
					665
EURO Denominated					
Subordinated Note	EUR	300	Mar-2005	Mar-2015	490
CAD Denominated					
Subordinated Note	CAD	150	Nov-2005	Nov-2015	153
Subordinated Note	CAD	150	Nov-2005	Nov-2015	153
Subordinated Note	CAD	300	Oct-2007	Oct-2017	308
					614
Total Lower Tier 2 notes and bonds on issue					**6,977**
less holdings on own lower tier two capital					**(40)**
Total Lower Tier 2 Capital (1)					**6,937**

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

These instruments are classified as Loan Capital in the Group's balance sheet. Further details are contained within Note 31 of the 2008 Annual Report.

8.2 List of APRA Quantitative Tables

The following schedule lists the quantitative tables in APRA Prudential Standard APS 330 Attachment A and the associated table in this document.

APS 330 Table	Title	Table No.	Page No.
1 (d)	Aggregate amount of undercapitalised non-consolidated subsidiaries	n/a	-
2 (b) to (d)	Regulatory capital breakdown	1	10
3 (b) to (g)	Risk weighted assets by risk type	2	12
4 (b)	Credit risk exposure by portfolio type	3 (a)	15
4 (c)	Credit risk exposure by geographic distribution and portfolio type	3 (b)	15
4 (d)	Credit risk exposure by industry sector and portfolio type	3 (c)	16
4 (e)	Credit risk exposure by contractual maturity and portfolio type	3 (d)	17
4 (f)	Impaired and past due exposures, specific provisions and actual losses by industry sector	3 (e)	17
4 (g)	Impaired and past due exposures, specific provisions by geographic region	3 (f)	17
4 (h)	Movement in provisioning for impairment	3 (g)	19
4 (i)	Credit risk exposure by Basel II approach (advanced/standardised)	3 (h)	20
5 (b)	Standardised, specialised lending and equity exposure by risk weight	6	28
6 (b)	Internal ratings structure for credit risk exposures	4 (a)	22
6 (c)	PD rating methodology by portfolio segment	4 (b)	24
6 (d)	Non-retail credit risk exposure by PD band and portfolio type	5 (a)	25
6 (d)	Retail credit risk exposure by PD band and portfolio type	5 (b)	26
6 (e)	Analysis of credit risk exposure losses by portfolio type	5 (c)	27
6 (f)	Historical loss analysis by portfolio type	5 (d)	27
7 (b) & (c)	Credit risk mitigation by Basel II approach	7	30
9 (d) & (e)	Securitisation exposures by asset type	8 (a)	35
9 (d) & (e)	Analysis of past due and impaired securitisation exposures	8 (b)	36
9 (f)	Analysis of securitisation exposure by facility type	8 (c)	37
9 (g)	Analysis of securitisation exposure by risk weighting	8 (d)	37
9 (g)	Analysis of securitisation exposure deductions by asset type	8 (e)	37
9 (h)	Analysis of securitisation exposure subject to early amortisation	8 (f)	38
9 (i)	Risk weighted assets securitisation exposure under the standardised approach	n/a	-

APS 330 Table	Title	Table No.	Page No.
9 (j)	Analysis of securitisation exposure by asset type since 1 January 2008	8 (g)	38
9 (j)	Analysis of new securitisation exposure by facility type since 1 January 2008	8 (h)	38
10	Market risk capital under the standardised approach	10	47
11	Value at risk analysis for trading portfolios under the internal models approach	11/12	48
13 (b) to (f)	Analysis of equity investments	9	39
14	Interest Rate Risk in the Banking Book (not effective for the Group at 30/6/08)	n/a	-

8.3 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 Group's Basel II accreditation approval provided by APRA 10 December 2007.
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.
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.
CBA	Commonwealth Bank of Australia. The chief entity for the Group.
CDB	A subsidiary of the Commonwealth Bank of Australia that is directly regulated by APRA.
EAD	Exposure at Default - The extent to which a bank may be exposed to a counterparty in the event of default.
ELE	Extended Licensed Entity - APRA may deem a subsidiary of an ADI to be part of the ADI itself for the purposes of measuring the ADI's exposures to related entities.
IRB	Internal Ratings Based – The approach measuring credit risk focusing on SME and Retail exposures.
Level 1	The lowest level at which the Group reports its capital adequacy to APRA.
Level 2	The level at which the group reports its capital adequacy to APRA being the consolidated banking group comprising the ADI, its immediate locally incorporated non-operating holding company, if any, and all their subsidiary entities other than non-consolidated subsidiaries. This is the basis on which this report has been produced.
LGD	Loss Given Default - The fraction of exposure at default (EAD) that will not be recovered following default.
PD	Probability of Default - The likelihood that a loan will not be repaid and will fall into default
RWA	Risk Weighted Assets.