Basel II Pillar 3

Capital adequacy and risk disclosures as at 30 June 2012

CommonwealthBank

COMMONWEALTH BANK OF AUSTRALIA
ACN 123 123 124 | 15 AUGUST 2012

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For further information contact:

Investor Relations

Warwick Bryan

Phone: (02) 9118 7112

Email: warwick.bryan@cba.com.au

1 Introduction

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

This document presents information on the Group's capital adequacy and Risk Weighted Assets (RWA) calculations for credit risk including securitisation exposures and equities, market risk, Interest Rate Risk in the Banking Book (IRRBB) and operational risk according to APRA requirements.

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

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

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

In January 2012, the Group implemented BCBS's "Revisions to the Basel II market risk framework" (Basel 2.5). These revisions primarily introduced additional reporting and capital requirements for securitisation and traded market risk.

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

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

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

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

Market Environment Review

Global economic growth has weakened in 2012, driven by sovereign debt concerns and benign confidence levels globally. Performance remains mixed between regions while there is a global slow down. Asia together with other emerging economies are for the most part recording stronger growth than developed economies. Europe entered into a recession in the first half of the year, and risks are to the downside, given the implementation of austerity measures and uncertainty over the outlook for the Eurozone and single currency. In a relative sense the US is performing better however has to deal with political uncertainty and fiscal consolidation in fiscal year 2013. This continues to negatively impact financial market sentiment, with large inflows into perceived safe haven investments.

In Australia growth is above trend, driven by record business investment (mainly resource-related) and on-trend consumer spending. Export volumes have been constrained by poor weather, while non-resource construction is soft. The strong Australian Dollar is supporting firm growth in goods and services import volumes. The unemployment rate remains at a relatively low level. The Federal Government's Budget is heading towards a small surplus in 2012/13 which should dampen inflation pressures. Household savings rates are the highest since the 1980s. Inflation measures are generally benign, wages growth is modest and house prices are gradually declining in most capital cities. The Reserve Bank of Australia appears to be in the middle of an easing cycle which should provide support to growth going forward.

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

The Group in Review

The Group maintains a strong capital position with the capital ratios well in excess of APRA minimum capital adequacy requirements (Prudential Capital Ratio (PCR)) and the Board approved minimum levels at all times throughout the year ended 30 June 2012.

The Group's Common Equity Tier 1 (CET1), Tier One and Total Capital ratios as at 30 June 2012 were 7.82%, 10.01% and 10.98% respectively.

The Group's CET1, Tier One and Total Capital ratios as at 30 June 2012 under the Financial Services Authority (the UK regulator) method of calculating regulatory capital as a percentage of RWA were 11.1%, 13.6% and 14.1% respectively. This has been provided for comparative purposes as the Group is not regulated by the Financial Services Authority (See Section 4, Capital and Risk Weighted Assets, (page 6)).

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

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

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

The Group's capital forecasting process ensures pro-active actions and plans are in place to ensure a sufficient capital buffer above minimum levels is in place at all times. The Group manages its capital by regularly and simultaneously considering regulatory capital requirements, rating agency views on the capital required to maintain the Group's credit rating, the market

response to capital, stress testing and the Group's bottom up view of economic capital. These views then cascade into considerations on what capital level is targeted.

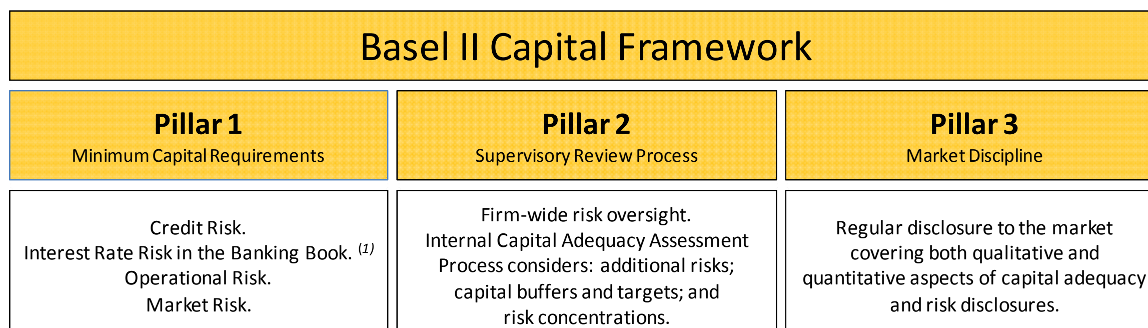
The Group's management of its capital adequacy is supported by robust capital management processes applied in each Business Unit. The results are integrated into the Group's consolidated regulatory and economic capital requirements, and risk-adjusted performance and pricing processes.

Summary Group Basel II Capital Adequacy Ratios (Level 2)	30/06/12 %	31/12/11 %	30/06/11 %
Common Equity Tier One	**7. 82**	7. 67	7. 66
Tier One	**10. 01**	9. 90	10. 01
Tier Two	**0. 97**	1. 21	1. 69
Total Capital	**10. 98**	11. 11	11. 70

2 Basel II Framework Overview

The Group is required to report the calculation RWA and assessment of capital adequacy on a Level 2 basis (see Section 3, page 5, for further details on the scope of application). APRA has set minimum regulatory capital requirements for banks that are consistent with Basel II. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by banks so that the "need" for capital can be compared to the amount of capital "at hand".

The Basel II Capital Framework is based on "three pillars" as summarised below:



(1) Applicable to Pillar 1 in Australia only (Pillar 2 elsewhere).

In December 2007, APRA granted advanced Basel II accreditation to the Group to calculate RWA and the assessment of capital adequacy in accordance with Pillar 1.

Adoption of advanced methodologies prescribed under Basel II was effective from 1 January 2008.

As a result of receiving advanced Basel II accreditation, the Group uses the AIRB approach for credit risk and the advanced measurement approach for operational risk in the calculation of RWA. Portfolios which attract the standardised approach are discussed in Section 3 "Scope of Application" (page 5) and section 6.3 "Portfolios Subject to Standardised and Supervisory Risk Weights" (page 36).

The Group included an appropriate allowance for IRRBB in its regulatory capital calculations with effect from 1 July 2008, as required by APRA for Australian ADI's. This is not a requirement under Basel II - Pillar 1 in other jurisdictions.

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

The ICAAP document provides details on:

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

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

These Pillar 3 qualitative and quantitative disclosures are made in detail in this document as part of the Group's 30 June 2012 nancial year reporting. Detailed quantitative information is released at the Group's December half year with summarised quantitative information released for March and September quarters. These reports are published on the Group's corporate website (www.commbank.com.au) within 40 business days of each quarter end.

3 Scope of Application

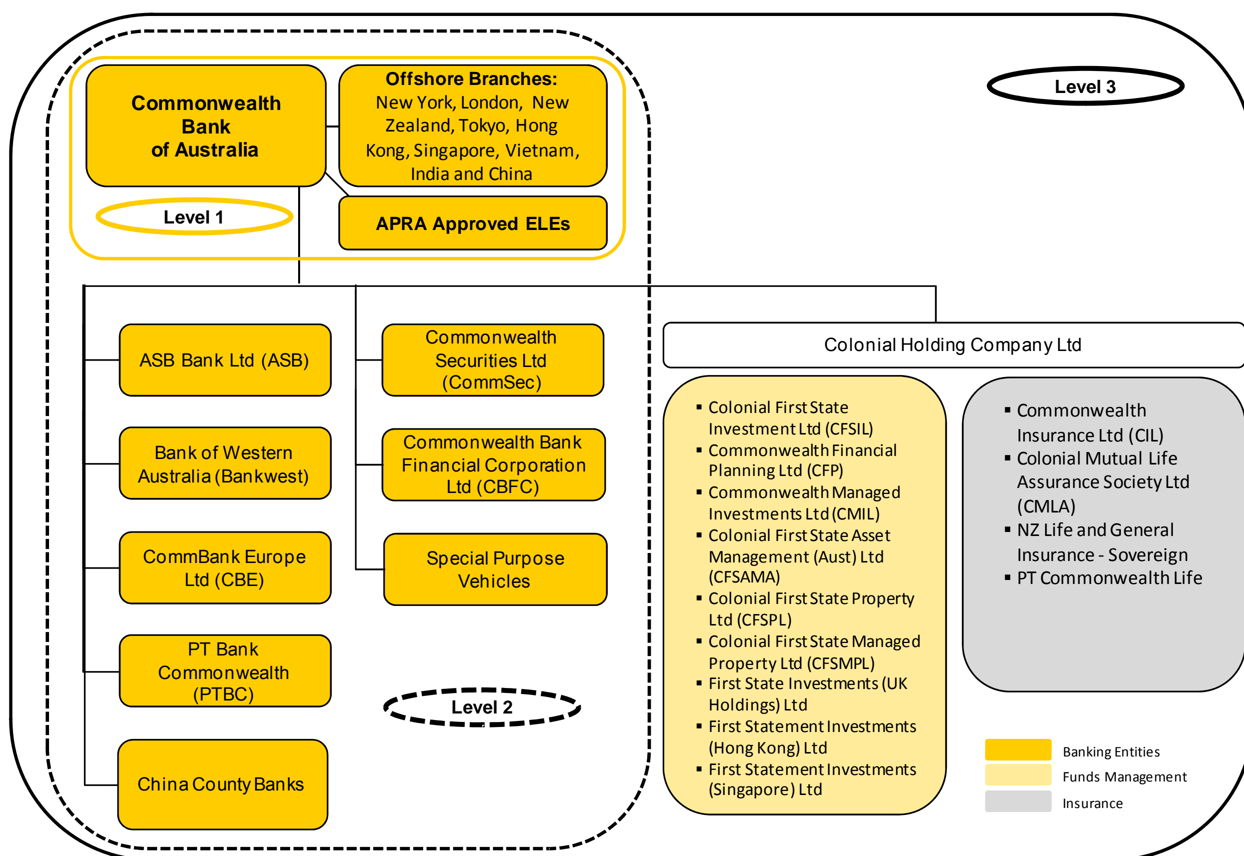
This document has been prepared in accordance with Board approved policy and semi-annual reporting requirements set out in APS 330.

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

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

The Group is required to report its semi-annual assessment of capital adequacy on a Level 2 basis. Additional semi-annual disclosure of capital ratios relating to material ADIs within the Group together with CBA's own Level 1 capital ratios are included under APS 330 Table 3g of this report (page 9).

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



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

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

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

There continue to be no capital deficiencies in non-consolidated subsidiaries in the Group.

4 Capital and Risk Weighted Assets (RWA)

Capital Management

The Group maintains a strong capital position, with the capital ratios well in excess of APRA minimum capital adequacy requirements (Prudential Capital Ratio (PCR)) and the Board Approved minimum levels at all times throughout the year ended 30 June 2012.

The Group's Common Equity Tier 1 (CET1), Tier One and Total Capital ratios (which include ASB Bank and Bankwest) as at 30 June 2012 were 7.82%, 10.01% and 10.98% respectively.

The Group's CET1 and Tier One Capital ratios increased by 15 and 11 basis points respectively over the prior half. This was primarily driven by capital generated from earnings (net of dividend and DRP), partially offset by the adoption of Basel II enhancements related to market risk and securitisation ("Basel 2.5"), which came into effect 1 January 2012.

The Group's Total Capital ratio decreased 13 basis points over the prior half to 10.98%, with the benefits from the improvement in Tier One Capital, offset by the planned redemption of Lower Tier Two instruments.

Compared to the prior year, the Group's CET1 Capital ratio increased 16 basis points, whilst Tier One Capital remained flat, with a solid profit performance offset by an increase in RWA.

Total Capital decreased 72 basis points compared to the prior year, primarily driven by the planned redemption of a number of Lower Tier Two Instruments.

RWA were $303 billion at 30 June 2012, an increase of $21 billion since 30 June 2011 levels, primarily driven by a corporate lending volume related increase in credit RWA.

Capital Initiatives

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

Tier One Capital

- The allocation of $832 million of ordinary shares in order to satisfy the DRP in respect of the final dividend for the 2010/2011 financial year, representing a participation rate of 28.4%;
- The issue of $237 million of ordinary shares associated with the acquisition of Count Financial Limited in December 2011; and
- The allocation of $531 million of ordinary shares in order to satisfy the Dividend Reinvestment Plan (DRP) in respect of interim dividend for the 2011/2012 financial year, representing a participation rate of 24.5%.

Tier Two Capital

- Redemption of four separate subordinated Lower Tier Two debt issues totalling $1,361 million in the December 2011 half year; and
- Redemption of a further two separate subordinated Lower Tier Two debt issues totalling $500 million in May 2012.

Summary Group Basel II Capital Adequacy and RWA	30/06/12	31/12/11	30/06/11
Total Risk Weighted Assets ($M)	**302,787**	297,705	281,711
Common Equity Tier One ($M)	**23,664**	22,837	21,575
Tier One Capital ($M)	**30,299**	29,473	28,213
Total Capital ($M)	**33,238**	33,061	32,962
Common Equity Tier One (%)	**7. 82**	7. 67	7. 66
Tier One Capital (%)	**10. 01**	9. 90	10. 01
Total Capital (%)	**10. 98**	11. 11	11. 70

Regulatory Capital Frameworks Comparison

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

APRA and UK Financial Services Authority Comparison

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

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

(1) The Financial Services Authority is the primary regulator of the financial services industry in the United Kingdom.

(2) Refer to section 8 (page 75) for further detail on Interest Rate Risk Banking Book (IRRBB).

The following table estimates the impact on the Group's capital, as at 30 June 2012, of the differences between APRA's Basel II prudential requirements for calculating RWA and those of the FSA.

CET1, Tier One and Total Capital ratios as at 30 June 2012 under the FSA method of calculating regulatory capital as a percentage of RWA were 11.1%, 13.6% and 14.1% respectively. This has been provided for comparative purposes as the Group is not regulated by the FSA.

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

Regulatory Capital Frameworks Comparison	30 June 2012 Common equity capital [1] %	Tier One capital %	Total capital %
Reported risk weighted capital ratios (Basel II APRA definition)	7. 8	10. 0	11. 0
RWA treatment - mortgages [2] and margin loans	1. 1	1. 4	1. 4
IRRBB risk weighted assets	0. 3	0. 3	0. 4
Future dividends (net of Dividend Reinvestment Plan)	0. 8	0. 8	0. 8
Tax impact in EL v EP calculation	0. 1	0. 1	0. 2
Deferred tax assets	0. 2	0. 2	0. 2
Equity investments	0. 3	0. 3	0. 1
Value of in force deductions [3]	0. 5	0. 5	-
Total adjustments	3. 3	3. 6	3. 1
Normalised Basel II FSA equivalent	11. 1	13. 6	14. 1

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

(2) Based on APRA 20% LGD floor compared to FSA 10%. For standardised portfolio, based on APRA risk weights under APS 112 compared to FSA standard.

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

4.1 Basel II Regulatory Capital

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

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

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

The primary Tier One Capital instruments of the Group include:

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

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

Tier Two capital is comprised of:

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

A detailed breakdown of the Group's Tier One and Tier Two Capital including capital instruments used by the Group is provided in APS 330 Table 2b to 2d "Group regulatory capital position" (page 10) and Appendix 10.1 "Detailed Capital Disclosures" (page 80).

This information is consistent with the information provided in the Group's June 2012 Profit Announcement and 2012 Annual Report.

The Board has a Basel II Group Tier One minimum to be 7% of RWA.

The amount of capital above this minimum level is managed to vary over the economic cycle, recognising that regulatory capital requirements have a pro-cyclical nature and the Group may or may not feel it appropriate to immediately respond to the pro-cyclical requirement.

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

Capital Adequacy

The Group actively manages its capital to balance the requirements of various stakeholders (regulators, rating agencies and shareholders). This is achieved by optimising the mix of capital, while maintaining adequate capital ratios throughout the financial year.

APRA advises the Group of its PCR, which represents the regulatory minimum Tier One and Total Capital ratios that the Group is required to maintain at all times. In order to ensure there is no breach of these minimum levels, APRA expects the Group to maintain a prudent buffer over these prescribed minimum levels. The PCR is subject to an on-going review by APRA and is formally reassessed on an annual basis. While APRA have advised that the PCR not be publicly disclosed under any circumstances, the Board's minimum 7% Tier One Capital ratio is well above the Group's PCR.

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

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

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

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

Throughout the 2011 and 2012 financial years, the Group's capital ratios were well in excess of both APRA minimum capital adequacy requirements and the Board Approved minimums.

Banking Regulatory Framework

The Group, excluding Bankwest, operates under Basel II advanced status, which resulted in the AIRB approach for credit risk and the AMA for operational risk being adopted in the calculation of RWA effective from 1 January 2008. IRRBB was incorporated into the calculation of RWA from 1 July 2008. Basel II enhancements announced in July 2009, relating to securitisation and market risk were implemented on 1 January 2012.

ASB Bank Limited

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

ASB had a Tier One ratio of 11.67% and a Total Capital ratio of 12.57% at 30 June 2012. ASB was in compliance with its regulatory capital requirements at all times during the year.

Bankwest

Bankwest currently operates as a stand-alone Bank under Basel II standardised status and is separately regulated by APRA. In line with APRA's regulations which require Australian subsidiaries of major banks to operate under the same licence as their parent, Bankwest is expected to relinquish its Australian ADI licence in October 2012. This event will have no impact on the Group's capital levels as Bankwest is already included within the Group's capital numbers.

There is a separate programme to extend the Group's advanced accreditation to include the assets of Bankwest. Bankwest's Tier One ratio was 8.48% and Total Capital was 12.04% as at 30 June 2012. Bankwest was in compliance with its regulatory capital requirements at all times during the year.

Regulatory Capital Requirements for Insurance and Funds Management Business

The Group's Australian and New Zealand insurance and funds management businesses held $1,318 million of assets in excess of regulatory solvency requirements as at 30 June 2012 (31 December 2011: $1,108 million; 30 June 2011: $1,014 million). In addition, these companies hold assets in excess of regulatory capital requirements as at 30 June 2012.

APS 330 Table 3g – Basel II Capital ratios

Significant Group ADIs	30/06/12 %	31/12/11 %	30/06/11 %
CBA Level 2 Tier One Capital ratio	**10. 01**	9. 90	10. 01
CBA Level 2 Total Capital ratio	**10. 98**	11. 11	11. 70
CBA Level 1 Tier One Capital ratio	**10. 73**	10. 69	10. 83
CBA Level 1 Total Capital ratio	**10. 98**	11. 17	11. 80
ASB Tier One Capital ratio (1)	**11. 67**	11. 23	11. 22
ASB Total Capital ratio (1)	**12. 57**	12. 91	12. 79
Bankwest Tier One Capital ratio (2)	**8. 48**	9. 12	9. 14
Bankwest Total Capital ratio (2)	**12. 04**	12. 86	12. 93

(1) Calculated under advanced Basel II methodology.

(2) Calculated under standardised Basel II methodology.

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

	30/06/12 $M	31/12/11 $M	30/06/11 $M
Tier One Capital			
Ordinary Share Capital and Treasury Shares	**25,498**	24,967	23,896
Total Reserves [1]	**767**	462	372
Net Retained Earnings	**10,658**	10,161	9,667
Non-controlling interests less ASB Perpetual Preference Shares	**26**	23	23
Total Fundamental Tier One Capital	**36,949**	35,613	33,958
Deductions from Tier One Capital			
Goodwill and other intangibles (excluding software) [2]	**(8,581)**	(8,546)	(8,306)
Other deductions from Tier One Capital	**(2,720)**	(2,286)	(2,021)
Tier One Capital deductions - 50% [3]	**(1,984)**	(1,944)	(2,056)
Total Tier One Capital Deductions	**(13,285)**	(12,776)	(12,383)
Fundamental Tier One Capital After Deductions	**23,664**	22,837	21,575
Residual Capital			
Total Innovative Tier One Capital	**3,228**	3,229	3,231
Non-innovative Residual Tier One Capital [4]	**3,407**	3,407	3,407
Total Residual Tier One Capital	**6,635**	6,636	6,638
Total Tier One Capital	**30,299**	29,473	28,213
Tier Two Capital			
Total Upper Tier Two Capital	**1,217**	1,236	1,166
Total Lower Tier Two Capital	**3,706**	4,296	5,639
Gross Tier Two Capital	**4,923**	5,532	6,805
Deduction from Tier Two Capital			
Tier Two Capital deductions - 50% [3]	**(1,984)**	(1,944)	(2,056)
Total Tier Two Capital Deductions	**(1,984)**	(1,944)	(2,056)
Total Tier Two Capital	**2,939**	3,588	4,749
Total Capital	**33,238**	33,061	32,962

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

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

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

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

4.2 Risk Weighted Assets

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

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

There is an APRA agreed methodology for measuring market risk for traded assets.

The RWA equivalent of IRRBB has been included in the Group's disclosures with effect from 30 September 2008.

The AMA for operational risk has been adopted in the calculation of RWA.

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

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

APS 330 Table 3b to 3f – Basel II Capital adequacy (risk weighted assets)

	30/06/12	31/12/11	30/06/11	Jun 2012 vs Dec 2011		Dec 2011 vs Jun 2011	
Asset Category	**$M**	**$M**	**$M**	**$M**	**%**	**$M**	**%**
Credit Risk							
Subject to advanced IRB approach							
Corporate	**49,331**	45,983	39,180	3,348	7. 3	6,803	17. 4
SME corporate	**22,319**	22,155	22,471	164	0. 7	(316)	(1. 4)
SME retail	**4,071**	4,486	4,435	(415)	(9. 3)	51	1. 1
Sovereign	**3,003**	3,201	2,517	(198)	(6. 2)	684	27. 2
Bank	**7,619**	7,925	7,216	(306)	(3. 9)	709	9. 8
Residential mortgage	**54,545**	53,844	55,709	701	1. 3	(1,865)	(3. 3)
Qualifying revolving retail	**6,703**	6,491	6,398	212	3. 3	93	1. 5
Other retail	**8,462**	8,116	7,253	346	4. 3	863	11. 9
Impact of the regulatory scaling factor (1)	**9,363**	9,132	8,711	231	2. 5	421	4. 8
Total RWA subject to advanced IRB approach	**165,416**	161,333	153,890	4,083	2. 5	7,443	4. 8
Specialised lending	**36,141**	36,915	35,990	(774)	(2. 1)	925	2. 6
Subject to standardised approach							
Corporate	**10,430**	9,950	8,048	480	4. 8	1,902	23. 6
SME corporate	**6,580**	6,803	7,389	(223)	(3. 3)	(586)	(7. 9)
SME retail	**4,836**	4,230	4,461	606	14. 3	(231)	(5. 2)
Sovereign	**107**	308	103	(201)	(65. 3)	205	large
Bank	**1,243**	1,303	1,238	(60)	(4. 6)	65	5. 3
Residential mortgage	**25,705**	24,660	23,515	1,045	4. 2	1,145	4. 9
Other retail	**2,559**	2,627	2,574	(68)	(2. 6)	53	2. 1
Other assets	**3,240**	5,215	4,751	(1,975)	(37. 9)	464	9. 8
Total RWA subject to standardised approach	**54,700**	55,096	52,079	(396)	(0. 7)	3,017	5. 8
Securitisation	**2,833**	2,695	2,670	138	5. 1	25	0. 9
Equity exposures	**2,339**	2,407	2,113	(68)	(2. 8)	294	13. 9
Total RWA for credit risk exposures	**261,429**	258,446	246,742	2,983	1. 2	11,704	4. 7
Traded market risk	**4,842**	3,105	3,162	1,737	55. 9	(57)	(1. 8)
Interest rate risk in the banking book	**9,765**	11,525	9,699	(1,760)	(15. 3)	1,826	18. 8
Operational risk	**26,751**	24,629	22,108	2,122	8. 6	2,521	11. 4
Total risk weighted assets	**302,787**	297,705	281,711	5,082	1. 7	15,994	5. 7

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

Risk Weighted Assets

Total RWA increased by $5 billion or 1.7% on the prior half to $303 billion.

Credit Risk Exposure and RWA

Credit risk RWA increased over the half by $3 billion or 1.2% to $261 billion primarily due to:

- Growth in Corporate, Residential Mortgage and Standardised portfolio exposures; and
- Re-grading of credit ratings for some Bank counterparts.

These increases were partly offset by:

- RWA reductions due to a focus on data improvement and methodology enhancement;
- Reductions in Bank and SME Retail exposures;
- Improved credit quality of Sovereign exposures; and
- Implementation of updated risk estimates for the non-retail portfolio.

Traded Market Risk RWA

Traded Market Risk RWA increased by $1.7 billion or 55.9% to $4.8 billion. The increase was due to the introduction of Stressed Value-at-Risk under Basel 2.5.

Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA reduced by $1.8 billion during the half year as a result of treasury risk management activities and offsets by higher embedded gains from lower interest rates.

Operational Risk RWA

The $2.1 billion increase in Operational Risk RWA reflects a more conservative assessment of the operational risk profile of the Group including the impact of the external environment.

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

	Credit RWA movement drivers				
Asset Category	**Total movement Dec 11 to Jun 12 $M**	**Volume and FX changes $M**	**Credit risk factor changes & regulatory treatments $M**	**Data and methodology enhancements $M**	**Change in credit quality $M**
AIRB corporate including SME and specialised lending	**2,323**	4,122	(765)	(1,610)	576
AIRB bank	**(306)**	919	(407)	(1,669)	851
AIRB sovereign	**(198)**	552	(159)	(145)	(446)
AIRB consumer retail	**1,259**	1,650	289	(22)	(658)
Standardised (including other assets)	**(396)**	2,182	-	(1,835)	(743)
Equity and securitisation exposures	**70**	(218)	230	-	58
Impact of Basel II scaling factor	**231**	(12)	(62)	(69)	374
Total credit RWA movement	**2,983**	9,195	(874)	(5,350)	12

4.3 Proposed Regulatory Changes

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

Basel III Regulatory Capital

From 1 January 2013, the Group will adopt the Basel III measurement and monitoring of regulatory capital.

In December 2010, the BCBS published a discussion paper on banking reforms to address issues identified in the Global Financial Crisis and to position banks for future crises. The objectives of the capital reforms are to increase the quality, consistency and transparency of capital, to enhance the risk coverage framework, and to reduce systemic and pro-cyclical risk. The major reforms are to be phased in from 1 January 2013 to 1 January 2019.

In March 2012, APRA published a discussion paper and draft prudential standards relating to the implementation of the Basel III capital reforms in Australia. APRA proposes to adopt a more conservative approach than the minimum standards published by the BCBS and to adopt an accelerated timetable for implementation.

The APRA draft prudential standards require a minimum CET1 ratio of 4.5% effective from 1 January 2013. An additional CET1 capital conservation buffer of 2.5% will be implemented on 1 January 2016, bringing the minimum CET1 requirement to 7%. The BCBS advocates the same minimum requirements, but implementation is to be phased in over an extended timeframe up to 1 January 2019.

It is expected that APRA will publish a final set of prudential standards in the 2012 calendar year.

General and Life Insurers

In May 2012, APRA released a number of draft and final prudential standards with respect to capital requirements for general and life insurers. Final versions of the remaining prudential standards are expected to be released by APRA before the end of the 2012 calendar year. Implementation of the majority of the reforms is scheduled for 1 January 2013.

Superannuation Funds Management

APRA has released draft prudential standards that will introduce new financial requirements for registered superannuation trustees. Final prudential standards are expected to be released before the end of 2012 calendar year, with the new requirements to be implemented on 1 July 2013.

In November 2011, the Australian Securities and Investments Commission (ASIC) released new financial requirements that apply to Responsible Entities. These new requirements will become effective on 1 November 2012.

Supervision of Conglomerate Groups

APRA released a discussion paper titled “Supervision of Conglomerate Groups” in March 2010. APRA is seeking to extend its current prudential supervision framework to Conglomerate Groups that have material operations in more than one APRA regulated industry and/or have one or more material unregulated entities. The aims of the Level 3 proposals are to ensure that a Conglomerate Group holds adequate capital to protect the APRA regulated entities from potential contagion and other risks within the Group.

Draft capital standards are expected to be released before the end of the 2012 calendar year with implementation from 1 January 2014.

5 Risk Management

5.1 Risk Governance

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

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

The risk governance structure is illustrated in the diagram "Risk Governance Structure" (Page 15).

The Risk Committee of the board oversees credit, market (including traded, IRRBB, lease residual values, non-traded equity and structural foreign exchange risks), liquidity and funding, operational, insurance, regulatory and compliance, and reputational risks assumed by the Group in the course of carrying on its business.

Strategic risks are governed by the full Board with input from the various Board sub-committees. Tax and accounting risks are governed by the Audit Committee.

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

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

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

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

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

Risk Management Organisation

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

This risk management framework requires each business to manage the outcome of its risk-taking activities and allows it to benefit from the resulting risk-adjusted returns.

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

- Line 1 - Business Management - Risk is best managed at the place it occurs, therefore business managers are responsible for managing the risks for their business. This includes implementing approaches to proactively manage their risk within risk appetite levels, and using risk management outcomes ("the costs of risks") and considerations as part of their day-to-day business making processes.
- Line 2 - Risk Management - Group, Business Unit and Divisional Risk Management units provide risk management expertise and oversight for Business Management risk-taking activities. Risk Management develop specialist policies and procedures for risk management and ensure they are embedded and in use as part of the day-to-day management of the business. Risk Management also establishes and maintains aligned and integrated risk management frameworks and monitors compliance with the frameworks, policies and procedures.
- Line 3 - Group Audit and Assurance - Group Audit and Assurance provides independent assurance to key stakeholders regarding the adequacy and effectiveness of the Group's system of internal controls, risk management procedures and governance processes. It is responsible for reviewing risk management frameworks and Business Unit practices for risk management and internal controls.

The Group CRO, who heads up the Risk Management function, oversees independent risk management for the whole Group. This unit is comprised of both risk management teams embedded in the businesses and Group functional teams that develop controls for each type of risk and who help the Group understand risk aggregation to enable enterprise wide risk management. The Group CRO reports to the CEO and has direct and unfettered reporting requirements to the Risk Committee.

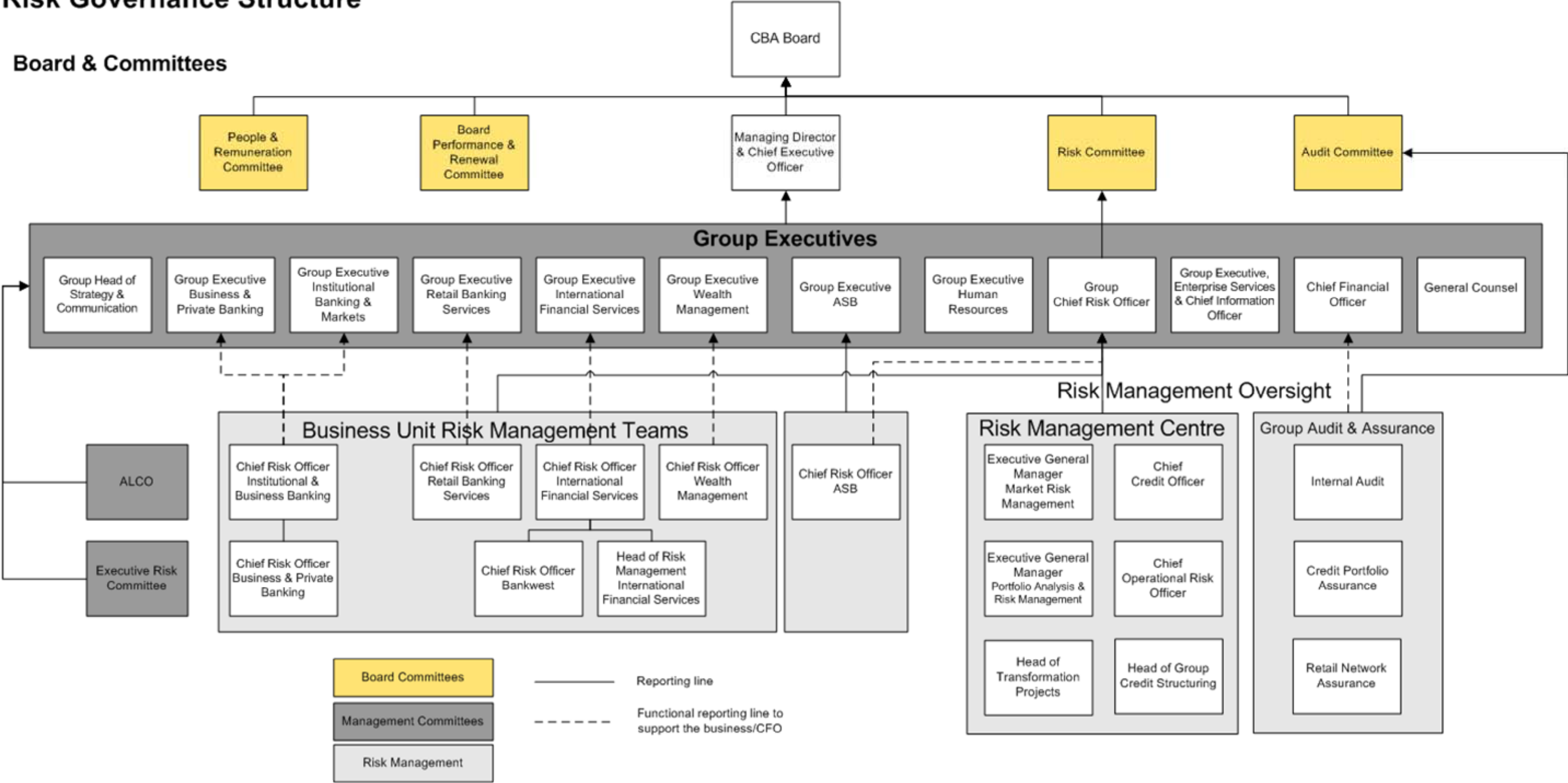
Risk management professionals deployed in each Business Unit measure risks and take actions to ensure businesses adhere to risk policies and procedures. They also provide insights to assist the business in making decisions that optimise their risk-adjusted returns.

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

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

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

Risk Governance Structure



5.2 Risk Appetite

Risk Appetite Concept and Framework

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

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

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

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

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

Risk Appetite Statement

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

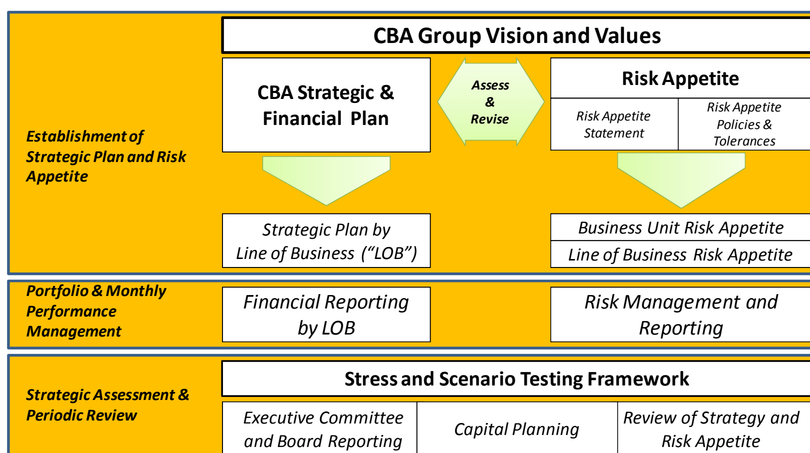
The Group's risk culture is to take risks that are adequately rewarded and that support its aspiration of achieving solid and sustainable growth in shareholder value. Supporting this culture, the Group will:

- Operate responsibly, meet the financial service needs of its customers, provide excellent customer service and maintain impeccable professional standards and business ethics;
- Differentiate between risk (with a relatively clear discernable distribution of possible outcomes), which is to be assessed on its merits, and uncertainty (which has a unknown distribution of possible outcomes that is hard to discern), which is to be minimised;
- Make business decisions only after careful consideration of risk, including consideration of potential upside and downside scenarios;
- Imposes a set of limits and operating controls aligned to this and each subordinate (e.g., business unit) risk appetite statement so that discipline in risk taking is systematically maintained;
- Understand the risks it takes on (or the nature of uncertainties involved), undertaking strategic initiatives or exposure to new products and services only as sufficient experience and insight is gained;
- Exercise disciplined moderation in risk-taking; underpinned with strength in capital, funding and liquidity;
- Diligently strive to protect and enhance its reputation;
- Maintain a control environment that, within practical constraints, minimises risks to the sustainability of its business; and
- Promote a culture aimed at the achievement of best practice in the recognition, assessment, pricing and management of risk.

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

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

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



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

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

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

Key risk policies and tolerances are reviewed and endorsed annually by the Risk Committee, and where appropriate, the Board.

The principal risk types, their relevant governing policies and how they support risk appetite are outlined in the table "Principal Risk Type/Governance Framework" on page 18.

Credit Risk

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

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

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

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

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

Market Risk

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

Further information on market risk is included in Section 8 of this report (page 72).

Liquidity and Funding Risk

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

Further information on liquidity and funding risk is included in section 8 of this report (page 77).

Operational Risk

Operational risk is defined as the risk of economic loss arising from inadequate or failed internal processes, people, systems or from external events. It includes legal, regulatory, fraud, business continuity and technology risks.

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

Further information on operational risk is included in Section 9 of this report (page 78).

Insurance Risk

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

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

For the general insurance business variability arises mainly through weather related incidents and similar calamities, as well as general variability in home, motor and travel insurance claim amounts.

The management of insurance risk is an integral part of the operation of the insurance business. It is essential in the control of claims on an end-to-end basis, from underwriting to policy termination or claim payment.

The major methods of mitigating insurance risk are:

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

Compliance Risk

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

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

Further information on compliance risk is included in section 9 of this report (page 78).

Strategic Business Risk

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

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

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

Reputational Risk

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

This risk can adversely affect the Group's ability to maintain existing, or establish new, business relationships and access to sources of funding. Reputational risk is multidimensional and reflects the perception of other market participants. Furthermore, it exists throughout the organisation and exposure to reputational risk is a function of the adequacy of the Group's control of its risk management processes, as well as the manner and efficiency with which management responds to external influences on Group-related transactions. In many, but not all respects, adverse reputational risk outcomes flow from the failure to manage other types of risk.

Principal Risk Type/Governance Framework

Risk Type	Governing Policies	How Policy Supports Risk Appetite
Credit Risk including Concentration Risk	The Group Credit Framework and Policies, including: Large Credit Exposure Policy; Country Risk Exposure Policy; and Industry Sector Concentration Policy.	**Quantitative limits/tolerances:** Exposures to a single counterparty or group of related counterparties (limits differentiated by counterparty type, PD rating and security cover); Country Risk (exposure limits to control transfer / cross-border and sovereign default risks); and Industry concentrations (exposure and risk adjusted concentration limits).
Market Risk	Group Market Risk Policy; and Funds Management and Insurance Market Risk Policy.	**Quantitative limits/tolerances:** Traded Market Risk (VaR and Stress Testing limits); Interest Rate Risk in the Banking Book (Market Value Sensitivity and Net Interest Earnings at Risk limits); Seed Trust Market Risk limits; Lease Residual Value Risk limits; Investment mandates for insurance Asset and Liability Management risk (VaR and stress testing limits); and Non-Traded Equity limits.
Liquidity & Funding Risk	Group Liquidity and Funding Policy.	**Quantitative limits/tolerances:** Liquid asset holdings under name crisis scenario; and Source of funding (e.g., wholesale) limits and term funding limits.
Operational Risk	Operational Risk Policy and Framework.	**Management via:** A number of risk mitigating policies; Reporting and case management of loss and near loss incidents; Comprehensive risk assessment and control assurance processes; Quantitative Risk Assessment Framework and Capital modelling; and Support from skilled risk professionals embedded throughout the Group.
Insurance Risk	Risk Management Framework.	**Management via:** Risk Management Strategy and Risk Statement; Underwriting and claims standards; Retaining the right to amend premiums on risk policies; and Re-insurance purchase under policy guidance.
Compliance Risk	Compliance Risk Management Framework (CRMF)	**Management via:** The CRMF Minimum Group Standards for Compliance, Risk Management Obligations Register and Guidance Notes that detail specific requirements and accountabilities for each Business Unit; Business Unit compliance frameworks; and Support from skilled compliance professionals embedded throughout the Group.
Strategic Business Risk	Strategic Framework.	**Management via elements of other risk type policies and processes in addition to management controls including:** Strategic planning; Strategic implementation; and Financial management.
Reputational Risk	Cultural Framework and Statement of Professional Practice;	**Management via elements of other risk type policies and processes in addition to:** Support from risk professionals embedded throughout the Group; and Crisis management testing of leadership team.

5.3 Stress Testing

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

The stress testing framework includes:

- Group-wide stress testing, which informs and engages the Board in assessing capital requirements and other key financial outcomes under severe but plausible scenarios. These tests are conducted across businesses with the results aggregated to the Group level;
- Portfolio stress testing, which assesses stressed outcomes at a legal entity, business unit or product level; and
- Risk management related stress testing, which support enhanced risk identification, assessment and management within the Group's risk appetite.

Such stress testing facilitates a more robust understanding of the Group's risks, and facilitates better management policies and predictability of capital requirements in extreme circumstances.

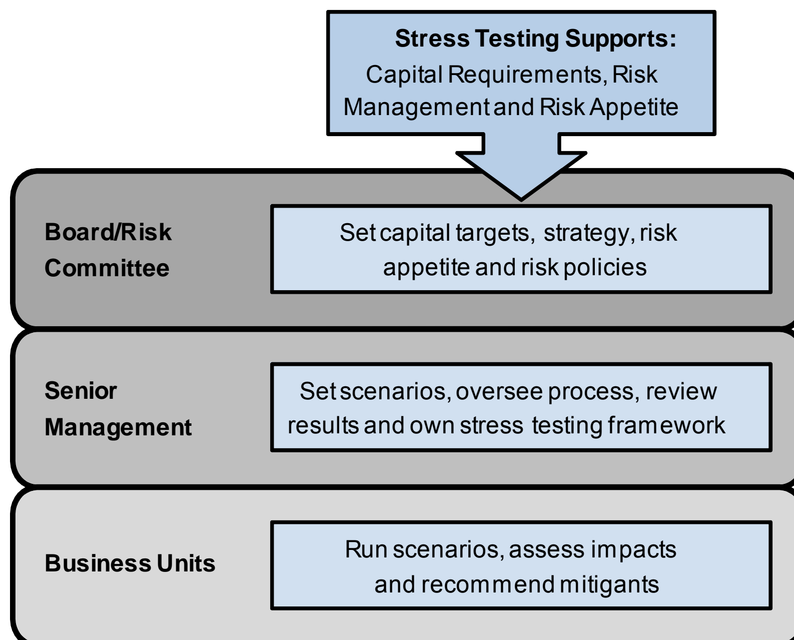
Stress testing also provides an input into the formation of internal views of adequacy of the Group's capital, liquidity and provisions and the development of capital and liquidity contingency plans which detail how the Group would respond to potential future adverse scenarios.

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

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

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

- Credit risk on the Home Loan portfolio, secured and unsecured non-mortgage products (Credit Cards, Personal Loans, and Cheque Accounts) and the commercial loan portfolio as part of group-wide and business unit specific stress tests;
- Traded market risk, non-traded interest rate risk, non-traded equity risk and non-traded insurance risk portfolios;
- Liquidity stress tests look to identify the net funding requirement, taking into account minimum regulatory liquidity requirements and available contingent funding actions, under a number of idiosyncratic, market-wide and combined scenarios. Stress tests are performed and reported to the Asset and Liability Committee (ALCO) on a monthly basis;
- Early Warning Indicators monitor a range of balance sheet, funding and market metrics focussing on external market conditions, changing patterns of business activity and concentration. Early Warning Indicators are used to identify early signs of a liquidity stress event; and
- Operational risk to assess the potential for operational risk outcomes.



5.4 Capital Management

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

The Group uses the following different views of capital in assessing the level of capital and the use of capital to maintain strength and drive performance. There are differences in the definitions, applications and methodologies of these measures that mean that they are not directly comparable or reconcilable:

- Regulatory capital - The capital ratio, for the banking Group, is based on a prescriptive calculation set by APRA under the Basel II framework. APRA requires a minimum PCR for total Tier One and Total Capital. The life and general insurance businesses also maintain regulatory capital as required by APRA to protect policy holders. The Group holds additional buffers to these regulatory requirements;
- Rating agency capital - The level of capital required by the rating agencies to support the Group's AA- debt rating;
- Market view - Market participants implicitly provide the Group with a consensus assessment of the capital required to maximise return for equity investors. The market's view of capital strength and efficiency is critical for the Group to access equity and hybrid capital markets, as well as wholesale and liquidity funding markets;
- Stress testing - The Group's assessment of capital required based on stress testing extreme but plausible scenarios, including both potential sudden losses or systemic losses over a period of time; and
- Economic capital - Economic capital is an internal model based assessment of capital required based on the risks across the entire Group. This capital assessment is regularly updated and evolves quickly as the Group's risk profile changes. This view is consistent with the capital allocation processes used in:
  - Pricing of products;
  - Performance Management; and
  - Understanding the Group's risk profile.

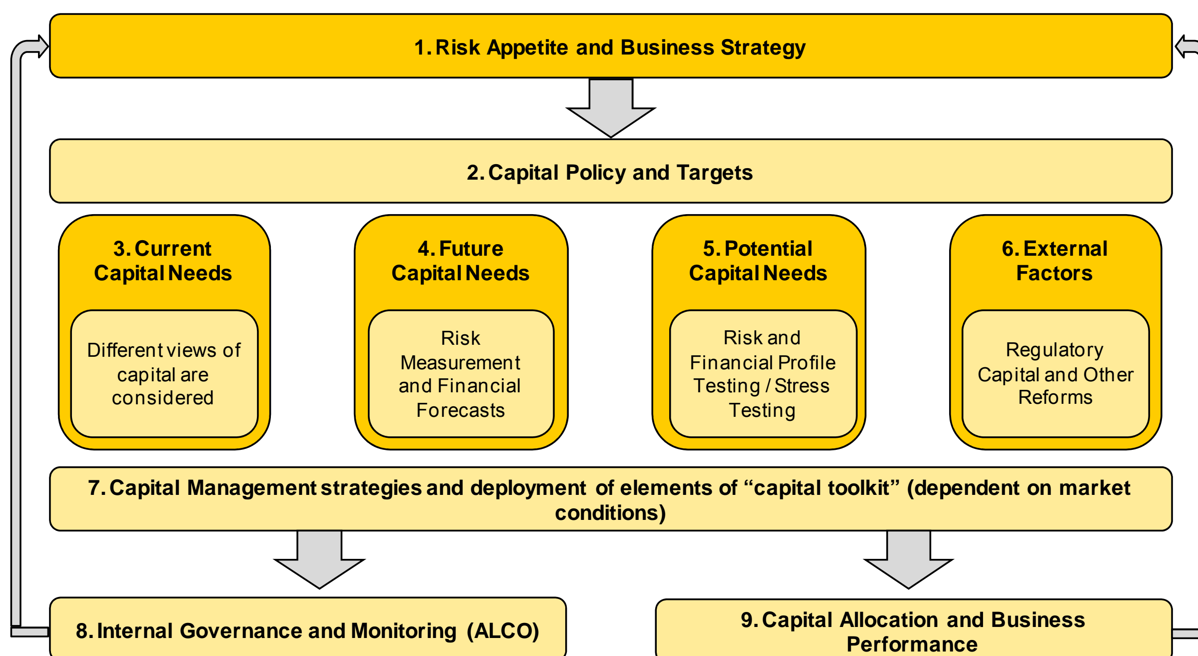
These views of capital are used to determine the Group's minimum capital requirement. At any time one of the five specific approaches to capital requirements can exceed the others. This need not always trigger immediate action by the Group to meet this single view of what is "needed".

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

Capital Management of Subsidiaries

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

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



6 Credit Risk

Credit risk is the potential of loss arising from failure of a debtor or counterparty to meet their contractual obligations. It arises primarily from lending activities, the provision of guarantees (including letters of credit), commitments to lend, investments in bonds and notes, financial markets transactions, providers of credit enhancements (e.g. credit default swaps and lender's mortgage insurance), securitisations and other associated activities. In the insurance business, credit risk arises from investment in bonds and notes, loans, and from reliance on reinsurance.

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

Credit risk is taken by business areas across the Group and is managed at both a Group and Business Unit level. The key Business Unit credit risk related functions support the overall risk management responsibilities of the Risk Committee and senior management as discussed in section 5 "Risk Management" of this document (page 14).

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

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

Credit Risk Management Policies and Portfolio Standards

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

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

The Group's Risk Appetite Statement requires that there is appropriate diversification of credit risk, which is controlled by established policies and limits for the key dimensions of the credit portfolio, including for:

- Individual obligors, or groups of related obligors;
- Industry sectors;
- Geography (e.g. country risk); and
- Products / portfolios.

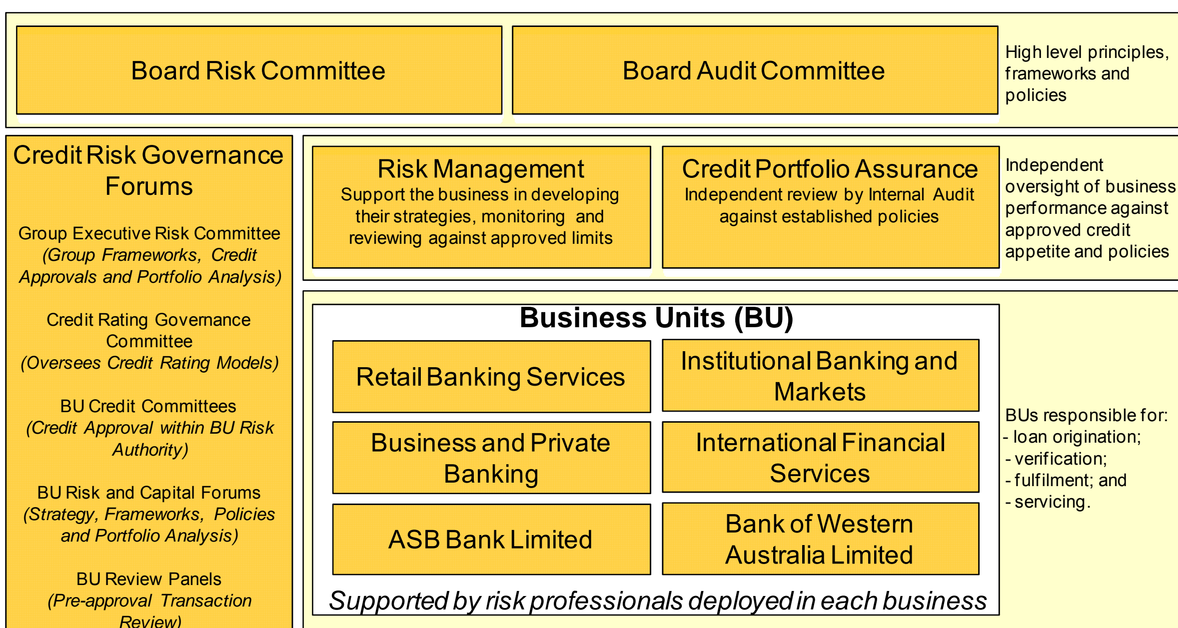
In addition, experts in each Business Unit search for ways to diversify credit risk exposure in the business, all within the limit framework boundaries.

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

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

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

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



6.1 Credit Risk Exposure – Excluding Equities and Securitisation

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

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

	30 June 2012						
		Off balance sheet					
Portfolio Type	On balance sheet $M	Non-market related $M	Market related $M	Total $M	Average exposure for June 2012 half [2] $M	Change in exposure for June 2012 half [3] $M	%
Subject to advanced IRB approach							
Corporate	44,509	32,218	5,938	**82,665**	79,723	5,885	7. 7
SME corporate	31,366	5,368	502	**37,236**	36,972	528	1. 4
SME retail	6,702	1,667	13	**8,382**	8,942	(1,121)	(11. 8)
Sovereign	42,170	2,926	1,513	**46,609**	43,982	5,255	12. 7
Bank	24,832	2,344	8,150	**35,326**	37,172	(3,692)	(9. 5)
Residential mortgage	299,331	54,279	-	**353,610**	350,854	5,512	1. 6
Qualifying revolving retail	9,256	12,299	-	**21,555**	21,252	607	2. 9
Other retail	6,066	1,531	-	**7,597**	7,340	513	7. 2
Total advanced IRB approach	464,232	112,632	16,116	**592,980**	586,237	13,487	2. 3
Specialised lending	33,656	6,733	1,189	**41,578**	42,039	(923)	(2. 2)
Subject to standardised approach							
Corporate	8,494	1,756	109	**10,359**	10,156	407	4. 1
SME corporate	5,795	610	36	**6,441**	6,682	(483)	(7. 0)
SME retail	3,967	1,168	-	**5,135**	5,222	(175)	(3. 3)
Sovereign	2,391	1	-	**2,392**	2,573	(362)	(13. 1)
Bank	6,419	17	45	**6,481**	6,504	(47)	(0. 7)
Residential mortgage	56,694	909	27	**57,630**	56,369	2,522	4. 6
Other retail	2,501	90	3	**2,594**	2,614	(39)	(1. 5)
Other assets	9,597	-	-	**9,597**	11,002	(2,810)	(22. 6)
Total standardised approach	95,858	4,551	220	**100,629**	101,122	(987)	(1. 0)
Total credit exposures [1]	593,746	123,916	17,525	**735,187**	729,398	11,577	1. 6

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

(2) The simple average of balances as at 30 June 2012 and at 31 December 2011.

(3) Change, as at 30 June 2012, of exposures compared to balances at 31 December 2011.

Asset Category	Total Exposure Change $M	Regulatory Exposure Driver
AIRB corporate (including SME) and specialised lending	**4,370**	Reflects growth in corporate lending.
AIRB sovereign	**5,255**	Mostly reflects an increase in liquid assets to highly rated entities.
AIRB bank	**(3,692)**	Reduced exposure reflecting prudent business settings.
AIRB consumer retail	**6,631**	Continued growth in residential mortgage portfolio.
Total advanced and specialised lending	**12,564**	
Standardised including other assets	**(987)**	Growth in the Bankwest residential mortgage portfolio offset by a reduction in other assets as a result of a focus on data improvement and methodology enhancement.
Total excluding securitisation and equity exposures	**11,577**	

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

	31 December 2011						
		Off balance sheet					
	On balance sheet	Non-market related	Market related	Total	Average exposure for December 2011 half [2]	Change in exposure for December 2011 half [3]	
Portfolio Type	$M	$M	$M	$M	$M	$M	%
Subject to advanced IRB approach							
Corporate	39,276	32,367	5,137	76,780	72,203	9,154	13. 5
SME corporate	30,693	5,534	481	36,708	36,896	(376)	(1. 0)
SME retail	7,393	2,084	26	9,503	9,366	274	3. 0
Sovereign	38,232	1,774	1,348	41,354	41,506	(303)	(0. 7)
Bank	25,948	2,292	10,778	39,018	37,442	3,152	8. 8
Residential mortgage	293,726	54,372	-	348,098	344,889	6,419	1. 9
Qualifying revolving retail	9,087	11,861	-	20,948	19,754	2,388	12. 9
Other retail	5,732	1,352	-	7,084	6,868	433	6. 5
Total advanced IRB approach	450,087	111,636	17,770	579,493	568,924	21,141	3. 8
Specialised lending	33,373	8,038	1,090	42,501	42,097	808	1. 9
Subject to standardised approach							
Corporate	8,105	1,765	82	9,952	8,898	2,109	26. 9
SME corporate	6,003	884	37	6,924	7,212	(577)	(7. 7)
SME retail	3,691	1,619	-	5,310	5,364	(107)	(2. 0)
Sovereign	2,751	3	-	2,754	2,350	808	41. 5
Bank	6,412	71	45	6,528	6,346	365	5. 9
Residential mortgage	54,112	975	21	55,108	53,411	3,394	6. 6
Other retail	2,534	97	2	2,633	2,619	29	1. 1
Other assets	12,407	-	-	12,407	13,160	(1,505)	(10. 8)
Total standardised approach	96,015	5,414	187	101,616	99,360	4,516	4. 7
Total credit exposures [1]	579,475	125,088	19,047	723,610	710,381	26,465	3. 8

(1) Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
(2) The simple average of balances as at 31 December 2011 and at 30 June 2011.
(3) Change, as at 31 December 2011, of exposures compared to balances at 30 June 2011.

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

(1) Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
(2) The simple average of balances as at 30 June 2011 and at 31 December 2010.
(3) Change, as at 30 June 2011, of exposures compared to balances at 31 December 2010.

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

Portfolio Type	As at 30/06/12 $M	Half year average [3] $M
Corporate	**93,024**	89,878
SME corporate	**43,677**	43,654
SME retail	**13,517**	14,165
Sovereign	**49,001**	46,555
Bank	**41,807**	43,676
Residential mortgage [1]	**411,240**	407,223
Qualifying revolving retail	**21,555**	21,252
Other retail	**10,191**	9,954
Specialised lending	**41,578**	42,039
Other assets	**9,597**	11,002
Total credit exposures [2]	**735,187**	729,398

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

Portfolio Type	As at 31/12/11 $M	Half year average [3] $M
Corporate	86,732	81,101
SME corporate	43,632	44,108
SME retail	14,813	14,730
Sovereign	44,108	43,856
Bank	45,546	43,788
Residential mortgage [1]	403,206	398,300
Qualifying revolving retail	20,948	19,754
Other retail	9,717	9,487
Specialised lending	42,501	42,097
Other assets	12,407	13,160
Total credit exposures [2]	723,610	710,381

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

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

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

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

	30 June 2012			
		New		
	Australia	Zealand	Other	Total
Portfolio Type	**$M**	**$M**	**$M**	**$M**
Corporate	69,349	5,966	17,709	**93,024**
SME corporate	36,383	7,001	293	**43,677**
SME retail	11,615	1,862	40	**13,517**
Sovereign	27,968	1,954	19,079	**49,001**
Bank	23,000	592	18,215	**41,807**
Residential mortgage [1]	377,341	33,462	437	**411,240**
Qualifying revolving retail	21,555	-	-	**21,555**
Other retail	8,735	1,455	1	**10,191**
Specialised lending	35,426	3,669	2,483	**41,578**
Other assets	8,590	676	331	**9,597**
Total credit exposures [2]	619,962	56,637	58,588	**735,187**

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

	31 December 2011			
		New		
	Australia	Zealand	Other	Total
Portfolio Type	**$M**	**$M**	**$M**	**$M**
Corporate	64,773	5,470	16,489	86,732
SME corporate	36,784	6,237	611	43,632
SME retail	12,963	1,806	44	14,813
Sovereign	25,263	2,121	16,724	44,108
Bank	23,609	1,150	20,787	45,546
Residential mortgage [1]	370,554	32,246	406	403,206
Qualifying revolving retail	20,948	-	-	20,948
Other retail	8,329	1,387	1	9,717
Specialised lending	37,105	3,789	1,607	42,501
Other assets	9,455	2,603	349	12,407
Total credit exposures [2]	609,783	56,809	57,018	723,610

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

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

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

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

30 June 2012

Portfolio Type	Residential mortgage $M	Other personal $M	Asset finance $M	Sovereign $M	Bank $M	Other finance $M	Agriculture $M	Mining $M
	Industry Sector							
Corporate	-	-	1,289	-	-	12,839	2,259	6,556
SME corporate	-	887	3,362	-	-	2,461	11,141	445
SME retail	-	1,130	3,254	-	-	290	1,531	31
Sovereign	-	-	-	49,001	-	-	-	-
Bank	-	-	-	-	41,807	-	-	-
Residential mortgage [(2)]	398,289	-	-	-	-	370	717	60
Qualifying revolving retail	-	21,555	-	-	-	-	-	-
Other retail	-	10,187	-	-	-	-	-	-
Specialised lending	-	-	7	-	-	165	128	307
Other assets	-	3,465	-	-	-	-	-	-
Total credit exposures [(1)]	398,289	37,224	7,912	49,001	41,807	16,125	15,776	7,399

Portfolio Type	Manufacturing $M	Energy $M	Construction $M	Retail/ wholesale trade $M	Transport and storage $M	Property [(3)] $M	Other $M	Total $M
	Industry Sector							
Corporate	11,071	5,203	1,312	8,708	11,005	14,285	18,497	**93,024**
SME corporate	2,575	150	1,482	5,644	1,276	735	13,519	**43,677**
SME retail	406	18	725	1,106	225	1,295	3,506	**13,517**
Sovereign	-	-	-	-	-	-	-	**49,001**
Bank	-	-	-	-	-	-	-	**41,807**
Residential mortgage [(2)]	447	26	983	1,598	352	3,062	5,336	**411,240**
Qualifying revolving retail	-	-	-	-	-	-	-	**21,555**
Other retail	-	-	-	-	-	-	4	**10,191**
Specialised lending	185	2,267	2,256	271	3,625	30,470	1,897	**41,578**
Other assets	-	-	-	-	-	-	6,132	**9,597**
Total credit exposures [(1)]	14,684	7,664	6,758	17,327	16,483	49,847	48,891	**735,187**

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

(2) SME retail business lending secured by residential property have been allocated by industry.

(3) Property includes REITs and excludes Business Services.

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

31 December 2011

Portfolio Type	Industry Sector							
	Residential mortgage $M	Other personal $M	Asset finance $M	Sovereign $M	Bank $M	Other finance $M	Agriculture $M	Mining $M
Corporate	-	-	1,168	-	-	13,338	2,284	6,565
SME corporate	-	870	3,189	-	-	2,755	10,924	500
SME retail	-	1,131	3,584	-	-	365	1,508	32
Sovereign	-	-	-	44,108	-	-	-	-
Bank	-	-	-	-	45,533	13	-	-
Residential mortgage [2]	390,045	-	-	-	-	355	707	63
Qualifying revolving retail	-	20,948	-	-	-	-	-	-
Other retail	-	9,717	-	-	-	-	-	-
Specialised lending	-	-	5	-	-	221	143	403
Other assets	-	3,580	-	-	-	-	-	-
Total credit exposures [1]	390,045	36,246	7,946	44,108	45,533	17,047	15,566	7,563

Portfolio Type	Industry Sector							
	Manufacturing $M	Energy $M	Construction $M	Retail/ wholesale trade $M	Transport and storage $M	Property [3] $M	Other $M	Total $M
Corporate	10,777	5,290	866	10,798	9,192	11,087	15,367	86,732
SME corporate	2,418	214	1,386	5,769	1,260	942	13,405	43,632
SME retail	430	19	740	1,133	234	1,260	4,377	14,813
Sovereign	-	-	-	-	-	-	-	44,108
Bank	-	-	-	-	-	-	-	45,546
Residential mortgage [2]	441	26	1,030	1,591	379	3,226	5,343	403,206
Qualifying revolving retail	-	-	-	-	-	-	-	20,948
Other retail	-	-	-	-	-	-	-	9,717
Specialised lending	163	1,696	2,780	206	4,427	31,127	1,330	42,501
Other assets	-	-	-	-	-	-	8,827	12,407
Total credit exposures [1]	14,229	7,245	6,802	19,497	15,492	47,642	48,649	723,610

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

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

30 June 2011

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

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

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

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

	30 June 2012				
	≤ 12mths	1 ≤ 5yrs	> 5 years	No specified maturity	Total
Portfolio Type	$M	$M	$M	$M	$M
Corporate	2,821	81,957	5,959	2,287	**93,024**
SME corporate	4,618	31,041	7,075	943	**43,677**
SME retail	2,036	7,368	3,917	196	**13,517**
Sovereign	12,383	20,361	15,280	977	**49,001**
Bank	11,107	29,569	780	351	**41,807**
Residential mortgage (1)	9,375	9,132	337,172	55,561	**411,240**
Qualifying revolving retail	-	-	-	21,555	**21,555**
Other retail	115	3,829	3,081	3,166	**10,191**
Specialised lending	14,264	24,834	2,480	-	**41,578**
Other assets	4,472	-	-	5,125	**9,597**
Total credit exposures (2)	61,191	208,091	375,744	90,161	**735,187**

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

	31 December 2011				
	≤ 12mths	1 ≤ 5yrs	> 5 years	No specified maturity	Total
Portfolio Type	$M	$M	$M	$M	$M
Corporate	10,258	68,383	4,729	3,362	86,732
SME corporate	3,755	31,722	7,301	854	43,632
SME retail	2,113	8,288	4,251	161	14,813
Sovereign	9,629	19,620	14,013	846	44,108
Bank	11,058	33,107	914	467	45,546
Residential mortgage (1)	8,798	9,259	327,639	57,510	403,206
Qualifying revolving retail	-	-	-	20,948	20,948
Other retail	112	3,768	2,865	2,972	9,717
Specialised lending	14,677	24,904	2,920	-	42,501
Other assets	4,470	-	-	7,937	12,407
Total credit exposures (2)	64,870	199,051	364,632	95,057	723,610

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

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

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

6.2 Past Due and Impaired Exposures, Provisions and Reserves

Provisioning for Impairment

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

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

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

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

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

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

Individually Assessed and Collective Provisions

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

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

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

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

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

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

General Reserve for Credit Losses (GRCL)

All provisions for impairment assessed on an individual basis in accordance with the Australian Accounting Standards are classified as specific provisions in accordance with APS220 "Credit Quality". Most of the collective provisions raised under the Australian Accounting Standards are included in the GRCL, however, certain collective provisions not eligible for inclusion in the GRCL are classified as specific provisions. This includes, for example, collective provisions on unsecured retail products 90 days or more past due.

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

	30 June 2012		
	General reserve for credit losses [(2)]	Specific provision [(2)]	Total provisions
	$M	$M	$M
Collective provision [(1)]	2,682	155	**2,837**
Individual provisions [(1)]	-	2,008	**2,008**
Total provisions	2,682	2,163	**4,845**
Additional GRCL requirement [(3)]	299	-	**299**
Total regulatory provisions	2,981	2,163	**5,144**

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

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

(3) The Group has recognised an after tax deduction from Tier One Capital of $209 million in order to maintain the required minimum GRCL.

	31 December 2011		
	General reserve for credit losses [(2)]	Specific provision [(2)]	Total provisions
	$M	$M	$M
Collective provision [(1)]	2,868	116	2,984
Individual provisions [(1)]	-	2,097	2,097
Total provisions	2,868	2,213	5,081
Additional GRCL requirement [(3)]	261	-	261
Total regulatory provisions	3,129	2,213	5,342

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

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

(3) The Group has recognised an after tax deduction from Tier One Capital of $183 million in order to maintain the required minimum GRCL.

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

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

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

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

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

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

	30 June 2012				
Industry Sector	**Impaired assets $M**	**Past due loans ≥ 90 days $M**	**Specific provision balance [1] $M**	**Net full year charges for individual provisions $M**	**Full year actual losses [2] $M**
Home loans	1,082	2,444	315	143	107
Other personal	34	215	134	4	521
Asset finance	60	13	15	16	21
Sovereign	-	-	-	-	-
Bank	58	-	54	20	-
Other finance	370	7	187	50	35
Agriculture	282	28	96	16	37
Mining	5	2	1	1	1
Manufacturing	197	15	130	63	12
Energy	73	-	32	(5)	47
Construction	225	22	152	35	45
Wholesale/retail trade	119	40	72	103	126
Transport and storage	26	6	11	(20)	11
Property	1,361	65	653	253	347
Other	607	121	311	98	339
Total	4,499	2,978	2,163	777	1,649

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

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the year ended 30 June 2012.

	31 December 2011				
Industry Sector	**Impaired assets [3] $M**	**Past due loans ≥ 90 days $M**	**Specific provision balance [1][3] $M**	**Net half year charges for individual provisions $M**	**Half year actual losses [2] $M**
Home loans	961	2,525	281	79	39
Other personal	13	239	120	2	261
Asset finance	63	8	26	6	5
Sovereign	-	-	-	-	-
Bank	57	-	34	1	-
Other finance	366	12	193	28	15
Agriculture	229	31	80	4	32
Mining	14	3	1	-	1
Manufacturing	144	16	89	8	2
Energy	71	-	32	(5)	47
Construction	234	21	134	16	29
Wholesale/retail trade	248	36	154	97	27
Transport and storage	152	8	16	(18)	8
Property	1,409	111	727	124	146
Other	731	127	326	2	130
Total	4,692	3,137	2,213	344	742

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

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the half year ended 31 December 2011.

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

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

	30 June 2011				
Industry Sector	Impaired assets [3] $M	Past due loans ≥ 90 days $M	Specific provision balance [1][3] $M	Net full year charges for individual provisions $M	Full year actual losses [2] $M
Home loans	911	3,047	236	143	67
Other personal	11	232	123	2	448
Asset finance	85	42	39	43	24
Sovereign	-	-	-	-	-
Bank	56	-	32	15	50
Other finance	394	23	223	81	55
Agriculture	315	40	98	19	27
Mining	2	5	1	(12)	7
Manufacturing	138	18	83	25	11
Energy	322	-	84	65	1
Construction	236	27	133	87	90
Wholesale/retail trade	188	38	94	52	49
Transport and storage	251	14	43	131	124
Property	1,625	131	678	407	496
Other	763	141	381	177	320
Total	5,297	3,758	2,248	1,235	1,769

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

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

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

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

Portfolio	30 June 2012 Impaired assets $M	Past due loans ≥ 90 days $M	Specific provision balance [1] $M	Net full year charges for individual provisions $M	Full year actual losses [2] $M
Corporate including SME and specialised lending	3,325	319	1,660	610	1,021
Sovereign	-	-	-	-	-
Bank	58	-	54	20	-
Residential mortgage	1,082	2,444	315	143	107
Qualifying revolving retail	-	103	56	-	258
Other retail	34	112	78	4	263
Total	4,499	2,978	2,163	777	1,649

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

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the year ended 30 June 2012.

Portfolio	31 December 2011 Impaired assets [3] $M	Past due loans ≥ 90 days $M	Specific provision balance [1][3] $M	Net half year charges for individual provisions $M	Half year actual losses [2] $M
Corporate including SME and specialised lending	3,661	373	1,778	262	442
Sovereign	-	-	-	-	-
Bank	57	-	34	1	-
Residential mortgage	961	2,525	281	79	39
Qualifying revolving retail	-	102	58	-	136
Other retail	13	137	62	2	125
Total	4,692	3,137	2,213	344	742

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

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the half year ended 31 December 2011.

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

Portfolio	30 June 2011 Impaired assets [3] $M	Past due loans ≥ 90 days $M	Specific provision balance [1][3] $M	Net full year charges for individual provisions $M	Full year actual losses [2] $M
Corporate including SME and specialised lending	4,319	479	1,857	1,075	1,204
Sovereign	-	-	-	-	-
Bank	56	-	32	15	50
Residential mortgage	911	3,047	236	143	67
Qualifying revolving retail	-	109	60	-	257
Other retail	11	123	63	2	191
Total	5,297	3,758	2,248	1,235	1,769

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

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

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

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

	30 June 2012		
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance
Geographic Region (1)	$M	$M	$M
Australia	4,080	2,798	2,000
New Zealand	312	171	90
Other	107	9	73
Total	4,499	2,978	2,163

(1) Balances are reported based on the risk domicile of the borrower.

	31 December 2011		
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance
Geographic Region (1)	$M	$M	$M
Australia	4,238	2,932	2,105
New Zealand	262	196	65
Other	192	9	43
Total	4,692	3,137	2,213

(1) Balances are reported based on the risk domicile of the borrower.

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

(1) Balances are reported based on the risk domicile of the borrower.

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

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

	30/06/12	31/12/11	30/06/11
Geographic Region	$M	$M	$M
Australia	**2,748**	2,896	2,827
New Zealand	**108**	137	174
Other	**125**	96	108
Total GRCL	**2,981**	3,129	3,109

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

Movement in Collective Provisions	Half Year Ended 30/06/12 $M	31/12/11 $M	30/06/11 $M
Opening balance	2,984	3,043	3,327
Net charge against profit and loss	111	201	(102)
Recoveries	127	101	152
Other	(1)	(5)	(14)
Write-offs	(384)	(356)	(320)
Total collective provisions	2,837	2,984	3,043
Less collective provisions transferred to specific provisions	(155)	(116)	(123)
General reserve for credit losses	2,682	2,868	2,920
Additional GRCL requirement (1)	299	261	189
General reserve for credit losses	2,981	3,129	3,109

(1) The Group has recognised an after tax deduction from Tier One Capital of $209 million for 30 June 2012 (31 December 2011: $183 million; 30 June 2011: $132 million) in order to maintain the required minimum GRCL.

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

Movement in Individual Provisions	Half Year Ended 30/06/12 $M	31/12/11 $M	30/06/11 $M
Opening balance for the period	**2,097**	2,125	2,169
Net new and increased provisioning	**662**	540	889
Net write back of provisions no longer required	**(229)**	(196)	(229)
Discount unwind to interest income	**(59)**	(63)	(68)
Other	**187**	178	191
Write-offs	**(650)**	(487)	(827)
Individual provisions	**2,008**	2,097	2,125
Add collective provisions transferred to specific provisions	**155**	116	123
Specific provisions	**2,163**	2,213	2,248

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

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

The Standardised approach has also been used by the Group where portfolios or segments are considered as immaterial by the size of exposure or where APRA requires a standardised approach to be used. APS 330 Table 4i details total exposures by portfolio type (page 22).

Portfolios where the Standardised approach has been taken include:

- Commonwealth Bank of Australia:
  - Some retail SMEs (overdrawn accounts);
  - Non-rated Corporate exposures;
  - Some residential mortgages (purchased portfolios);
  - Reverse mortgages;
  - Margin Lending;
  - Non-recourse purchased receivables; and
  - Some branches (China, India & Vietnam).
- ASB Bank Limited:
  - Personal Loans.
- All exposures in the following entities:
  - Bank of Western Australia Limited;
  - Commbank Europe Limited;
  - PT Bank Commonwealth (Indonesia); and
  - China County Banks.

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

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

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

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

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

Standardised Approach Exposures	Exposure After Risk Mitigation [1] 30/06/12 $M	31/12/11 $M	30/06/11 $M
Risk weight			
0%	**6,301**	7,508	8,671
20%	**10,459**	10,885	10,608
35%	**39,663**	38,078	35,428
50%	**12,339**	11,813	10,616
75%	**681**	666	595
100%	**29,242**	31,448	29,770
150%	**1,869**	1,158	1,353
> 150%	**-**	-	-
Capital deductions	**-**	-	-
Total	**100,554**	101,556	97,041

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

Other Assets [1]	30 June 2012 Exposure $M	Risk weight %	RWA $M
Cash	2,715	-	-
Cash items in course of collection	1,086	20	217
Margin lending	3,466	20	693
Fixed assets	1,523	100	1,523
Other	807	100	807
Total	9,597	34	3,240

Other Assets [1]	31 December 2011 Exposure $M	Risk weight %	RWA $M
Cash	3,650	-	-
Cash items in course of collection	848	20	170
Margin lending	3,580	20	716
Fixed assets	1,350	100	1,350
Other	2,979	100	2,979
Total	12,407	42	5,215

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

(1) Other Assets are included in Standardised Approach Exposures table above.

Specialised Lending Exposures Subject to Supervisory Slotting [1]	30/06/12 $M	31/12/11 $M	30/06/11 $M
Risk Weight			
0%	**743**	745	1,240
70%	**14,263**	15,559	15,567
90%	**20,559**	19,720	18,082
115%	**5,466**	5,864	6,068
250%	**547**	613	736
Total exposures	**41,578**	42,501	41,693

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

Equity Credit Exposures	30/06/12 $M	31/12/11 $M	30/06/11 $M
Risk Weight			
300%	**445**	421	399
400%	**251**	286	229
Total credit exposures	**696**	707	628

6.4 Portfolios Subject to Internal Ratings Based Approaches

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

The measurement of credit risk is based on an internal credit risk rating system which uses expert judgement and analytical tools to calculate IRB credit risk factors, including customer Probabilities of Default (PD) and facility Loss Given Default (LGD). These are inputs into the estimation of expected loss (EL) and unexpected loss (UL) for the credit portfolio.

Credit Risk Ratings System

A credit risk rating system for corporate customer exposures was first introduced in the Group in 1994. The initial nine grade PD rating scale has been progressively expanded to the 24 PD grades (16 performing, 6 weak/doubtful, 1 restructured, 1 defaulted) currently in use.

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

The Group has also been using scorecards to "auto-decision" loan applications for over 18 years in its Consumer Retail business and more recently for small and medium enterprise (SME) Retail applications. These are auto-decisioned for the approval of credit using a scorecard approach whereby the performance of historical applications is supplemented by information from a credit reference bureau and/or from the Group's existing knowledge of a customer's behaviour.

The Group uses its credit risk factors to price transactions, measure performance and help determine the amount of capital required to support business activities.

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

PD Ratings

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

(i) Risk-Rated Segment

This segment comprises commercial exposures including bank, sovereign and corporate. Commercial exposures to clients with turnover less than $50 million that are required to be risk-rated and individually managed under the Group's internal credit policy are classified under the SME Corporate asset class.

Obligors that are risk-rated have their PD rating assigned via expert judgement and/or by using the appropriate PD Rating Tool. Obligors whose PD ratings are assigned via expert judgement include banks, sovereigns and large corporate customers of the Institutional Banking business. Under expert judgement, PD ratings are assigned based on the expert knowledge of the credit officer conducting the review. The credit officer may use multiple rating inputs, including the use of internal rating tools, the ratings assigned by an external rating agency, benchmark rating criteria, market or other relevant information to assist with the rating decision.

For the Business and Private Banking business units across the Group (including within CBA, Bankwest and ASB), PD Rating Tools are the primary method of assigning a PD rating. PD Rating Tools are statistical models designed to replicate the rating process under expert judgement. Ratings are assigned based on the responses to a series of questions relating to the financial condition of the customer's business, as well as questions relating to management capability and integrity. The responses are weighted by their importance in predicting credit quality and are used to calculate an overall score upon which the rating is determined.

The PD rating reflects the statistical probability of default for that grade over a one-year horizon. The Group uses a through-the-cycle (TTC) approach whereby PD ratings are based on longer term considerations to capture a company's ability to perform through a credit cycle. External rating agencies also use a TTC PD rating approach.

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

PD ratings fall within the following categories:

1. Exceptional – (A0 through to A3) – a strong profit history with principal and interest repayments covered by large stable surpluses.

2. Strong – (B1 through to C3) – a strongly performing business with principal and interest payments well protected by stable cash operating surpluses.

3. Pass – (D1 through to E3) – a soundly performing business with sufficient operating cash surpluses to meet all principal and interest repayments.

4. Weak/Doubtful – (F1 through to G3) – profitability has been weak and the capacity to meet principal and interest payments is declining.

5. Restructured – (R) – concessions of interest and/or principal obligations have been provided due to the customer's financial difficulties, rendering the facility non-commercial to the Group. Restructured facilities are treated as impaired assets.

6. Default – (H) – the obligation is in default (see below).

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

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

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

- The customer is 90 days or more overdue on a scheduled credit obligation repayment; or
- The customer is unlikely to repay their credit obligation to the Bank in full, without recourse by the Group to actions such as realising available security.

Material deviations from the reference default definition are not permitted.

Both the expert judgement and PD Rating Tools rating methods target a common rating descriptor for each risk grade. The rating descriptors are the same, regardless of how the rating is assigned and all ratings map to the same PD masterscale which allocates probabilities of default to each PD grade. PD Rating Tools are used to inform the rating process and are based on customer financials and a number of management related questions.

The Group's mapping of internal rating scales for risk-rated exposures to external rating agencies is detailed in APS 330 Table 6b (page 41).

(ii) Retail Managed Segment

This segment has sub-segments covering housing loan, credit card, personal loan facilities, some leasing products and most secured commercial lending up to $1 million.

These portfolios are managed on a delinquency band approach (e.g. actions taken when loan payments are greater than 30 days past due differ from actions when payments are greater than 60 days past due) and are reviewed by the relevant business credit support and monitoring units.

Commercial lending up to $1 million is reviewed as part of the client quality review process and oversight is provided by the independent Credit Portfolio Assurance unit. Facilities in the retail segment become classified for remedial management by centralised units based on delinquency band.

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

Any facilities not written off at 180 days are considered impaired. Secured facilities (e.g. home loans) are classified as impaired when an assessment is made that the security does not cover the facility and all outstanding interest and fees. Common PD, Exposure at Default (EAD) and LGD methodologies are followed in constructing the internal ratings process for residential mortgages, qualifying revolving retail exposures and other retail advances with the default definition applied when payment on a facility is 90 days or more past due, 90 days over limit or a write-off amount exists against the facility.

LGD Ratings

For Corporate and SME Corporate customers, an LGD rating is applied based on the security cover ratio after taking into consideration the security lending margins applied to various security asset types. The LGD rating provides an estimate of the likely loss in the event of default, based on past experience. Secured commercial exposures receive an LGD rating of A-F. A rating of A is applied only to very well secured exposures where the security cover exceeds 140%. A rating of F applies where the security cover is less than 40%. An LGD rating of C reflects a security cover of 100%. Unsecured large corporate customers, banks and sovereigns receive an LGD rating of J-N, depending on their PD rating and the existence of covenants.

For retail exposures, accounts are segmented into homogeneous pools based on product/loan type and other relevant attributes.

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

Main collateral types include:

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

Collateral types are discussed further detail in section 6.5 "Credit Risk Mitigation" (page 52).

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

Description	Internal Rating	Probability of Default
Exceptional	A0, A1, A2, A3	0.00% - 0.04%
Strong	B1, B2, B3, C1, C2, C3	0.04% - 0.45%
Pass	D1, D2, D3, E1, E2, E3	0.45% - 4.35%
Weak/doubtful	F1, F2, F3, G1, G2, G3	> 4.35%
Default	H	100%

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

Credit Risk Measurement

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

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

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

Probability of Default

The PD, expressed as a percentage, is the estimate of the probability that an obligor will default within the next twelve months. It reflects an obligor's ability to generate sufficient cash flows into the future to meet the terms of all of its credit obligations to the Group. The PD rating methodology applied to the various segments of the credit portfolio is shown in APS 330 Table 6c (page 42).

PD estimates are based on a long-run average default rate for the Group's historical data. Decision trees are used to define retail risk pools which are based on statistically significant attributes. Pools may be combined to ensure the number of exposures within a given pool is sufficient to allow quantification of reliable estimates and to facilitate validation of loss characteristics at the pool level.

Models are independently validated and in addition, confidence intervals are calculated to statistically demonstrate that retail pools meaningfully differentiate risk. Model results are calibrated to obtain long-run PDs that reflect the central tendency over a full economic cycle.

Exposure at Default

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

The proportion of the undrawn amount that is converted is termed the credit conversion factor. For most committed facilities, the Group applies a credit conversion factor of 100%.

For uncommitted facilities the EAD will generally be the outstanding balance only. For retail exposures, a modeling approach based on limit utilisation, arrears and loan type is used to segment accounts into homogeneous pools for the calculation of EAD.

Loss Given Default

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

LGD is estimated as the net present value of the post default cash flows, including an allowance for internal and external costs, expressed as a percentage of the EAD.

Amounts recovered and the associated costs of recovery after the point of default are discounted using an appropriate discount rate inclusive of a risk premium.

LGD is impacted by:

- The level of security cover and the type of collateral held;
- Liquidity and volatility of collateral value;
- Loan workout costs (effectively the costs of providing a facility that is not generating an interest return) and management expenses (realisation costs);
- Time estimated to achieve all possible payments; and
- The discount factor applied to reflect the time value of money and the uncertainty of future cash flows.

It is recognised that some accounts will cure after entering default and cure rates are an important aspect of estimating a downturn LGD that is consistent with economic recession conditions.

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

APS 330 Table 6c summarises the PD rating methodology applied by the Group to various segments of the credit portfolio.

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

Portfolio Segment	PD Rating Methodology
Bank and sovereign exposures	Expert Judgement assigned risk rating, informed but not driven by rating agency views.
Large corporate exposures	Combination of Expert Judgement and PD Rating Tool assigned risk ratings depending on the industry sector.
Middle market and local business banking exposures	PD Rating Tool(s) assigned risk rating.
SME retail exposures < $1m	SME Behaviour Score assigned PD pools.
Consumer retail exposures	Depending on the product, PD pools are assigned using product specific Application Scorecards, Behavioural Scorecards, payment status or a combination of these.

Expected Loss

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

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

Regulatory EL for Specialised Lending exposures is determined by the Supervisory Slotting approach.

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

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

Unexpected Loss

The UL for each portfolio segment is calculated based on a given level of confidence that the magnitude of the UL will not be exceeded with a known probability. UL represents the difference between EL and the point on the loss distribution associated with the required level of probability that the loss not be exceeded. The Group holds capital to cover the unexpected loss.

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

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

The economic capital measure takes into account portfolio specific characteristics (e.g. industry segment) and allows for diversification effects between obligors within a portfolio segment as well as across different portfolio segments. Economic capital is the currency of risk measurement using a 99.95% probability that UL is not exceeded. The Group evaluates portfolio performance based on the return on economic capital.

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

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

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

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

Credit Risk Exposure Subject to the Basel II Advanced Approach

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

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

	30 June 2012							
	PD Grade							
	0 < 0.03%	0.03% < 0.15%	0.15% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Non Retail [1]	$M	$M	$M	$M	$M	$M	$M	$M
Total credit risk exposures								
Corporate	-	26,134	36,634	17,741	861	672	623	**82,665**
SME corporate	-	495	3,977	28,322	2,523	1,073	846	**37,236**
SME retail	-	-	978	5,235	1,765	224	180	**8,382**
Sovereign	43,592	1,311	644	1,047	12	3	-	**46,609**
Bank	-	32,884	2,250	153	-	-	39	**35,326**
Total	43,592	60,824	44,483	52,498	5,161	1,972	1,688	**210,218**
Undrawn commitments [2]								
Corporate	-	12,470	15,226	4,326	119	46	31	**32,218**
SME corporate	-	131	772	4,173	228	44	20	**5,368**
SME retail	-	-	599	755	298	9	6	**1,667**
Sovereign	1,293	195	402	1,021	12	3	-	**2,926**
Bank	-	1,861	374	109	-	-	-	**2,344**
Total	1,293	14,657	17,373	10,384	657	102	57	**44,523**
Exposure - weighted average EAD ($M)								
Corporate	-	5. 937	4. 315	0. 802	1. 295	1. 397	2. 857	**4. 008**
SME corporate	-	0. 211	0. 276	0. 153	0. 208	0. 302	0. 487	**0. 182**
SME retail	-	-	0. 006	0. 009	0. 033	0. 040	0. 052	**0. 016**
Sovereign	6. 946	1. 463	1. 118	0. 379	0. 158	2. 634	-	**6. 562**
Bank	-	11. 005	4. 230	0. 037	-	-	13. 073	**10. 528**
Exposure - weighted average LGD (%)								
Corporate	-	58. 6	55. 3	46. 9	37. 2	43. 5	47. 0	**54. 2**
SME corporate	-	58. 8	33. 7	30. 4	29. 3	33. 4	35. 8	**31. 2**
SME retail	-	-	33. 4	41. 8	29. 0	35. 5	32. 4	**37. 8**
Sovereign	17. 7	46. 1	45. 4	6. 9	5. 4	5. 0	-	**18. 7**
Bank	-	61. 3	58. 3	60. 9	-	-	61. 3	**61. 1**
Exposure - weighted average risk weight (%)								
Corporate	-	30. 9	62. 8	83. 8	123. 0	214. 9	141. 9	**59. 7**
SME corporate	-	19. 6	34. 6	52. 4	77. 9	159. 2	275. 6	**59. 9**
SME retail	-	-	17. 6	49. 8	41. 3	78. 2	216. 3	**48. 6**
Sovereign	5. 0	26. 6	40. 9	18. 1	16. 9	25. 4	-	**6. 4**
Bank	-	19. 6	45. 8	93. 3	-	-	-	**21. 6**

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

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

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

	31 December 2011							
	PD Grade							
	0 < 0.03%	0.03% < 0.15%	0.15% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Non Retail [1]	$M	$M	$M	$M	$M	$M	$M	$M
Total credit risk exposure								
Corporate	-	24,262	32,895	17,169	1,034	828	592	76,780
SME corporate	-	601	3,856	27,407	2,696	1,330	818	36,708
SME retail	-	-	1,151	6,154	1,819	193	186	9,503
Sovereign	39,799	928	560	67	-	-	-	41,354
Bank	-	37,043	1,765	154	16	-	40	39,018
Total	39,799	62,834	40,227	50,951	5,565	2,351	1,636	203,363
Undrawn commitments [2]								
Corporate	-	12,683	14,937	4,546	85	89	27	32,367
SME corporate	-	172	869	4,112	303	60	18	5,534
SME retail	-	-	713	1,014	334	17	6	2,084
Sovereign	1,339	166	253	16	-	-	-	1,774
Bank	-	1,758	437	97	-	-	-	2,292
Total	1,339	14,779	17,209	9,785	722	166	51	44,051
Exposure - weighted average EAD ($M)								
Corporate	-	4. 751	4. 240	0. 809	2. 191	1. 604	2. 312	3. 563
SME corporate	-	0. 232	0. 275	0. 205	0. 201	0. 308	0. 417	0. 221
SME retail	-	-	0. 007	0. 011	0. 032	0. 045	0. 052	0. 061
Sovereign	5. 653	1. 160	0. 967	0. 030	-	-	-	5. 480
Bank	-	9. 728	5. 147	1. 329	16. 182	-	6. 584	9. 487
Exposure - weighted average LGD (%)								
Corporate	-	60. 0	56. 3	45. 1	34. 2	47. 5	48. 0	54. 5
SME corporate	-	56. 8	34. 2	30. 3	29. 4	32. 6	36. 0	31. 3
SME retail	-	-	31. 8	41. 2	28. 2	35. 6	31. 8	37. 3
Sovereign	20. 6	61. 3	61. 3	61. 3	-	-	-	22. 1
Bank	-	61. 2	59. 9	59. 3	61. 3	-	61. 0	61. 1
Exposure - weighted average risk weight (%)								
Corporate	-	31. 4	61. 8	80. 0	115. 2	245. 2	181. 5	59. 9
SME corporate	-	20. 5	34. 7	52. 5	76. 5	156. 4	265. 5	60. 4
SME retail	-	-	16. 8	49. 1	40. 3	79. 4	206. 1	47. 2
Sovereign	6. 1	38. 3	62. 8	101. 5	-	-	-	7. 7
Bank	-	18. 5	45. 8	91. 8	225. 3	-	189. 8	20. 3

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

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

	30 June 2011							
	PD Grade							
	0 < 0.03%	0.03% < 0.15%	0.15% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Non Retail [1]	$M	$M	$M	$M	$M	$M	$M	$M
Total credit risk exposure								
Corporate	-	19,664	27,561	17,807	1,007	831	756	67,626
SME corporate	-	630	3,935	27,005	3,088	1,599	827	37,084
SME retail	-	-	1,094	6,128	1,607	197	203	9,229
Sovereign	40,036	1,177	332	100	12	-	-	41,657
Bank	-	34,157	1,396	257	17	-	39	35,866
Total	40,036	55,628	34,318	51,297	5,731	2,627	1,825	191,462
Undrawn commitments [2]								
Corporate	-	9,128	13,218	4,337	97	34	78	26,892
SME corporate	-	161	851	4,089	316	81	44	5,542
SME retail	-	-	634	914	263	12	12	1,835
Sovereign	7,440	194	110	16	-	-	-	7,760
Bank	-	1,711	517	149	-	-	-	2,377
Total	7,440	11,194	15,330	9,505	676	127	134	44,406
Exposure - weighted average EAD ($M)								
Corporate	-	5. 539	3. 890	0. 835	1. 486	3. 393	2. 513	3. 508
SME corporate	-	0. 149	0. 287	0. 201	0. 208	0. 307	0. 225	0. 215
SME retail	-	-	0. 006	0. 012	0. 031	0. 034	0. 099	0. 017
Sovereign	7. 471	1. 542	0. 589	0. 045	0. 618	-	-	7. 229
Bank	-	9. 126	6. 585	2. 735	0. 599	-	13. 061	8. 981
Exposure - weighted average LGD (%)								
Corporate	-	59. 1	56. 6	42. 9	38. 6	47. 9	49. 7	53. 3
SME corporate	-	54. 9	33. 9	29. 6	28. 7	32. 7	35. 7	30. 7
SME retail	-	-	31. 3	41. 4	28. 0	37. 1	33. 5	37. 6
Sovereign	15. 3	61. 3	61. 3	46. 0	61. 3	-	-	17. 1
Bank	-	61. 2	58. 0	56. 2	60. 6	-	61. 3	61. 0
Exposure - weighted average risk weight (%)								
Corporate	-	27. 2	55. 8	71. 9	122. 0	239. 0	322. 5	57. 9
SME corporate	-	18. 2	33. 3	51. 5	76. 1	155. 9	277. 5	60. 6
SME retail	-	-	16. 5	49. 5	40. 1	80. 1	208. 0	48. 1
Sovereign	4. 4	37. 3	65. 6	93. 3	176. 4	-	-	6. 0
Bank	-	18. 3	46. 2	80. 2	280. 4	-	189. 0	20. 1

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

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

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

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

	30 June 2012							
	PD Grade							
	0 < 0.1%	0.1% < 0.3%	0.3% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Retail	$M	$M	$M	$M	$M	$M	$M	$M
Total credit risk exposures								
Residential mortgage	76,957	111,839	35,519	110,312	7,768	7,959	3,256	**353,610**
Qualifying revolving retail	10,027	2,949	-	4,812	3,017	603	147	**21,555**
Other retail	-	245	651	4,954	1,161	511	75	**7,597**
Total	86,984	115,033	36,170	120,078	11,946	9,073	3,478	**382,762**
Undrawn commitments [1]								
Residential mortgage	33,592	7,249	1,411	11,618	345	56	8	**54,279**
Qualifying revolving retail	7,693	2,106	-	1,973	449	78	-	**12,299**
Other retail	-	231	544	619	66	71	-	**1,531**
Total	41,285	9,586	1,955	14,210	860	205	8	**68,109**
Exposure - weighted average EAD ($M)								
Residential mortgage	0. 194	0. 240	0. 211	0. 185	0. 230	0. 229	0. 241	**0. 209**
Qualifying revolving retail	0. 008	0. 007	-	0. 008	0. 009	0. 007	0. 007	**0. 008**
Other retail	-	0. 002	0. 005	0. 009	0. 006	0. 002	0. 004	**0. 007**
Exposure - weighted average LGD (%)								
Residential mortgage	20. 0	20. 1	20. 3	20. 7	22. 2	20. 5	20. 5	**20. 4**
Qualifying revolving retail	77. 4	77. 9	-	84. 6	88. 3	88. 0	86. 3	**81. 0**
Other retail	-	93. 4	90. 3	96. 9	97. 6	99. 4	98. 3	**96. 5**
Exposure - weighted average risk weight (%)								
Residential mortgage	2. 2	8. 4	13. 6	22. 8	74. 3	97. 0	-	**15. 4**
Qualifying revolving retail	3. 0	11. 2	-	33. 1	108. 9	196. 9	-	**31. 1**
Other retail	-	42. 7	59. 0	104. 5	143. 8	220. 4	0. 5	**111. 4**

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

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

	31 December 2011							
	PD Grade							
	0 < 0.1%	0.1% < 0.3%	0.3% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total
Retail	$M	$M	$M	$M	$M	$M	$M	$M
Total credit risk exposures								
Residential mortgage	74,941	108,778	35,861	110,057	7,509	7,696	3,256	348,098
Qualifying revolving retail	9,821	2,810	-	4,670	2,889	612	146	20,948
Other retail	-	183	613	4,679	1,147	364	98	7,084
Total	84,762	111,771	36,474	119,406	11,545	8,672	3,500	376,130
Undrawn commitments [(1)]								
Residential mortgage	33,437	7,520	1,250	11,724	389	44	8	54,372
Qualifying revolving retail	7,365	1,990	-	1,978	443	85	-	11,861
Other retail	-	172	505	555	55	65	-	1,352
Total	40,802	9,682	1,755	14,257	887	194	8	67,585
Exposure - weighted average EAD ($M)								
Residential mortgage	0. 189	0. 235	0. 224	0. 178	0. 231	0. 230	0. 241	0. 206
Qualifying revolving retail	0. 007	0. 007	-	0. 007	0. 008	0. 007	0. 007	0. 007
Other retail	-	0. 002	0. 005	0. 009	0. 006	0. 001	0. 002	0. 007
Exposure - weighted average LGD (%)								
Residential mortgage	20. 0	20. 1	20. 2	20. 8	22. 6	20. 3	20. 5	20. 3
Qualifying revolving retail	77. 6	77. 8	-	84. 2	88. 1	87. 7	86. 3	80. 9
Other retail	-	92. 4	90. 3	96. 8	98. 1	100. 5	98. 4	96. 6
Exposure - weighted average risk weight (%)								
Residential mortgage	2. 1	8. 4	13. 5	23. 0	74. 1	95. 8	-	15. 5
Qualifying revolving retail	3. 0	11. 2	-	32. 9	108. 7	196. 3	-	31. 0
Other retail	-	42. 3	59. 0	111. 2	144. 6	224. 2	0. 2	114. 6

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

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

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

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

Analysis of Losses

The following tables provide a summary of financial losses by IRB portfolio (APS 330 Table 6e), a comparison of financial losses to regulatory EL estimates (APS 330 Table 6f (i)).

APS 330 Table 6e – Actual losses by portfolio type

Portfolio Type	30 June 2012 Full year losses in reporting period Gross write-offs $M	 Recoveries $M	 Actual losses $M
Corporate	138	(20)	118
SME corporate	158	(14)	144
SME retail (including SME retail secured by residential mortgages)	57	(16)	41
Specialised lending	262	(3)	259
Total corporate including SME and specialised lending	615	(53)	562
Sovereign	-	-	-
Bank	-	-	-
Residential mortgage (excluding SME retail secured by residential mortgages)	104	(5)	99
Qualifying revolving retail	322	(64)	258
Other retail	282	(54)	228
Total advanced IRB and specialised lending portfolios	1,323	(176)	1,147

Portfolio Type	31 December 2011 Half year losses in reporting period Gross write-offs $M	 Recoveries $M	 Actual losses $M
Corporate including SME and specialised lending	286	(22)	264
Sovereign	-	-	-
Bank	-	-	-
Residential mortgages	41	(4)	37
Qualifying revolving retail	161	(25)	136
Other retail	137	(19)	118
Total advanced IRB and specialised lending portfolios	625	(70)	555

Portfolio Type	30 June 2011 Full year losses in reporting period Gross write-offs $M	 Recoveries $M	 Actual losses $M
Corporate including SME and specialised lending	699	(19)	680
Sovereign	-	-	-
Bank	50	-	50
Residential mortgages	93	(43)	50
Qualifying revolving retail	295	(38)	257
Other retail	220	(37)	183
Total advanced IRB and specialised lending portfolios	1,357	(137)	1,220

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

	30 June 2012	
	Full year actual loss $M	Regulatory one year expected loss estimate $M
Corporate	118	507
SME corporate	144	395
SME retail (including SME retail secured by residential mortgages)	41	137
Specialised lending	259	790
Total corporate including SME and specialised lending	562	1,829
Sovereign	-	4
Bank	-	52
Residential mortgage (excluding SME retail secured by residential mortgages)	99	1,303
Qualifying revolving retail	258	430
Other retail	228	343
Total advanced IRB and specialised lending portfolios	1,147	3,961

	31 December 2011	
	Half year actual loss $M	Regulatory one year expected loss estimate $M
Corporate including SME and specialised lending	264	1,888
Sovereign	-	3
Bank	-	33
Residential mortgage	37	1,310
Qualifying revolving retail	136	425
Other retail	118	346
Total advanced IRB and specialised lending portfolios	555	4,005

	30 June 2011	
	Full year actual loss $M	Regulatory one year expected loss estimate $M
Corporate including SME and specialised lending	680	2,084
Sovereign	-	3
Bank	50	33
Residential mortgage	50	1,427
Qualifying revolving retail	257	453
Other retail	183	324
Total advanced IRB and specialised lending portfolios	1,220	4,324

Actual outcomes may differ from modelled regulatory estimates for a number of reasons.

Actual losses are historical and are based on the quality of the assets in prior periods, write-offs (whether full or partial) and recent economic conditions.

Regulatory EL for AIRB portfolios (calculated as the product of PD, LGD and EAD) is based on the quality of exposures at a point in time using long-run PDs and downturn LGDs as required by APRA. Actual losses would be below the regulatory EL estimate in most years.

Regulatory EL for AIRB portfolios is reported for both defaulted and non-defaulted exposures. For non-defaulted exposures, regulatory EL is a function of long-run PD and downturn LGD. For defaulted exposures, Regulatory EL is based on the best estimate of loss which, for the non-retail portfolios, is the individually assessed provision.

Regulatory EL measures economic loss and includes costs (e.g. internal workout costs) not included in actual losses.

There was no significant change in Regulatory EL during the half year.

Accuracy of Risk Estimates

The following tables provide a summary of credit risk estimates used in calculating regulatory capital and a comparison to realised outcomes by portfolio type.

An estimate of PD and LGD has not been provided for Specialised Lending exposures, as APRA requires the use of supervisory slotting in calculating Regulatory EL, which is more punitive than the AIRB approach.

Probability of Default and Exposure at Default

APS 330 Table 6f (ii) compares internally developed credit risk estimates of long-run PD to actual default rates averaged over four financial years to 30 June 2012.

Average estimated PD is based on the average of long-run PD's for obligors that are not in default at the beginning of each financial year over the observation period. Actual PD is based on the average number of defaulted obligors over the period compared to the non-defaulted obligors measured at the beginning of each financial year.

APS 330 Table 6f (ii) also shows the EAD-ratio which compares estimates of EAD prior to default to realised EAD for obligors that defaulted over the four year period. A ratio greater than 1.0 signifies that on average, the actual defaulted exposures are lower than the estimated EAD.

APS 330 Table 6f (ii) – Accuracy of risk estimates – PD and EAD

	As at 30 June 2012		
Portfolio Type	**Average estimated PD %**	**Average actual PD %**	**Ratio of estimated to actual EAD**
Corporate	1. 37	0. 86	1.1
SME corporate	2. 34	1. 88	1.1
SME retail (including SME retail secured by residential mortgages)	1. 90	0. 86	1.3
Specialised lending	n/a	1. 56	1.2
Sovereign	0. 53	nil	n/a
Bank (1)	0. 22	0. 46	1.8
Residential mortgage (excluding SME retail secured by residential mortgages)	0. 95	0. 91	1.0
Qualifying revolving retail	2. 20	2. 40	1.1
Other retail	4. 20	4. 41	1.0

(1) Realised PDs for Banks based on a low volume of defaults observed.

Loss Given Default

APS 330 Table 6f (iii) compares internally developed credit risk estimates of downturn LGD to actual losses for accounts that defaulted during the observation period.

LGDs for non-retail portfolios are based on accounts that defaulted in 2009 and 2010 financial years and LGDs for retail portfolios are based on accounts that defaulted in 2009 to 2011 financial years. Defaults occurring in the most recent year(s) have been excluded from the analysis, to allow sufficient time for workout of impaired assets, booking of losses and more meaningful disclosures.

Average estimated LGD is based on the average of the estimated downturn LGD for defaulted accounts at the beginning of each year analysed. Actual LGD is based on the average LGD over the period. For non-retail accounts, where workouts have yet to be finalised, the best estimates of loss has been used to approximate actual LGD. For the retail portfolios, such defaults have been excluded from the analysis.

In assessing the accuracy of the downturn LGD estimate, it should be noted that the period of analysis does not cover a full economic cycle or a significant downturn experience.

APS 330 Table 6f (iii) – Accuracy of risk estimates – LGD

Portfolio Type	**Average estimated downturn LGD %**	**Average actual LGD %**
Corporate	61.3	45.2
SME corporate	36.6	23.0
SME retail (including SME retail secured by residential mortgages)	41.9	26.8
Specialised lending	n/a	36.1
Sovereign	n/a	nil
Bank (1)	65.0	102.0
Residential mortgage (excluding SME retail secured by residential mortgages) (2)	20.9	6.5
Qualifying revolving retail	85.9	64.5
Other retail	94.4	77.4

(1) Realised LGDs for Banks based on a low volume of defaults observed.

(2) Estimated downturn LGD based on minimum regulatory floor requirements imposed by APRA and RBNZ.

6.5 Credit Risk Mitigation

Collateral

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

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

Real Estate Collateral

Real estate collateral values can only be used for reducing LGD estimates where the following criteria are met:

- Objective market value of collateral - the collateral must be valued by an independent valuer (or via a valuation approach approved by the Group CRO or delegate), at no more than the current fair value under which the property could be sold via a private contract between a willing seller and an arm's-length buyer on the date of valuation;
- Revaluation - the value of the collateral should be up-to-date, which the Group monitors and when appropriate regularly updates collateral values;
- Insurance - steps are taken to ensure that the property taken as collateral is adequately insured against damage or deterioration;
- Prior claim - other parties may have senior claims to the Group on an asset offered for collateral. For example, council rates and land tax usually benefit from specific legal protection. The impact of such claims needs to be allowed for when assessing security values; and
- Environment - the risk of environmental liability arising in respect of the collateral must be appropriately assessed, monitored and where appropriate, reflected in the valuation of collateral.

All home loans are secured by fixed charges over borrowers' residential properties, other properties (including commercial and broad acre), or cash (usually in the form of a charge over a deposit). Further, lenders mortgage insurance (LMI) is taken out for most loans with a Loan to Value Ratio (LVR) higher than 80% at origination to cover 100% of the original principal plus interest.

Non-Real Estate Collateral

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

- Cash (usually in the form of a charge over a term deposit) and other liquid assets (e.g. bonds, shares, investment funds);
- Guarantees by company directors supporting commercial lending;
- Fixed or floating charges over a company's assets, including stock debtors and work in progress; and
- A charge over assets being financed (e.g. vehicles, equipment).

Where collateral is highly correlated with the counterparty exposure that it is used to secure (wrong way risk), policy specifies that the exposure is to be treated as unsecured (i.e. no risk reduction can be taken for the collateral held).

Other - Including Credit Default Swaps and Guarantees

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

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

APS 330 Table 7b and 7c (page 53) discloses the Group's coverage of exposure by credit default swaps and guarantees.

Portfolio Management

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

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

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

- All exposures at, or greater than, the LCEP limits – including those resulting from PD deterioration; and
- All exposures ceasing to exceed LCEP limits since the last report.

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

Credit risk concentration limits are in place to ensure portfolio diversification and prevent over concentration to industries or countries. Geographic dispersion monitoring within Australia is also conducted for some larger sub-portfolios.

Periodic stress tests of major credit risk concentrations are conducted to identify potential changes in market conditions such as changes in interest rates, droughts, etc. that could adversely impact the credit portfolio's performance. Action is taken where necessary to reduce the volatility of losses.

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

	30 June 2012				
	Total exposure [1] $M	Eligible financial collateral $M	Exposures covered by guarantees $M	Exposures covered by credit derivatives $M	Coverage %
Advanced approach					
Corporate	82,665	-	601	-	0. 7
SME corporate	37,236	-	-	7	-
SME retail	8,382	-	-	-	-
Sovereign	46,609	-	-	-	-
Bank	35,326	-	264	430	2. 0
Residential mortgage	353,610	-	-	-	-
Qualifying revolving retail	21,555	-	-	-	-
Other retail	7,597	-	-	-	-
Total advanced approach	592,980	-	865	437	0. 2
Specialised lending	41,578	-	-	-	-
Standardised approach					
Corporate	10,359	61	-	-	0. 6
SME corporate	6,441	46	-	-	0. 7
SME retail	5,135	16	-	-	0. 3
Sovereign	2,392	3	-	-	0. 1
Bank	6,481	-	-	-	-
Residential mortgage	57,630	56	-	-	0. 1
Other retail	2,594	1	-	-	-
Other assets	9,597	-	-	-	-
Total standardised approach	100,629	183	-	-	0. 2
Total exposures	735,187	183	865	437	0. 2

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

	31 December 2011				
	Total exposure [1] $M	Eligible financial collateral $M	Exposures covered by guarantees $M	Exposures covered by credit derivatives $M	Coverage %
Advanced approach					
Corporate	76,780	-	619	-	0. 8
SME corporate	36,708	-	-	-	-
SME retail	9,503	-	-	-	-
Sovereign	41,354	-	-	-	-
Bank	39,018	-	332	442	2. 0
Residential mortgage	348,098	-	-	-	-
Qualifying revolving retail	20,948	-	-	-	-
Other retail	7,084	-	-	-	-
Total advanced approach	579,493	-	951	442	0. 2
Specialised lending	42,501	-	-	-	-
Standardised approach					
Corporate	9,952	106	-	-	1. 1
SME corporate	6,924	44	-	-	0. 6
SME retail	5,310	16	-	-	0. 3
Sovereign	2,754	3	-	-	0. 1
Bank	6,528	-	37	-	0. 6
Residential mortgage	55,108	63	-	-	0. 1
Other retail	2,633	2	-	-	0. 1
Other assets	12,407	-	-	-	-
Total standardised approach	101,616	234	37	-	0. 3
Total exposures	723,610	234	988	442	0. 2

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

APS 330 Table 7b and 7c – Credit risk mitigation (continued)

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

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

6.6 Counterparty Credit Risk

Counterparty Credit Risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value for the Group at the time of default. Unlike exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, CCR creates a bilateral risk of loss whereby the market value for many different types of transactions can be positive or negative to either counterparty. The market value is uncertain and can vary over time with the movement of underlying market factors.

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

Counterparty credit risk is controlled through a variety of credit policies and procedures including, but not limited, to the following:

- Large Credit Exposure Policy;
- Country Risk Policy;
- Aggregation Policy;
- Netting Policy;
- Global Markets Cross-Product Collateralisation Policy; and
- Specific product policies.

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

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

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

Fixed values (including "zero" for some counterparties) are used as references within approximately 75% of International Swaps and Derivatives Association (ISDA) Master Agreement and CSA's to determine the Thresholds and Minimum Transfer Amounts to which both the Group and counterparties adhere. A trend to lower thresholds has been observed between the Group and well rated counterparties since the Global Financial Crisis. This trend will continue in line with regulatory change. Long term debt ratings are used as references within approximately 25% of agreements to determine the Thresholds and Minimum Transfer Amount increments to which both the Group and counterparties adhere. Generally, the better a counterparty's rating, the higher the Threshold and Minimum Transfer Amount given to that counterparty. In some instances, an independent amount or initial margin amount may also be required from a lowly rated counterparty.

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

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

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

The actual posting obligation figures provide a "worst case" scenario based on all counterparties making full collateral calls upon the Group. As at 30 June 2012, a one-notch downgrade in the Group's rating would have resulted in a $311 million increase in collateral posted. A two-notch downgrade would have resulted in a $385 million increase in collateral posted. Collateral stress tests are also conducted on the Group's counterparties so that it can monitor for likely collateral stresses in the event of a counterparty downgrade.

6.7 Securitisation

Securitisation is defined as a structure where the cash flow from a pool of assets is used to service obligations to at least two different tranches or classes of creditors (typically holders of debt securities), with each class or tranche reflecting a different degree of credit risk (i.e. one class of creditor is entitled to receive payments from the pool before another class of creditors).

Securitisations may be categorised as either:

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

Securitisation Activities

The Group is involved in the following types of business activities that give rise to securitisation exposures:

- Group originated securitisations – where the Group sells assets it has originated to an externally rated securitisation SPV, which in turn raises funding principally through external investors. The principal example of this is the Group's Medallion Programme which is primarily involved in the securitisation of Group originated residential mortgage loans, which in turn are predominately used to create financial instruments with good characteristics for the Group to use when securing liquidity from the Reserve Bank of Australia;
- Third party securitisations – where assets are originated by parties other than the Group. Such transactions usually have added layers of credit protection, whether it is lenders mortgage insurance, over-collateralisation or other subordinated credit support. The nature of the underlying assets is similar to those that the Group would normally support in a non securitised form including residential and commercial mortgages, vehicle loans and equipment financing;
- The purchase of asset/mortgage backed securities for trading or portfolio investment; and
- The provision of swaps and/or liquidity support facilities to an externally rated securitisation SPV where the Group may be the arranger or originator of the respective securities or underlying assets.

As at 30 June 2012, the Group also had a sponsored SPV conduit; Shield Series 50 (Medallion CP). This SPV holds term assets that are funded through a Group facility. These assets were approved under the Group's risk framework and were consolidated into the Group's financial statements.

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

For contingent liquidity, the Group manages an $69.8 billion RMBS portfolio which is not intended to be issued publicly. These notes will be held by the Group and, if required, can be used for repurchase agreements with the RBA to generate additional liquidity for the Group.

Strategic Issues

For the Group, securitisation has and will continue to provide a source of liquidity through RBA repurchase transactions and an opportunistic rather than core external funding source. While at current low levels, the Group, in undertaking an intermediation role for third-party securitisations, receives fee-based income and collateral business in other banking products.

Regulatory Compliance

APRA's requirements in managing the capital and risks associated with securitisation activities and exposures are set out in APRA prudential standard APS 120 "Securitisation" (APS 120) and prudential practice guide APG 120 "Securitisation". To be compliant with the standard the Group has policies and procedures that include:

- Appropriate risk management systems to identify, measure, monitor and manage the risks arising from the Group's involvement in securitisation;
- Monitoring the effects of securitisation on its risk profile, including credit quality, and how it has aligned with its risk management practices; and
- Measures to ensure that it is not providing implicit support for a securitisation.

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

For exposures rated by the External Credit Assessment Institution's (ECAI's), the Group uses the Ratings-Based Approach for regulatory capital purposes.

The Group uses the Internal Assessment Approach (IAA) and the Supervisory Formula Approach (SFA) under the Internal Ratings-Based Approach hierarchy detailed in APS 120 to determine the relevant risk-weight for non-rated securitisation exposures.

IAA Process

The Bank may use the IAA methodology for unrated securitisation exposures where the underlying assets are either residential mortgages (excluding reverse mortgages), equipment assets, trade receivables or auto loans.

IAA Models are developed, audited, reviewed and maintained in accordance with the Bank's Model Policy to ensure appropriate levels of independence, accountability and internal assessment process review.

IAA models must reflect the publically available methodologies of ECAIs that rate securitisations for the relevant underlying asset class. If publically available, the stress factors for determining credit enhancement requirements must be at least as conservative as the rating criteria of those ECAIs. The Bank may use Standard & Poor's, Fitch Ratings or Moody's Investors Service criteria.

The internal ratings developed from the IAA models may be used for regulatory and economic capital, as well as for internal risk measurement and reporting.

Risk Management Framework

Risk Assessment

Where the Group arranges either a Group-originated or third party securitisation transaction, the capital markets issuance will be rated by at least one ECAI based on their respective rating models. The Group uses recognised ECAI including Standard & Poor's, Moody's Investors Service and/or Fitch Ratings for both bank originated and third-party securitisation transactions.

The Group undertakes credit assessment on all securitisation transactions. In addition to compliance with the securitisation and other prudential standards, credit risk assessment of securitisation exposures is performed in accordance with the Group's policies and procedures.

The risk assessment takes into account a wide range of credit, reputation, origination, concentration and servicing factors related to the underlying portfolio of assets being securitised in addition to the capital structure of the proposed securitisation SPV.

Where a securitisation exposure is held through a warehouse structure prior to terming out via the debt capital markets, the credit rating is also benchmarked by the Group using the accepted rating methodologies of the ECAI or other models accepted by APRA.

Credit Approval

Credit approval authorities relating to securitisation are restricted to officers with appropriately badged delegations. Risk Management's Institutional and Business Banking - Financial Institutions Group is responsible for approval and limit management and monitoring for all securitisations. Proposed exposures that exceed individual approval authorities are referred to various credit committees of the Group.

Each Group-originated or third-party transaction is led by a Deal Team leader who is responsible for the deal origination and its compliance with Group policies and prudential standards.

Exposure 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 are monitored under the Group's market risk management framework (refer section 8 page 72). This includes a limit framework and monitoring around the size and turnover of such exposures, and a robust independent price validation process conducted on the prices used to value those exposures. 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). At a minimum, the following reviews are undertaken:

Externally-rated exposures:

- External ratings are reviewed on a weekly basis via a monitor that tracks rating changes; and
- The underlying pool and transaction performance is reviewed monthly via an internally produced report and/ or issuer provided information.

For resecuritisation transactions as defined in APS 120, investor reports as above are also obtained for each of the underlying securitisation exposures in the pool. The Group has an immaterial exposure to resecuritisation transactions and does not actively participate in resecuritisation activity.

Third-party unrated client securitisation exposures:

- The Bank receives frequent and detailed pool performance data from the issuer/trust manager. The pool performance data reports are extracted and reviewed for changes in underlying pool quality;
- Dynamic ECAI-based credit support models are run monthly to determine the required credit support; and
- Formal reviews are conducted at least annually for all third-party client exposures.

Medallion and Swan securitisation program exposures:

- Formal reviews are conducted at least annually for all Medallion and Swan exposures; and
- The Bank receives the monthly Investor reports and underlying pool data.

Exposure Aggregation

Securitisation SPVs are bankruptcy remote entities. Generally, there is no legally enforceable obligation on the asset originator or issuer to provide on-going credit support to such transactions and they are mostly not aggregated for either Group Large Credit Exposure Policy or APRA prudential standard compliance. Aggregation is assessed on a case by case basis having regard to the proposed structure. The Group will aggregate, where appropriate, the broader banking exposures to the proposed originator and/or issuing entities in making its determinations.

Group-Originated Securitisations

General Principles

Where the Group intends to securitise assets it has originated, it ensures the terms and conditions applicable to the proposed securitisation and any support facilities or dealings are arm's length and market based. These transactions are managed by the Group's Treasury.

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

Where the Group has sold assets to a SPV but retains a servicer role in managing those assets on behalf of the SPV the Group ensures those securitised assets are effectively ring-fenced from the Group's own assets. Where the Group or its subsidiary provides support services such as servicing to the SPV, these need to be subject to arms length, market based terms and be of an equivalent standard available in the market.

Purchase of Securities issued under Group-Originated Securitisation

Any purchases of either securities issued by an SPV or assets of an SPV must be arm's length in nature and approved under the Group's credit approval process. No pre-existing obligation to purchase public securities or the underlying assets of the SPV exists.

The Group will hold less than 20% (excepting permitted underwritings as per APS 120) of the public securities outstanding issued by an SPV under a Group-originated securitisation.

The aggregated value of all securities held by the Group under its various public Medallion Programmes and/or other securitisation SPVs (where the Group was the originating entity) will not exceed 10% of the Group's Level 2 capital (excepting permitted security underwritings as per APS 120).

Summary of Accounting Policies

Securitisations may, depending on the individual arrangement, result in: continued recognition of the securitised assets on the balance sheet of the Group; continued recognition of the assets to the extent of the Group's continuing involvement in those assets (as defined within AASB); or derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer of assets to the securitisation vehicle.

A securitisation transaction is first assessed for any potential requirement to consolidate the vehicles used. The assessment is made considering the requirements of AASB 127 'Consolidated and Separate Financial Statements' and Urgent Issues Group (UIG) Interpretation 112 'Consolidation – Special Purpose Entities'. Both AASB 127 and UIG 112 require consolidation of entities where, the residual risks and rewards are retained by the Group. Whether a securitisation transaction is treated as a sale or financing depends on whether the derecognition tests of AASB 139 'Financial Instruments: Recognition and Measurement' are met.

For Group's accounting policy on financial asset and financial liabilities derecognition refer to Note 1 of the 2012 Annual Report.

Any retained interests are valued in accordance with the Group's Accounting Policies Note 1, as set out in the 2012 Annual Report. The valuation process of any retained interests in securitisation exposures primarily focuses on quotations from third parties and calibrated valuations from market standard models with key inputs such as spreads to discount rates, default and recovery rates that may be observable or unobservable. This process did not change in 2012.

Synthetic securitisations are assessed in accordance with the same policies as non-synthetic securitisations. Any derivatives are treated in accordance with the requirements of AASB 139.

Assets are valued according to the normal methods appropriate to the asset class. At both 31 December 2011 and 30 June 2012, the Group had no assets considered to be categorised as awaiting securitisation.

The Group recognises all contractual commitments, such as liquidity lines, and applies the accounting policies as set out in the Group's 2012 Annual Report. The Group provides support for securitisation transactions to the extent of those contractual obligations.

APS 330 Table 9g (i) – Banking book exposures securitised – traditional securitisation

	30 June 2012			
Underlying Asset	Bank originated assets [(1)] $M	Third party originated assets [(2)] $M	Facilities provided [(3)] $M	Other (Manager Services) $M
Residential mortgage	5,932	588	469	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	79	78	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	5,932	667	547	-

	31 December 2011			
Underlying Asset	Bank originated assets [(1)] $M	Third party originated assets [(2)] $M	Facilities provided [(3)] $M	Other (Manager Services) $M
Residential mortgage	6,681	448	463	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	81	76	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	6,681	529	539	-

	30 June 2011			
Underlying Asset	Bank originated assets [(1)] $M	Third party originated assets [(2)] $M	Facilities provided [(3)] $M	Other (Manager Services) $M
Residential mortgage	7,577	597	619	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance [(4)]	-	184	266	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	7,577	781	885	-

(1) Bank originated assets comprise Medallion and Swan Trusts but exclude those assets held for contingent liquidity purposes.
(2) Third party originated assets comprise assets managed and sponsored by the Bank through Asset Backed Commercial Paper Program.
(3) Facilities provided include liquidity facilities and derivatives provided to Medallion Trusts and facilities related to third party originated assets.
(4) Certain comparative information has been restated to conform to presentation in current period.

APS 330 Table 9g (ii) – Banking book exposures securitised – synthetic securitisation

APS 120 provides specific regulatory treatment for synthetic securitisations where credit risk is transferred to a third party, however, legal ownership of the underlying assets remains with the originator.

The Group has not undertaken any synthetic securitisation in the banking book.

APS 330 Table 9g (iii) – Total banking book exposures securitised

The Group does not undertake synthetic securitisation in the banking book. APS 330 Table 9g (i) discloses the total banking book exposures securitised by the Group.

APS 330 Table 9h – Past due and impaired banking book exposures by asset type

	30 June 2012			
	Group originated assets securitised			
	Outstanding exposure	Impaired	Past due	Losses recognised
Underlying Asset	$M	$M	$M	$M
Residential mortgage	6,520	9	39	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	79	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	6,599	9	39	-

	31 December 2011			
	Group originated assets securitised			
	Outstanding exposure	Impaired	Past due	Losses recognised
Underlying Asset	$M	$M	$M	$M
Residential mortgage	7,129	15	47	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	81	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	7,210	15	47	-

	30 June 2011			
	Group originated assets securitised			
	Outstanding exposure	Impaired	Past due	Losses recognised
Underlying Asset	$M	$M	$M	$M
Residential mortgage	8,174	12	50	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance (1)	184	-	2	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	8,358	12	52	-

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

APS 330 Table 9i - Banking book exposures intended to be securitised

The Group does not have any outstanding banking book exposures that are intended to be securitised at 30 June 2012.

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

Underlying Asset Type	Full year ended 30 June 2012	
	Total exposures securitised $M	Recognised gain or loss on sale $M
Residential mortgages [1]	34,299	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial loans	-	-
Other	-	-
Total	34,299	-

Underlying Asset Type	Half year ended 31 December 2011	
	Total exposures securitised $M	Recognised gain or loss on sale $M
Residential mortgage	3,159	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial loans	-	-
Other	-	-
Total	3,159	-

Underlying Asset Type	Full year ended 30 June 2011	
	Total exposures securitised $M	Recognised gain or loss on sale $M
Residential mortgage	4,181	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial loans	-	-
Other	212	-
Total	4,393	-

(1) New banking book activity during the half year to 30 June 2012 includes $31 billion of residential mortgages to upsize securities held for contingent liquidity purposes.

APS 330 Table 9k – Banking book exposures retained or purchased

Securitisation facility type	30 June 2012 On Balance Sheet $M	Off Balance Sheet $M	Total Exposures $M
Liquidity support facilities	20	321	341
Warehouse facilities	3,202	1,494	4,696
Derivative facilities	151	6	157
Holdings of securities	4,558	-	4,558
Other	-	16	16
Total securitisation exposures in the banking book	7,931	1,837	9,768

Securitisation facility type	31 December 2011 On Balance Sheet $M	Off Balance Sheet $M	Total Exposures $M
Liquidity support facilities	24	325	349
Warehouse facilities	3,824	1,195	5,019
Derivative facilities	157	14	171
Holdings of securities	4,081	-	4,081
Other	-	4	4
Total securitisation exposures in the banking book	8,086	1,538	9,624

Securitisation facility type	30 June 2011 On Balance Sheet $M	Off Balance Sheet $M	Total Exposures $M
Liquidity support facilities	27	409	436
Warehouse facilities	2,831	1,761	4,592
Derivative facilities	175	16	191
Holdings of securities	1,897	-	1,897
Other	-	6	6
Total securitisation exposures in the banking book (1)	4,930	2,192	7,122

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

APS 330 Table 9l (i) – Banking book exposure by risk weighting

	30 June 2012					
	Exposures		Risk Weighted Assets		Total	Total Risk
	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Exposures	Weighted Assets
Risk Weight Band (2)	$M	$M	$M	$M	$M	$M
≤ 25%	8,753	207	790	41	**8,960**	**831**
> 25% ≤ 35%	63	-	22	-	**63**	**22**
> 35% ≤ 50%	-	-	-	-	**-**	**-**
> 50% ≤ 75%	250	-	138	-	**250**	**138**
> 75% ≤ 100%	31	-	31	-	**31**	**31**
> 100% ≤ 650%	400	-	1,739	-	**400**	**1,739**
> 650% < 1250%	-	-	-	-	**-**	**-**
Total	9,497	207	2,720	41	**9,704**	**2,761**

	31 December 2011					
	Exposures		Risk Weighted Assets		Total	Total Risk
	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Exposures	Weighted Assets
Risk Weight Band (3)	$M	$M	$M	$M	$M	$M
≤ 25%	8,285	242	779	45	**8,527**	**824**
> 25% ≤ 35%	366	-	128	-	**366**	**128**
> 35% ≤ 50%	-	-	-	-	**-**	**-**
> 50% ≤ 75%	51	15	39	11	**66**	**50**
> 75% ≤ 100%	34	-	33	-	**34**	**33**
> 100% ≤ 650%	586	-	1,535	-	**586**	**1,535**
> 650% < 1250%	-	-	-	-	**-**	**-**
Total (1)	9,322	257	2,514	56	**9,579**	**2,570**

	30 June 2011					
	Exposures		Risk Weighted Assets		Total	Total Risk
	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Exposures	Weighted Assets
Risk Weight Band (3)	$M	$M	$M	$M	$M	$M
≤ 25%	5,679	50	680	4	**5,729**	**684**
> 25% ≤ 35%	42	300	15	105	**342**	**120**
> 35% ≤ 50%	-	-	-	-	**-**	**-**
> 50% ≤ 75%	126	15	94	11	**141**	**105**
> 75% ≤ 100%	296	-	256	-	**296**	**256**
> 100% ≤ 650%	541	-	1,300	-	**541**	**1,300**
> 650% < 1250%	-	-	-	-	**-**	**-**
Total (1)	6,684	365	2,345	120	**7,049**	**2,465**

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

(2) EAD and RWA have been calculated according to the revised APS 120 Standard effective 1 January 2012.

(3) EAD and RWA have been calculated according to the old APS 120 Standard as at 31 December 2011. Both EAD and RWA have been separately disclosed between Securitisation and Resecuritisation for comparative purposes only.

APS 330 Table 9I (ii) – Banking book exposure deducted entirely from capital

Underlying Asset Type	30 June 2012 Deductions from Tier One Capital $M	Deductions from Tier Two Capital $M	Total $M
Residential mortgage	26	26	52
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	6	6	12
Other	-	-	-
Total	32	32	64

Underlying Asset Type	31 December 2011 Deductions from Tier One Capital $M	Deductions from Tier Two Capital $M	Total $M
Residential mortgage	7	7	14
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	16	16	32
Other	-	-	-
Total	23	23	46

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

APS 330 Table 9m – Banking book exposures subject to early amortisation

The Group has not undertaken any securitisation subject to early amortisation treatment.

APS 330 Table 9n – Banking book resecuritisation exposures

As at 30 June 2012, banking book resecuritisation exposures without credit risk mitigation total $249 million (31 December 2011: $257 million, 30 June 2011: $365 million).

The Group has not undertaken any resecuritisation exposures subject to credit risk mitigation.

The Group has not undertaken any third party guarantors providing guarantees for securitised assets.

APS 330 Table 9o (i) – Trading book exposures securitised – traditional securitisations

	30 June 2012			
Underlying Asset	Bank originated assets (1) $M	Third party originated assets (2) $M	Facilities provided (3) $M	Other (Manager Services) $M
Residential mortgage	-	-	668	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	-	-	668	-

	31 December 2011			
Underlying Asset	Bank originated assets (1) $M	Third party originated assets (2) $M	Facilities provided (3) $M	Other (Manager Services) $M
Residential mortgage	-	-	757	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	-	-	757	-

	30 June 2011			
Underlying Asset	Bank originated assets (1) $M	Third party originated assets (2) $M	Facilities provided (3) $M	Other (Manager Services) $M
Residential mortgage	-	-	1,474	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	4	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	-	-	1,478	-

(1) Bank originated assets comprise Medallion and Swan Trusts but exclude those assets held for contingent liquidity purposes.
(2) Third party originated assets comprise assets managed and sponsored by the Bank through Assets Backed Commercial Paper Program.
(3) Facilities provided include liquidity facilities and derivatives provided to Medallion Trusts and facilities related to third party originated assets.

APS 330 Table 9o (ii) – Trading book exposures securitised – synthetic securitisation

The Group has not undertaken any synthetic securitisation in the trading book.

APS 330 Table 9o (iii) – Total trading book exposures securitised

The Group does not undertake any synthetic securitisation in the trading book. APS 330 Table 9o (i) discloses the total trading book exposures securitised by the Group.

APS 330 Table 9p – Trading book exposures intended to be securitised

The Group does not have any outstanding trading book exposures that are intended to be securitised at 30 June 2012.

APS 330 Table 9q – Trading book activity for the reporting period

Total amount of residential mortgages securitised in trading book for the year to 30 June 2012 was $103 million (30 June 2011: $78 million). The total amount of residential mortgages was securitised in the trading book during the half year to 31 December 2011 was $102 million.

APS 330 Table 9r – Trading book exposures subject to APS 116

The aggregate amount of exposures securitised by the Group and subject to Prudential Standard APS 116 "Capital Adequacy: Market Risk" was $965 million as at 30 June 2012 (31 December 2011: $1,122 million, 30 June 2011: $2,140 million). This consists of:

- Securities held in the Trading Book subject to the Standard Method of $26 million (31 December 2011: $38 million, 30 June 2011: $35 million); and
- Derivatives held in the Trading Book subject to the Internal Models Approach (IMA) of $939 million (31 December 2011: $1,084 million, 30 June 2011: $2,104 million).

APS 330 Table 9s – Trading book exposures retained or purchased subject to APS 120

	30 June 2012		
Securitisation facility type	**On Balance Sheet $M**	**Off Balance Sheet $M**	**Total Exposures $M**
Liquidity support facilities	-	-	-
Warehouse facilities	-	-	-
Derivative facilities	939	-	939
Holdings of securities	26	-	26
Other	-	-	-
Total securitisation exposures in the trading book	965	-	965

	30 June 2012		
Securitisation facility type	**On Balance Sheet $M**	**Off Balance Sheet $M**	**Total Exposures $M**
Liquidity support facilities	-	-	-
Warehouse facilities	-	-	-
Derivative facilities	939	-	939
Holdings of securities	26	-	26
Other	-	-	-
Total securitisation exposures in the trading book	965	-	965

	31 December 2011		
Securitisation facility type	**On Balance Sheet $M**	**Off Balance Sheet $M**	**Total Exposures $M**
Liquidity support facilities	-	-	-
Warehouse facilities	-	-	-
Derivative facilities	1,084	-	1,084
Holdings of securities	38	-	38
Other	-	-	-
Total securitisation exposures in the trading book	1,122	-	1,122

	30 June 2011		
Securitisation facility type	**On Balance Sheet $M**	**Off Balance Sheet $M**	**Total Exposures $M**
Liquidity support facilities	-	-	-
Warehouse facilities	-	-	-
Derivative facilities	2,104	-	2,104
Holdings of securities	56	-	56
Other	-	-	-
Total securitisation exposures in the trading book	2,160	-	2,160

APS 330 Table 9t (i) – Trading book exposures retained/purchased subject to IMA

The Group has $939 million of derivatives exposures held in the Trading Book subject to IMA (default risk) under APS 116 as at 30 June 2012 (31 December 2011: $1,084 million, 30 June 2011: $2,104 million).

APS 330 Table 9t (ii) – Trading book exposures subject to APS 120 by risk weighting

Risk Weight Band	30 June 2012			
	IAA Approach $M	RBA Approach $M	SFA Approach $M	Total Exposures $M
≤ 25%	14	5	933	**952**
> 25% ≤ 35%	-	-	-	**-**
> 35% ≤ 50%	-	-	-	**-**
> 50% ≤ 75%	-	-	-	**-**
> 75% ≤ 100%	-	-	-	**-**
> 100% ≤ 650%	-	1	-	**1**
> 650% < 1250%	-	-	-	**-**
Total	14	6	933	**953**

Risk Weight Band	31 December 2011			
	IAA Approach $M	RBA Approach $M	SFA Approach $M	Total Exposures $M
≤ 25%	7	1,106	3	**1,116**
> 25% ≤ 35%	-	-	-	**-**
> 35% ≤ 50%	-	-	-	**-**
> 50% ≤ 75%	-	-	1	**1**
> 75% ≤ 100%	-	-	-	**-**
> 100% ≤ 650%	-	-	5	**5**
> 650% < 1250%	-	-	-	**-**
Total	7	1,106	9	**1,122**

Risk Weight Band	30 June 2011			
	IAA Approach $M	RBA Approach $M	SFA Approach $M	Total Exposures $M
≤ 25%	16	2,141	2	**2,159**
> 25% ≤ 35%	-	-	-	**-**
> 35% ≤ 50%	-	-	-	**-**
> 50% ≤ 75%	1	-	-	**1**
> 75% ≤ 100%	-	-	-	**-**
> 100% ≤ 650%	-	-	-	**-**
> 650% < 1250%	-	-	-	**-**
Total	17	2,141	2	**2,160**

APS 330 Table 9u (i) – Trading book exposures retained/purchased subject to IMA

The Group has $939 million of derivatives exposures held in the Trading Book subject to IMA (default risk) under APS 116 as at 30 June 2012 (31 December 2011: $1,084 million, 30 June 2011: $2,104 million).

APS 330 Table 9u (ii) – Capital requirements (RWA) of trading book exposures subject to APS 120 by risk weighting

30 June 2012

Risk Weight Band [1]	IAA Approach		RBA Approach		SFA Approach		Standardised Approach		Total Capital Requirements	
	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
≤ 25%	1	-	1	-	65	-	-	-	**67**	**-**
> 25% ≤ 35%	-	-	-	-	-	-	-	-	**-**	**-**
> 35% ≤ 50%	-	-	-	-	-	-	-	-	**-**	**-**
> 50% ≤ 75%	-	-	-	-	-	-	-	-	**-**	**-**
> 75% ≤ 100%	-	-	-	-	-	-	-	-	**-**	**-**
> 100% ≤ 650%	-	-	4	-	-	-	-	-	**4**	**-**
> 650% < 1250%	-	-	-	-	-	-	-	-	**-**	**-**
Total	1	-	5	-	65	-	-	-	**71**	**-**

31 December 2011

Risk Weight Band [2]	IAA Approach		RBA Approach		SFA Approach		Standardised Approach		Total Capital Requirements	
	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
≤ 25%	-	1	101	1	-	-	-	-	**101**	**2**
> 25% ≤ 35%	-	-	-	-	-	-	-	-	**-**	**-**
> 35% ≤ 50%	-	-	-	-	-	-	-	-	**-**	**-**
> 50% ≤ 75%	-	-	-	-	1	-	-	-	**1**	**-**
> 75% ≤ 100%	-	-	-	-	-	-	-	-	**-**	**-**
> 100% ≤ 650%	-	-	-	-	21	-	-	-	**21**	**-**
> 650% < 1250%	-	-	-	-	-	-	-	-	**-**	**-**
Total	-	1	101	1	22	-	-	-	**123**	**2**

30 June 2011

Risk Weight Band [2]	IAA Approach		RBA Approach		SFA Approach		Standardised Approach		Total Capital Requirements	
	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Securitisation	Resecuritisation
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
≤ 25%	1	2	200	1	-	-	-	-	**201**	**3**
> 25% ≤ 35%	-	-	-	-	-	-	-	-	**-**	**-**
> 35% ≤ 50%	-	-	-	-	-	-	-	-	**-**	**-**
> 50% ≤ 75%	1	-	-	-	-	-	-	-	**1**	**-**
> 75% ≤ 100%	-	-	-	-	-	-	-	-	**-**	**-**
> 100% ≤ 650%	-	-	-	-	-	-	-	-	**-**	**-**
> 650% < 1250%	-	-	-	-	-	-	-	-	**-**	**-**
Total	2	2	200	1	-	-	-	-	**202**	**3**

(1) EAD and RWA have been calculated according to the revised APS 120 Standard effective 1 January 2012.

(2) EAD and RWA have been calculated according to the old APS 120 Standard as at 31 December 2011. Both EAD and RWA have been presented into Securitisation and Resecuritisation for comparative purposes only

APS 330 Table 9u (iii) – Trading book exposures entirely deducted from capital

The Group has $6 million of trading book exposures that are deducted entirely from Tier 1 capital as at 30 June 2012 (31 December 2011: $0.2 million; 30 June 2011: $0.3 million).

The Group does not have any trading book exposures that are credit enhancements deducted from total capital or any other exposures deducted from total capital.

APS 330 Table 9v – Trading book exposures subject to early amortisation

The Group has not undertaken any securitisation subject to early amortisation treatment.

APS 330 Table 9w – Trading book resecuritisation exposures

The trading book resecuritisation exposures without credit risk mitigation as at 30 June 2012 is $11 million (31 December 2011: $13 million, 30 June 2011: $17 million).

The Group did not have any resecuritisation exposures subject to credit risk mitigation.

The Group did not have any third party guarantors providing guarantees for securitised assets.

APS 330 Table 18a – Total securitisation activity for the reporting period

The Group disclosed the summary of the current period's securitisation activity including the total amount of exposures securitised and recognised gain or loss on sale by exposure type in APS 330 Table 9j (banking book) and APS 330 Table 9q (trading book).

The total exposures (residential mortgages and other) securitised in the full year to 30 June 2012 was $34,402 million (30 June 2011: $4,471 million). The total exposures (residential mortgages and other) securitised in the half year to 31 December 2011 was $3,262 million.

APS 330 Table 18b – Summary of total securitisation exposures retained or purchased

	As at 30 June 2012		
Securitisation facility type	**On Balance Sheet $M**	**Off Balance Sheet $M**	**Total Exposures $M**
Liquidity support facilities	20	321	341
Warehouse facilities	3,202	1,494	4,696
Derivative facilities	1,090	6	1,096
Holdings of securities	4,584	-	4,584
Other	-	16	16
Total securitisation exposures	8,896	1,837	10,733

	As at 31 December 2011		
Securitisation facility type	**On Balance Sheet $M**	**Off Balance Sheet $M**	**Total Exposures $M**
Liquidity support facilities	24	325	349
Warehouse facilities	3,824	1,195	5,019
Derivative facilities	1,242	14	1,256
Holdings of securities	4,118	-	4,118
Other	-	4	4
Total securitisation exposures	9,208	1,538	10,746

	As at 30 June 2011		
Securitisation facility type	**On Balance Sheet $M**	**Off Balance Sheet $M**	**Total Exposures $M**
Liquidity support facilities	27	409	436
Warehouse facilities	2,835	1,761	4,596
Derivative facilities	2,277	16	2,293
Holdings of securities	1,953	-	1,953
Other	-	6	6
Total securitisation exposures	7,092	2,192	9,284

7 Equity Risk

Equity risk is the potential loss arising from price volatility in equity investments.

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

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

Other holdings are recognised at fair value. When an active market exists, fair value is determined using quoted market prices. When a quoted price in an active market is not available, fair value is determined using a market accepted valuation technique.

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

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

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

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

Equity Investments	30 June 2012 Balance sheet value $M	30 June 2012 Fair value [2] $M
Value of listed (publicly traded) equities	889	890
Value of unlisted (privately held) equities	1,319	1,319
Total [1]	2,208	2,209

(1) Equity holdings comprise; $1,761 million Investments in Associates, $12 million Assets Held for Sale and $435 million Available for Sale Securities.

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

Equity Investments	31 December 2011 Balance sheet value $M	31 December 2011 Fair value [2] $M
Value of listed (publicly traded) equities	927	865
Value of unlisted (privately held) equities	1,283	1,283
Total [1]	2,210	2,148

(1) Equity holdings comprise; $1,720 million Investments in Associates, $29 million Assets Held for Sale and $461 million Available for Sale Securities.

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

Equity Investments	30 June 2011 Balance sheet value $M	30 June 2011 Fair value [2] $M
Value of listed (publicly traded) equities	954	909
Value of unlisted (privately held) equities	1,243	1,243
Total [1]	2,197	2,152

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

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

	Half year ended		
Gain/Losses on Equity Investments	30/06/12 $M	31/12/11 $M	30/06/11 $M
Cumulative realised gains in reporting period	**49**	40	-
Total unrealised gains	**29**	2	24
Total unrealised gains included in Tier One/Tier Two Capital	**9**	12	11

Risk Weighted Assets (Basel II)	30/06/12 $M	31/12/11 $M	30/06/11 $M
Equity investments subject to a 300% risk weight	**1,335**	1,263	1,197
Equity investments subject to a 400% risk weight	**1,004**	1,144	916
Total RWA	**2,339**	2,407	2,113

Equity Credit Exposure	30/06/12 $M	31/12/11 $M	30/06/11 $M
Equity investments subject to a 300% risk weight	**445**	421	399
Equity investments subject to a 400% risk weight	**251**	286	229
Total equity credit exposure	**696**	707	628

8 Market Risk

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

For the purposes of Market Risk Management, the Group makes a distinction between Traded and Non-Traded Market Risks. Traded Market Risks principally arise from the Group's trading book activities within the Institutional Banking and Markets, IFS Asia businesses, ASB and Bankwest.

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

APRA has specifically requested Australian banks that have implemented the Basel II framework to incorporate regulatory capital for IRRBB in their assessment of total capital from 1 July 2008.

Market Risk Management Governance Overview

The Group's appetite for market risk is determined by the Risk Committee and is expressed via its Risk Appetite Statement and its framework of limits and policies. The limits are designed to manage the volatility in earnings and value due to market risk. The policies establish a sound operating environment for market risk, which is consistent with the governance and control standards of the Group and also conform to prudential regulatory requirements.

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

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

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

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

Internal Market Risk Measurement

The Group uses Value at Risk (VaR) as one of the measures of Traded and Non-Traded Market Risk. VaR measures potential loss using historically observed market volatility and correlation between different markets. The VaR measured for Traded Market Risk uses two years of daily market movements. The VaR measure for Non-Traded Banking Book Market Risk is based on six years of daily market movement history.

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

Stressed VaR is also calculated for Traded Market Risk using the same methodology as the regular Traded Market Risk VaR except that the historical data used is taken from a one year observation period of significant market volatility as seen during the Global Financial Crisis (GFC).

It should be noted that because VaR is driven by historical observations, it is not an estimate of the maximum economic loss that the Group could experience from an extreme market event. As a result of this limitation, management also uses stress testing to measure the potential for economic loss at significantly higher confidence levels than 97.5%. Management then uses these results in decisions made to manage the economic impact of market risk positions.

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

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

8.1 Traded Market Risk

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

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

- Provide risk management and capital market products and services to customers;
- Efficiently assist in managing the Group's own market risks; and
- Conduct profitable market making within a controlled framework, to assist in the provision of products and services to customers.

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, interest rate, debt, equity and commodity products as required to provide treasury, capital markets and risk management services to institutional, corporate, middle market and retail customers.

Income is earned from spreads achieved through market making and from taking market risk. Trading positions are valued at fair value and taken to profit and loss on a mark-to-market basis. Market liquidity risk is controlled by concentrating trading activity in highly liquid markets.

The Group measures and manages Traded Market Risk through a combination of VaR and stress test limits, together with other key controls including permitted instruments, sensitivity limits and term restrictions. This Traded Market Risk is managed under a clearly defined risk appetite within the market risk policy and limit structure approved by the Risk Committee of the Board. Risk is monitored by an independent MRM function.

Capital Calculation Methods

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

Consequently, general market risk regulatory capital is calculated for foreign exchange, interest rates, equity, commodity and credit spread risk using this model.

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

The breakdown of Traded Market Risk RWA by modelling method is summarised below and the capital requirement for Traded Market Risk under the Standard Method is disclosed in APS 330 Table 10b (page 74).

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

Traded Market Risk RWA by Modelling Approach	30/06/12 $M	31/12/11 $M	30/06/11 $M
Internal Model Approach	2,565	1,068	1,418
Standard Method	2,277	2,037	1,744
Total Traded Market Risk RWA	**4,842**	3,105	3,162

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

Exposure Type	30/06/12 $M	31/12/11 $M	30/06/11 $M
Interest Rate risk	160. 9	156. 1	127. 0
Equity risk	14. 0	2. 7	5. 4
Foreign Exchange risk	2. 7	3. 0	1. 9
Commodity risk	4. 6	1. 2	5. 2
Total	**182.2**	163. 0	139. 5
Risk Weighted Asset equivalent [(1)]	**2,277**	2,037	1,744

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

Internal Models in the Traded Market Risk Portfolios

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

Stress Testing in the Traded Market Risk Portfolios

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

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

	Aggregate Value at Risk Over the Reporting Period			
Average VaR [(1)]	Mean value $M	Maximum value $M	Minimum value $M	As at balance date $M
Over the 6 months to 30 June 2012	31	37	26	28
Over the 6 months to 31 December 2011	30	50	23	25
Over the 6 months to 30 June 2011	39	58	30	30

Summary Table of the Number of Back-Testing Outliers [(2)]	
Over the 6 months to 30 June 2012	-
Over the 6 months to 31 December 2011	-
Over the 6 months to 30 June 2011	-

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

Internal Model Approach – VaR Outliers

There were no back-testing outliers over the 6 months to 30 June 2012.

8.2 Non-Traded Market Risk

Non-Traded Market Risk activities are governed by the Group market risk framework approved by the Risk Committee. The Group market risk framework governs all the activities performed in relation to Non-Traded Market Risk.

Implementation of the policy, procedures and limits for the Group is the responsibility of the Group Executive undertaking activities with Non-Traded Market Risk. The Group's Risk division performs risk measurement and monitoring activities of Non-Traded Market Risk. Ownership and management responsibility for CBA domestic operations are assumed by Group Treasury. Management actions conventionally include hedging activities using a range of policy approved derivative instruments. Independent management of the Non-Traded Market Risk activities of offshore banking subsidiaries is delegated to the Chief Executive Officer (CEO) of each entity with oversight by the local ALCO. Senior management oversight is provided by the Group's ALCO.

Interest Rate Risk in the Banking Book

Interest rate risk is the current and prospective impact to the Group's financial condition due to adverse changes in interest rates to which the Group's Balance Sheet is exposed. The maturity transformation activities of the Group create mismatches in the repricing terms of asset and liability positions. These mismatches may have undesired earnings and value outcomes depending on the interest rate movements.

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

The Group measures and manages the impact of interest rate risk in two ways:

(i) Next 12 Months' Earnings

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

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

Earnings risk is measured through sensitivity analysis which applies an instantaneous 100 basis point parallel shock (increase) in interest rates across the yield curve.

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

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

The figures in APS Table 14b (page 76) represent expected unfavourable net change in the price of assets and liabilities, held for purposes other than trading, based on a 200 basis point parallel rate shock (increase).

(ii) Economic Value

Interest rate risk from the economic value perspective is based on a 20-day, 97.5% VaR measure.

Measuring the change in the economic value of equity is an assessment of the long term impact to the earnings potential of the Group present valued to the current date. The Group assesses the potential change in its economic value of equity through the application of the VaR methodology.

A 20-day, 97.5% VaR measure is used to capture the net economic value impact over the long term or total life of all balance sheet assets and liabilities to adverse changes in interest rates. The impact of customer prepayments on the contractual cash flows for fixed rate products is included in the calculation. Cash flows for discretionary priced products are behaviourally adjusted and repriced at the resultant profile.

Determining Interest Rate Risk in the Banking Book

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

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

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

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

4. The embedded loss or gain in banking book items not accounted for on a mark-to-market basis is measured and included in the regulatory capital for IRRBB. The embedded loss or gain measures the difference between the book value and economic value of banking book activities, based on transfer-priced assets and liabilities.

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

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

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

	Change in Economic Value		
	30/06/12	31/12/11	30/06/11
Stress Testing: Interest Rate Shock Applied	$M	$M	$M
AUD			
200 basis point parallel increase	**(506)**	(358)	(109)
200 basis point parallel decrease	**566**	428	82
NZD			
200 basis point parallel increase	**(118)**	(117)	(104)
200 basis point parallel decrease	**127**	126	112
Other			
200 basis point parallel increase	**(14)**	(11)	(6)
200 basis point parallel decrease	**14**	11	6

	30/06/12	31/12/11	30/06/11
Regulatory RWA (Basel II)	$M	$M	$M
Interest rate risk in the banking book (1)	**9,765**	11,525	9,699

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

Structural Foreign Exchange Risk

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

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

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

Non-Traded Equity Risk

The Group retains Non-Traded Equity Risk through strategic investments and business development activities in divisions including IB&M and Wealth Management. This activity is subject to governance arrangements approved by the Risk Committee, and is monitored on a decentralised basis by Risk Management.

A 20-day, 97.5% VaR is used to measure the economic impact of adverse changes in value. The 30 June 2012 VaR measure is $94 million (30 June 2011: $67 million) (refer also to section 7 "Equity Risk", page 70).

Market Risk in Insurance Businesses

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

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

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

Guarantees (to Policyholders)

All financial assets within the Life Insurance Statutory Funds directly support either the Group's life insurance or life investment contracts. Market risk arises for the Group on contracts where the liabilities to policyholders are guaranteed by the Group. The Group manages this risk by the monthly monitoring and rebalancing of assets to contract liabilities.

However, for some contracts the ability to match asset characteristics with policy obligations is constrained by a number of factors including regulatory requirements or the lack of investments that substantially align cash flows with the cash payments to be made to policyholders.

Shareholders' Capital

A portion of financial assets held within the Insurance business, both within the Statutory Funds and in the Shareholders' Funds of the Life Insurance company represents shareholder (Group) capital. Market risk also arises for the Group on the investment of this capital. Shareholders' funds in the Australian Life Insurance businesses are invested 91% in income assets (cash and fixed interest) and 9% in growth assets (shares and property), as at 30 June 2012.

Lease Residual Value Risk

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

Liquidity and Funding Risk

Overview

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

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

The Group's liquidity policies are designed to ensure it maintains sufficient cash balances and liquid asset holdings to meet its obligations to customers, in both ordinary market conditions and during periods of extreme stress. These policies are intended to protect the value of the Group's operations across its Retail Banking Services, Business and Private Banking, Institutional Banking and Markets, Wealth Management, Bankwest, and Asian businesses, during periods of unfavourable market conditions.

The Group's funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type, investor location, jurisdiction, currency and concentration, on a cost effective basis. This objective applies to the Group's wholesale and retail funding activities. The Group's customer deposit funding accounted for 61% of its total funding requirements at 30 June 2012.

The Risk Management Framework for Liquidity and Funding

The Group's liquidity and funding policies are approved by the Board and agreed with APRA. The Group has an Asset and Liability Committee whose charter includes reviewing the management of assets and liabilities, reviewing liquidity and funding policies and strategies, as well as regularly monitoring compliance with those policies across the Group. The Group Treasury division manages the Group's liquidity and funding positions in accordance with the Group's liquidity policy, including monitoring and satisfying the liquidity needs of the Group and its subsidiaries.

Larger domestic subsidiaries, such as Bankwest and subsidiaries within the Colonial Group, also apply their own liquidity and funding methods to address their specific needs. ASB manages its own domestic liquidity and funding needs in accordance with its own liquidity policies and the policies of the Group. ASB's liquidity policy is also overseen by the RBNZ. The Group also has a relatively small banking subsidiary in Indonesia that manages its own liquidity and funding on a similar basis.

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

Liquidity and Funding Policies and Management

The Group's liquidity and funding policies provide that:

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

The Group's key liquidity tools include:

- A liquidity management model similar to a "cash flow ladder" or "maturity gap analysis", that allows forecasting of liquidity needs on a daily basis;

  An additional liquidity management model that implements the agreed prudential liquidity policies. This model is calibrated with a series of "worst case" liquidity crisis scenarios, incorporating both systemic and "name" crisis assumptions, such that the Group will have sufficient liquid assets available to ensure it meets all of its obligations as and when they fall due;
- The RBA's repurchase agreement facilities provide the Group with the ability to borrow funds on a secured basis, even when normal funding markets are unavailable; and
- The Group's various short term funding programs are supplemented by the Interbank Deposit Agreement between the four major Australian banks. This agreement is similar to a standby liquidity facility that allows the Group to access funding in various crisis circumstances.

The Group's key funding tools include:

- Its consumer small business and institutional deposit base;
- Its consumer retail funding base includes a wide range of retail transaction accounts, investment accounts, term deposits, and retirement style accounts for individual consumers; and
- Its wholesale international and domestic funding programs, which includes its: Australian dollar Negotiable Certificates of Deposit; Australian dollar bank bills; Asian Transferable Certificates of Deposit program; Australian, U.S. and Euro Commercial Paper programs; Bankwest Euro Commercial Paper Program; U.S. Extendible Notes program; Australian dollar Domestic Debt Program; U.S. Medium Term Note Program; Euro Medium Term Note Program; Covered Bond programmes and its Medallion and Swan securitisation programs.

At 30 June 2012 virtually all of the Group's Australian dollar liquid assets qualified for repurchase by the RBA at any time.

9 Operational Risk

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

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

The Group's Operational Risk Management Framework

Operational Risk Objectives

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

The following objectives have been approved by the Risk Committee:

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

Operational Risk Management Framework

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

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

The Group continues to enhance and embed its Operational Risk Management Framework, supported by its strategic investment in consolidating operational risk and compliance systems into a single IBM Open Pages platform, internally referred to as RiskInSite. The deployment of the RiskInSite platform across all business units has enabled greater consistency, increased sharing of better operational risk practices and enhanced analytical capabilities for the Group.

Roles and Responsibilities

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

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

Operational Risk Within the Group

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

Responsibilities of Group Functions

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

Compliance Risk Management

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

The Group's CRMF is consistent with the Australian Standard on Compliance Programs; as such it is designed to meet the Group's obligations under the Corporations Act 2001, the Group's Australian Financial Services Licence and Australian Credit Licences. The CRMF incorporates a number of components including Group Policies, a Compliance Obligations Register and a Compliance Review program to monitor compliance with policies.

These are complemented by Business Unit compliance frameworks including standards and procedures.

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

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

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

Risk Mitigation Through Insurance

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

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

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

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

Capital Measurement Approach

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

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

(i) To model all potential risk and events as accurately as possible; and

(ii) To align risk measurements to the Businesses that need to own and manage these risks.

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

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

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

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

Direct inputs:

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

Indirect inputs:

- External loss data (sourced from external providers eg the Operational Riskdata eXchange association or ORX) case studies are used in the scenario analysis process;
- Risk indicators are used in the scenario analysis process; and
- Judgemental overlays and benchmarks.

Economic Capital Allocation

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

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

Regulatory Capital Calculation

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

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

APS 330 Table 16c – Capital requirements for operational risk (Basel II RWA)

	30/06/12 $M	31/12/11 $M	30/06/11 $M
Advanced measurement approach	**22,506**	20,471	18,113
Standardised approach	**4,245**	4,158	3,995
Total operational risk RWA	**26,751**	24,629	22,108

10 Appendices

10.1 Detailed Capital Disclosures

Fundamental Tier One Capital

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

Ordinary Share Capital

Ordinary Share Capital	30/06/12 $M	31/12/11 $M	30/06/11 $M
Ordinary share capital	25,175	24,651	23,602
Add back treasury shares [1]	323	316	294
Ordinary share capital for regulatory purposes	25,498	24,967	23,896

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

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

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

Reserves

The following reserves qualify as Tier One Capital

Reserves [1]	30/06/12 $M	31/12/11 $M	30/06/11 $M
General reserve	1,201	1,140	978
Capital reserve	351	332	328
Available for sale reserve [2]	(63)	(83)	-
Foreign currency translation reserve [3]	(722)	(927)	(934)
Total reserves balance included in regulatory capital	767	462	372

(1) Regulatory Capital excludes Cash flow hedge reserve, Employee compensation reserve, Available for Sale investment reserve (unrealised gains only) and Asset Revaluation reserve from Tier One Capital. Upper Tier Two Capital allows for the inclusion of 45% of the Asset Revaluation Reserve balance.

(2) As at 30 June 2012 the Available for Sale reserve had a deficit balance of $63 million resulting in the requirement to recognise the deficit in the regulatory capital calculation (31 December 2011: $83 million deficit).

(3) Excludes balance related to non consolidated subsidiaries.

Retained Earnings (including Current Year Earnings)

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

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

	30/06/12 $M	31/12/11 $M	30/06/11 $M
Retained earnings and current period profits	13,356	11,928	11,826
Less expected dividend	(3,137)	(2,166)	(2,930)
Add back estimated reinvestment under dividend reinvestment plan [1]	784	542	733
Retained earnings adjustment for non-consolidated subsidiaries [2]	(126)	35	227
Other	(219)	(178)	(189)
Total included in regulatory capital	10,658	10,161	9,667

(1) Dividend Reinvestment Plan (DRP) in respect of the June 2012 final dividend is to be satisfied through the issue of shares, with the assumed reinvestment rate based on reinvestment experience as approved by APRA. The DRP in respect of the December 2011 interim dividend was satisfied by the issue of shares. The DRP in respect of the June 2011 final dividend was satisfied in full by an on market purchase and transfer of shares.

(2) Represents cumulative current year profit and retained earnings adjustments for subsidiaries not consolidated for regulatory purposes. This includes adjustments to the extent to which retained earnings from non-consolidated subsidiaries have not been repatriated to the Bank in dividends (June 2012: $878 million, December 2011: $717 million, June 2011: $525 million). The retention of these profits are used to fund the future growth of these operations. This has been offset by the one-off write back adjustments upon adoption of IFRS of $752 million.

Residual Tier One Capital

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

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

Innovative and non-innovative capital instruments consisted of the following instruments as at 30 June 2012:

Innovative Capital [1]	30/06/12 $M	31/12/11 $M	30/06/11 $M
PERLS III	**1,147**	1,147	1,147
Trust preferred securities 2003	**539**	540	512
Trust preferred securities 2006	**939**	939	939
ASB preference shares	**505**	505	505
Perpetual exchangeable floating rate notes	**98**	98	128
Total Innovative Capital	**3,228**	3,229	3,231

(1) Represents AUD equivalent net of issue cost.

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

PERLS III

Perpetual Exchangeable Repurchaseable Listed Shares (PERLS III)

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

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

Trust Preferred Securities

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

	TPS 2003	TPS 2006
Instrument	Preferred beneficial ownership in a trust	Preferred beneficial ownership in a trust
Amount USD	USD 550m	USD 700m
Amount AUD	AUD 540m	AUD 939m
Tier One Class	Innovative	Innovative
Issue Date	06 Aug 2003	15 Mar 2006
Earliest Buy-out Date	30 Jun 2015	15 Mar 2016
Distribution Rate	5.805% p.a.	6.024% p.a.
Distribution Frequency	Semi-annually in arrears	Semi-annually in arrears
Accounting Treatment	Debt	Equity
Franking	No	No
Step-up Date	No	Yes: 15 Mar 2016
Step-up Rate	N/A	LIBOR + 1.740% p.a.
Distributions	Non-cumulative	Non-cumulative
Mandatory Conversion	No	No

Trust Preferred Securities

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

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

ASB Preference Shares

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

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

Perpetual Exchangeable Floating Rate Notes

Instrument	Undated floating rate note
Amount USD	USD 100m
Amount AUD	AUD 98m
Tier One Class	Innovative
Issue Date	15 Oct 1986
Distribution Rate	6 mth LIBOR + 0.0625%
Distribution Frequency	Semi-annually in arrears
Accounting Treatment	Debt
Franking	No
Step-up Date	No
Step-up Rate	N/A
Distributions	Non-cumulative
Mandatory Conversion	No

(1) In July 2011 the Group discontinued the inclusion of US$37.5 million floating rate notes in Tier One Capital.

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

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

(1) Represents AUD equivalent net of issue costs.

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

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

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

Tier One Capital Deductions

Tier One Capital Deductions - 100%	30/06/12 $M	31/12/11 $M	30/06/11 $M
Goodwill	**(8,581)**	(8,546)	(8,306)
Capitalised expenses	**(263)**	(240)	(252)
Capitalised computer software costs	**(1,700)**	(1,480)	(1,297)
Defined benefit superannuation plan surplus	**-**	-	(53)
General reserve for credit losses	**(209)**	(183)	(132)
Deferred tax	**(548)**	(383)	(287)
Total Tier One Capital deductions - 100%	**(11,301)**	(10,832)	(10,327)

Tier One Capital Deductions - 50%	30/06/12 $M	31/12/11 $M	30/06/11 $M
Equity investments in other entities [1]	**(612)**	(638)	(639)
Equity investments in non consolidated subsidiaries (net of intangibles)	**(629)**	(594)	(526)
Expected impairment loss (before tax) in excess of eligible credit provisions (net of deferred tax)	**(630)**	(646)	(817)
Other deductions [1]	**(113)**	(66)	(74)
Total Tier One Capital deductions - 50%	**(1,984)**	(1,944)	(2,056)

(1) Prior period items reclassification between equity investments and other entities and other deductions.

Tier Two Capital

Upper Tier Two Capital	30/06/12 $M	31/12/11 $M	30/06/11 $M
Prudential general reserve for credit losses (net of tax) [1]	**595**	631	620
Asset revaluation reserve [2]	**88**	86	86
Upper Tier Two note and bond issues	**358**	368	336
Other	**176**	151	124
Total Upper Tier Two Capital	**1,217**	1,236	1,166

(1) Represents the after tax collective provisions and general reserve for credit losses of banking entities in the Group (including Bankwest) which operate under the Basel II Standardised methodology.

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

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

	Perpetual Subordinated Debt (Commonwealth Bank)	Perpetual Subordinated Debt (Bankwest)
Amount JPY	JPY 20b	JPY 9b
Amount AUD	AUD 247m	AUD 111m
Issued	25 Feb 1999	30 May 1996
Maturity	Undated	Undated
Call Option	Redeemable at option of the Bank	Redeemable at option of the Bank
Distribution Rate	Up to 28 Sept 2029 – 4.775%	Up to 30 May 2016 – 4.55%
Distribution Frequency	Semi-annually in arrears	Semi-annually in arrears
Accounting treatment	Debt	Debt
Step-up Date	28 Sept 2029	30 May 2016
Step-up Rate	After 28 Sept 2029 – 6 month JPY-LIBOR-BBA plus 170 bps	After 30 May 2016 – mid five year fixed Yen swap rate +220bp
Distributions	Cumulative with no compounding	Cumulative with no compounding

Lower Tier Two Capital

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

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

Lower Tier Two Capital	Currency	Amount $M	Issue	Maturity	30/06/12 $M	31/12/11 $M	30/06/11 $M
AUD Denominated							
Subordinated Note	AUD	275	Dec-89	Dec-14	**165**	165	220
Subordinated Note	AUD	25	Apr-99	Apr-29	**25**	25	25
Subordinated Note	AUD	200	Sep-06	Sep-16	**-**	-	200
Subordinated Note	AUD	150	May-07	May-17	**-**	150	150
Subordinated Note	AUD	350	May-07	May-17	**-**	350	350
Subordinated Note	AUD	500	Sep-08	Sep-18	**500**	500	500
					690	1,190	1,445
USD Denominated							
Subordinated Note	USD	250	Jun-03	Jun-18	**245**	247	233
Subordinated Note	USD	100	Jun-03	Jun-18	**98**	98	93
Subordinated Note	USD	200	Jun-06	Jul-16	**-**	-	186
Subordinated Note	USD	300	Sep-06	Sep-16	**-**	-	279
Subordinated Note	USD	650	Dec-16	Dec-16	**-**	-	605
					343	345	1,396
JPY Denominated							
Subordinated Note	JPY	30,000	Oct-95	Oct-15	**297**	305	347
Subordinated Note	JPY	10,000	Nov-05	Nov-35	**124**	127	116
Subordinated Note	JPY	5,000	Mar-06	Mar-18	**62**	63	58
					483	495	521
GBP Denominated							
Subordinated Note	GBP	150	Jun-03	Dec-23	**230**	228	225
					230	228	225
NZD Denominated							
Subordinated Note	NZD	350	May-05	Apr-15	**164**	213	216
Subordinated Note	NZD	370	Nov-07	Nov-17	**290**	281	286
					454	494	502
EUR Denominated							
Subordinated Note	EUR	1,000	Aug-09	Aug-19	**1,238**	1,273	1,350
					1,238	1,273	1,350
CAD Denominated							
Subordinated Note	CAD	300	Oct-07	Oct-17	**288**	289	289
					288	289	289
Total Lower Tier Two notes and bonds on issue					**3,726**	4,314	5,728
Less holdings on own Lower Tier Two Capital					**(20)**	(18)	(89)
Total Lower Tier Two Capital (1)					**3,706**	4,296	5,639

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

10.2 List of APRA APS 330 Tables

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

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10.4 Glossary

Term	Definition
Australian Accounting Standards	The Australian Accounting Standards as issued by the Australian Accounting Standards Board.
ADI	Authorised Deposit-taking Institution - includes banks, building societies and credit unions which are authorised by APRA to take deposits from customers.
AIRB	Advanced Internal Ratings Based approach - used to measure credit risk in accordance with the Group's Basel II accreditation approval provided by APRA 10 December 2007 that allows the Group to use internal estimates of PD, LGD and EAD for the purposes of calculating regulatory capital.
AMA	Advanced Measurement Approach - used to measure operational risk in accordance with the Group's Basel II accreditation approval provided by APRA 10 December 2007 that allows the Group to use internal estimates and operational model for the purposes of calculating regulatory capital.
APRA	Australian Prudential Regulation Authority - the regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia.
APS	APRA's ADI Prudential Standards. For more information, refer to the APRA web site.
ASB	ASB Bank Limited - a subsidiary of the Commonwealth Bank of Australia that is directly regulated by the Reserve Bank of New Zealand.
Bank	APS asset class - includes claims on central banks, international banking agencies, regional development banks, ADI and overseas banks.
Basel II	Refers to the Basel Committee on Banking Supervision's Revised Framework for International Convergence of Capital Measurement and Capital Standards issued in June 2006 and as subsequently amended.
CBA	Commonwealth Bank of Australia - the chief entity for the Group.
Collective Provision	All loans and receivables that do not have an individually assessed provision are assessed collectively for impairment. The collective provision is maintained to reduce the carrying value of the portfolio of loans to their estimated recoverable amounts. These provisions are as reported in the Group's Financial Statements in accordance with the Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement").
Corporate	APS asset class – includes commercial credit risk where annual revenues exceed $50 million, SME Corporate and SME Retail.
EAD	Exposure at Default – the gross exposure under a facility (i.e. the amount that is legally owed to the Group) upon default of an obligor.
ECAI	External Credit Assessment Institution.
ELE	Extended Licensed Entity – APRA may deem a subsidiary of an ADI to be part of the ADI itself for the purposes of measuring the ADIs exposures to related entities.
General Reserve for Credit Losses	APS 220 requires the Group to establish a reserve that covers credit losses prudently estimated, but not certain to arise, over the full life of all individual facilities making up the business of the ADI. Most of the Group's collective provisions are included in the General Reserve for Credit Losses. An excess of required General Reserve for Credit Losses over the Group's collective provisions is recognised as a deduction from Tier One Capital on an after tax basis.
Individual Provisions	Provisions made against individual facilities in the credit-rated managed segment where there is objective evidence of impairment and full recovery of principal and interest is considered doubtful. These provisions are established based primarily on estimates of realisable value of collateral taken. These provisions are as reported in the Group's Financial Statements in accordance with the Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement"). Also known as individually assessed provisions or IAP.
IRRBB	Interest Rate Risk in the Banking Book - is the risk that the Bank's profit derived from Net Interest Income (interest earned less interest paid), in current and future periods, is adversely impacted from changes in interest rates. This is measured from two perspectives; firstly by quantifying the change in the net present value of the balance sheet's future earnings potential and secondly, as the anticipated change to the Net Interest Income which is reported in the Bank's Income Statement. The APS117 IRRBB regulatory capital requirement is calculated using the net present value approach.
Level 1	Represents the ADI and each subsidiary of the ADI that has been approved as an extended licence entity by APRA.

Glossary (continued)

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