
CommonwealthBank

# Basel III Pillar 3

## CAPITAL ADEQUACY AND RISKS DISCLOSURES AS AT 30 JUNE 2014

COMMONWEALTH BANK OF AUSTRALIA | ACN 123 123 124 | 13 AUGUST 2014

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# 1 Introduction

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

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

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

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

In addition to several small credit portfolios which remain on standardised treatment, from 31 December 2013, APRA revoked the use of the AIRB approach for Bankwest non-retail portfolios. APRA's decision was due to Bankwest not fully complying with agreed post-accreditation requirements. This reclassification had a minimal impact on the Group's capital. The Group will reapply for AIRB treatment of Bankwest's non-retail portfolios in the 2015 calendar year.

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

This document is available on the Group's corporate website www.commbank.com.au/about-us/investors/shareholders.

### The Group in Review

The Group continued to organically grow its capital strength. Under the Basel III regulatory capital framework, as at 30 June 2014, the Group's International Harmonised Common Equity Tier 1 (CET1) ratio, as measured on the full adoption of the Basel III capital reforms was 12.1%. The Group compares favourably to our international and domestic peers.

The Group's Basel III CET1, Tier 1 and Total Capital Ratios as measured on an APRA basis as at 30 June 2014 were 9.3%, 11.1% and 12.0% respectively.

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 continues to monitor and take actions to enhance its strong risk culture. During the year the Risk Management function refreshed its strategic plan, which includes a continued focus on risk culture, risk appetite framework and the risk accountability (Three Lines of Defence) model. The risk appetite framework creates clear obligations and transparency over risk management and strategy decisions; and, the Three Lines of Defence model requires 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 an AA-/Aa2 credit rating. To maintain this strength, the Group continues to invest in its risk systems and management processes.

The Group's capital forecasting process ensures pro-active actions and plans are in place to ensure a sufficient capital buffer above minimum levels is in place at all times. The Group manages its capital by regularly and simultaneously considering regulatory capital requirements, rating agency views on the capital required to maintain the Group's credit rating, the market response to capital, stress testing and the Group's bottom up view of economic capital. These views then cascade into considerations on what capital level is targeted.

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

| Summary Group Capital Adequacy Ratios (Level 2) | 30 Jun 14 Basel III % | 31 Dec 13 Basel III % | 30 Jun 13 Basel III % |
|---|---|---|---|
| Common Equity Tier 1 | **9. 3** | 8. 5 | 8. 2 |
| Tier 1 | **11. 1** | 10. 6 | 10. 3 |
| Tier 2 | **0. 9** | 0. 8 | 0. 9 |
| **Total Capital (APRA)** | **12. 0** | 11. 4 | 11. 2 |
| **Common Equity Tier 1 (Internationally Harmonised)** | **12. 1** | 11. 4 | 11. 0 |

## 2 Basel Regulatory Framework Overview

The Group is required to report the calculation of RWA and assessment of capital adequacy on a Level 2 basis (see section 3, page 4 for further details on the Scope of Application). APRA has set minimum regulatory capital requirements for banks.

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 Regulatory Capital Framework is based on "three pillars" as summarised below:

| Basel Capital Framework | | |
|---|---|---|
| **Pillar 1**<br>Minimum Capital Requirements | **Pillar 2**<br>Supervisory Review Process | **Pillar 3**<br>Market Discipline |
| Credit Risk<br>Interest Rate Risk in the Banking Book (1)<br>Operational Risk<br>Market Risk | Firm-wide risk oversight<br>Internal Capital Adequacy Assessment Process considers: additional risks; capital buffers and targets; and risk concentrations | Regular disclosure to the market covering both qualitative and quantitative aspects of capital adequacy and risk disclosures |

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

### Pillar 1 – Minimum Capital Requirements

#### Basel II

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 predominantly uses the Internal Ratings Based (IRB) approach for credit risk and the AMA for operational risk in the calculation of RWA. Portfolios that attract the Standardised approach are discussed in section 7.3 "Portfolios Subject to Standardised and Supervisory Risk-Weights" (page 31).

The Group incorporates measured IRRBB in its regulatory capital calculations with effect from 1 July 2008, as required by APRA for Australian ADIs. (This is not a Pillar 1 requirement in other jurisdictions).

The Basel II enhancements announced in July 2009, relating to securitisation and market risk, were implemented on 1 January 2012. These enhancements are commonly referred to as Basel 2.5.

#### Basel III

The Group adopted the Basel III measurement and monitoring of regulatory capital effective from 1 January 2013.

In December 2010, the Basel Committee on Banking Supervision (BCBS) published a discussion paper on banking reforms to address issues which led to 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 being implemented on a phased approach to 1 January 2019.

In September 2012, APRA published final standards relating to the implementation of the Basel III capital reforms in Australia. APRA has adopted a more conservative approach than the minimum standards published by the BCBS and a more accelerated timetable for implementation.

The APRA prudential standards require a minimum Basel III compliant CET1 ratio of 4.5% effective from 1 January 2013. An additional CET1 capital conservation buffer of 3.5%, inclusive of a Domestic Systemically Important Banks (D-SIBs) requirement of 1%, will be implemented on 1 January 2016, bringing the minimum CET1 requirement to 8%. As shown below, the Group's Level 2 CET1 already exceeds this future minimum CET1 requirement.

### Pillar 2 – Supervisory Review Process

#### ICAAP

Under Pillar 2, APRA requires each bank to have in place and report confidentially its Internal Capital Adequacy Assessment Process (ICAAP). The Group updates its ICAAP annually. The ICAAP document provides details on:

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

### Pillar 3 – Market Discipline

#### Disclosures

To enhance transparency in Australian financial markets, APRA 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).

Pillar 3 qualitative and quantitative disclosures are made in detail in this document as part of the Group's 30 June 2014 financial year reporting. Detailed quantitative information is released at the Group's December half year with summarised quantitative information released for March and September quarters. These reports are published on the Group's corporate website www.commbank.com.au/about-us/investors/shareholders.

## 3 Scope of Application

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

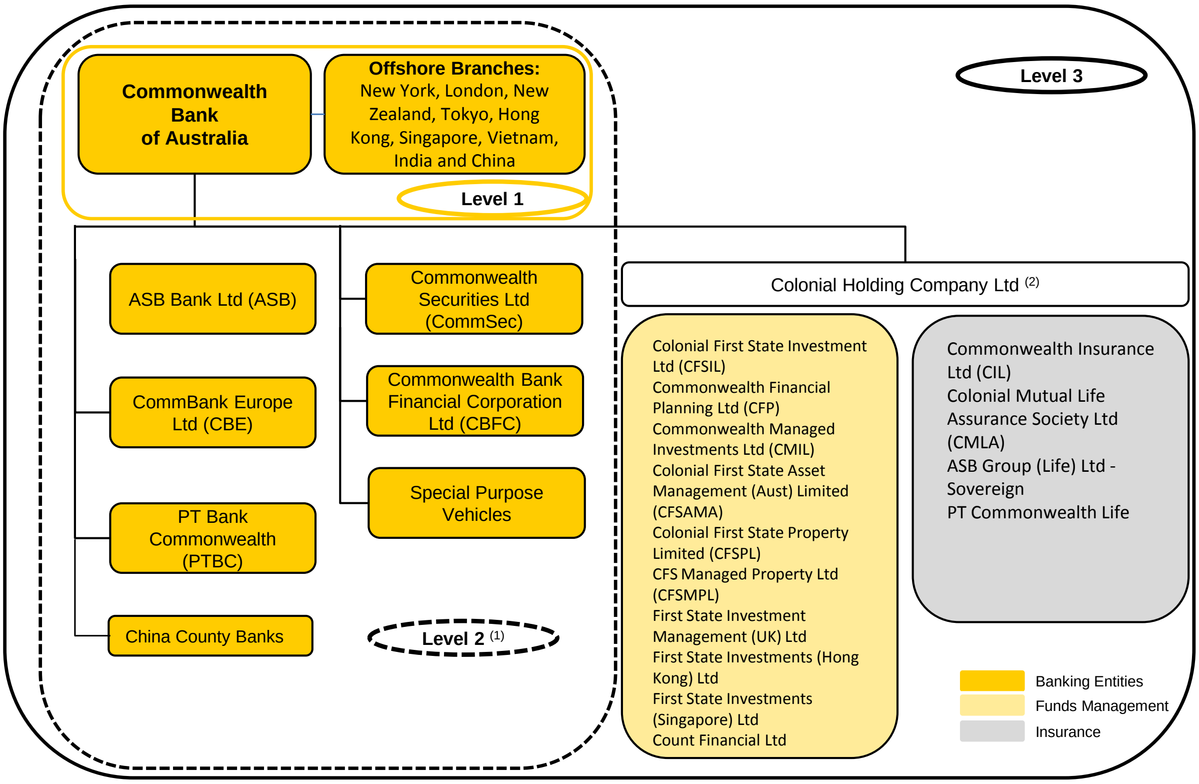
APRA adopts a tiered approach to the measurement of an ADIs capital adequacy:

- **Level 1:** the Parent Bank (Commonwealth Bank of Australia) and offshore branches (the Bank) and APRA approved Extended Licenced Entities (ELE);
- **Level 2** (1)**:** 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 assessment of capital adequacy on a Level 2 basis. Additional 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 6g of this report (page 6).

ASB Bank Limited (ASB) operates under advanced Basel III status and 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.

CommBank Europe (CBE), PT Bank Commonwealth (PTBC) and the China County Banks use Standardised Basel III methodology.




(1) The Level 2 Regulatory Consolidated group is based on the historic definition of the Level 2 Group, prior to APRA clarification provided in May 2014. Refer to Section 4 Capital – Other Regulatory Changes on page 5 for more details.

(2) Represents the Colonial Holding Company Ltd and major operating subsidiaries. A more detailed list of non-consolidated entities, together with details on their principal activities is provided in Appendix 11.4.

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. There are no capital deficiencies in non-consolidated subsidiaries in the Group.

# 4 Capital

## Capital Adequacy

The Group actively manages its capital to balance the perspectives of various stakeholders (regulators, rating agencies and shareholders). This is achieved by optimising the mix of capital, while maintaining adequate capital ratios throughout the financial year. The Group's capital is managed within a formal framework, its ICAAP, which is an integration of risk, financial and capital management processes.

APRA advises the Group of its Prudential Capital Ratio (PCR), which represents the regulatory minimum CET1, Tier 1 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 ongoing review by APRA and is formally reassessed on an annual basis. The Group is required to inform APRA immediately of any breach or potential breach of its PCR, including details of remedial action taken or planned to be taken.

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

The Group's capital position is monitored on a continuous basis and reported monthly to the Executive 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.

## Capital Management

The Group maintained a strong capital position with the capital ratios well in excess of its PCR and the Board Approved minimum levels at all times throughout the year ended 30 June 2014.

The Group's CET1 (internationally harmonised) and CET1 (APRA) ratios were 12.1% and 9.3% respectively at 30 June 2014. The increase in capital in the June 2014 half year was primarily driven by capital generated from earnings and the realisation of the benefits associated with the sale of the Group's property business, more than offsetting the impact of the December 2013 interim dividend payment (net of shares issued under the Dividend Reinvestment Plan (DRP)) and an increase in Credit RWA.

During the financial year, the Group's CET1 (internationally harmonised and APRA) increased 110 basis points with the strong growth reflecting the sustained organic capital generation of the Group.

Details of the major differences in the Basel III APRA and the Basel III internationally harmonised CET1 ratios are provided on page 7.

The Tier 1 and Total Capital ratios under Basel III (APRA) are 11.1% and 12.0% respectively at 30 June 2014. These ratios are well above regulatory and board approved minima.

## Capital Initiatives

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

### Common Equity Tier 1 Capital

The DRP in respect of the 2013 final dividend was satisfied in full by the on-market purchase of shares. The participation rate for the DRP was 22.4%.

The DRP for the 2014 interim dividend was satisfied by the allocation of $707 million of ordinary shares, representing a participation rate of 24%.

### Tier 2 Capital

In April 2014, the Group issued NZD400 million ASB Subordinated Notes through ASB, its New Zealand subsidiary. ASB Subordinated Notes are Basel III compliant Tier 2 securities under both Australian and New Zealand capital standards, and contributes to the regulatory capital of both ASB and Group (Level 2) capital ratios.

In the December 2013 half year, $500 million subordinated Tier 2 debt issue was redeemed.

### Other Regulatory Changes

#### *Composition of Level 2 ADI Groups*

In May 2014, APRA provided more clarity in relation to the definition of the Level 2 Banking Group. Subsidiary intermediate holding companies are now considered part of the Level 2 Group, regardless of the nature of any activity undertaken by the operating subsidiary. As a result, capital benefits arising from the debt issued by the Colonial Group will be phased out.

APRA has advised that transition arrangements will apply to impacted capital ratios in line with the existing maturity profile of the debt.

Given the transitional arrangements and the maturity profile of the debt, there is no immediate effect on the Group's capital ratios. The impact on future periods is expected to be minimal given the Group's strong capital generation capabilities.

#### *Conglomerate Groups*

In May 2013, APRA released a discussion paper and draft prudential standards titled "Supervision of Conglomerate Groups" focusing on the requirements of risk management and capital adequacy. APRA is extending 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. APRA has yet to release final standards, with implementation of these new requirements scheduled from 1 January 2015.

#### *Leverage Ratio*

In January 2014, the BCBS endorsed the leverage ratio framework and disclosure requirements. The ratio is defined as Tier 1 Capital as a percentage of exposures, with a proposed minimum of 3%.

Public disclosure of the leverage ratio will commence from 1 January 2015. The BCBS has advised that any final adjustments to the definition and calibration of the ratio will be made by 2017. Migration to a Pillar 1 (minimum capital requirement) is expected from 1 January 2018.

## Group Regulatory Capital Position

| Summary Group Capital Adequacy Ratios (Level 2) | 30 Jun 14 Basel III % | 31 Dec 13 Basel III % | 30 Jun 13 Basel III % |
|---|---|---|---|
| Common Equity Tier 1 | **9. 3** | 8. 5 | 8. 2 |
| Tier 1 | **11. 1** | 10. 6 | 10. 3 |
| Tier 2 | **0. 9** | 0. 8 | 0. 9 |
| **Total Capital (APRA)** | **12. 0** | 11. 4 | 11. 2 |
| **Common Equity Tier 1 (Internationally Harmonised)** | **12. 1** | 11. 4 | 11. 0 |

| | APRA Basel III 30 Jun 14 $M | APRA Basel III 31 Dec 13 $M | APRA Basel III 30 Jun 13 $M |
|---|---|---|---|
| Ordinary Share Capital and Treasury Shares (1) | **27,327** | 26,620 | 26,620 |
| Reserves | **1,962** | 1,721 | 1,389 |
| Retained earnings | **18,459** | 16,983 | 16,060 |
| Non-controlling interests | **-** | - | - |
| Common Equity Tier 1 Capital before regulatory adjustments | **47,748** | 45,324 | 44,069 |
| Common Equity Tier 1 regulatory adjustments | **(16,336)** | (16,786) | (17,039) |
| Common Equity Tier 1 Capital | **31,412** | 28,538 | 27,030 |
| Additional Tier 1 Capital | **6,196** | 6,720 | 6,720 |
| Tier 1 Capital | **37,608** | 35,258 | 33,750 |
| Tier 2 Capital | **2,935** | 2,922 | 3,088 |
| **Total Capital** | **40,543** | 38,180 | 36,838 |

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

Further details on the composition of the Group's capital is detailed in Appendix 11.

**APS 330 Table 6(g) – Capital Ratios – Level 1 and Major Subsidiaries**

| Significant Group ADIs | 30 Jun 14 Basel III % | 31 Dec 13 Basel III % | 30 Jun 13 Basel III % |
|---|---|---|---|
| CBA Level 1 CET1 Capital ratio | **9. 1** | 8. 3 | 8. 0 |
| CBA Level 1 Tier 1 Capital ratio | **10. 9** | 10. 3 | 10. 0 |
| CBA Level 1 Total Capital ratio | **11. 8** | 11. 2 | 11. 0 |
| ASB CET1 Capital ratio | **10. 6** | 11. 1 | 10. 4 |
| ASB Tier 1 Capital ratio | **11. 7** | 12. 4 | 11. 8 |
| ASB Total Capital ratio | **12. 7** | 12. 5 | 11. 9 |

## Regulatory Capital Frameworks Comparison

### International Harmonisation Details

In implementing the Basel III capital framework in Australia, APRA elected to adopt a more conservative approach than the BCBS Basel III minimum requirements. APRA is also adopting an accelerated timetable for the implementation of the Basel III capital framework. As a result APRA Basel III capital ratios published by Australian banks are not directly comparable to the published capital ratios of international banks.

The table below provides an explanation of the material differences between APRA's Basel III capital rules and the BCBS Basel III minimum requirements and the impact of converting APRA Basel III capital ratios to fully implemented Internationally Harmonised Basel III capital ratios.

| Item | Description | Movement in ratios from APRA to international |
|---|---|---|
| **Differences relating to the Capital Numerator** | | |
| **Equity investments** | A 100% deduction is required from CET1 for equity investments in financial institutions and entities that are deconsolidated for regulatory purposes (e.g. insurance and funds management businesses). APRA requires these equity investments to be 100% deducted from CET1. The BCBS allows a concessional threshold before the deduction is required. | Increase ratio |
| **Deferred tax assets** | A 100% deduction is required from CET1 for deferred tax assets relating to temporary differences. APRA requires all deferred tax assets, including those relating to temporary differences, to be deducted 100% from CET1. The BCBS allows a concessional threshold before the deduction is required. | Increase ratio |
| **Differences relating to risk weighted assets** | | |
| **IRRBB RWA** | APRA requires the inclusion of IRRBB within RWA. The BCBS requirements make no reference to IRRBB RWAs. | Increase ratio |
| **Mortgages RWA** | APRA imposes a floor of 20% on the downturn Loss Given Default (LGD) used in advanced credit models for determining credit RWAs for retail residential mortgages. The BCBS imposes a downturn LGD floor of 10% for these exposures. | Increase ratio |

The following table details the material differences between APRA's Basel III prudential requirements and those of the BCBS as at 30 June 2014. The Group's CET1, Tier 1 and Total Capital ratios as at 30 June 2014 on a Basel III fully implemented Internationally Harmonised basis were 12.1%, 14.2% and 15.1% respectively. Further details on the differences between APRA and the BCBS are available on the Australian Bankers' Association website.

| | 30 June 2014 | | |
|---|---|---|---|
| **Regulatory Capital Frameworks Comparison** | **CET1 %** | **Tier 1 Capital %** | **Total Capital %** |
| **Basel III - APRA** | 9. 3 | 11. 1 | 12. 0 |
| Differences relating to the capital numerator | | | |
| Equity investments | 0. 9 | 0. 9 | 0. 9 |
| Deferred tax assets | 0. 3 | 0. 3 | 0. 3 |
| Differences relating to risk weighted assets | | | |
| IRRBB risk weighted assets | 0. 4 | 0. 5 | 0. 5 |
| RWA treatment - residential mortgage | 1. 2 | 1. 4 | 1. 4 |
| Total adjustments | 2. 8 | 3. 1 | 3. 1 |
| **Basel III - Internationally Harmonised** | 12. 1 | 14. 2 | 15. 1 |

## 5 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).

### APS 330 Table 6b to 6f – Basel III Capital Requirements (RWA)

| | Risk Weighted Assets | | | Change in Basel III RWA for June half | |
|---|---|---|---|---|---|
| | Basel III 30 Jun 14 | Basel III 31 Dec 13 (1) | Basel III 30 Jun 13 | | |
| **Asset Category** | $M | $M | $M | $M | % |
| **Credit Risk** | | | | | |
| **Subject to advanced IRB approach** | | | | | |
| Corporate | **49,067** | 48,331 | 53,468 | 736 | 2 |
| SME corporate | **22,478** | 22,548 | 30,835 | (70) | (0) |
| SME retail | **5,280** | 4,711 | 4,203 | 569 | 12 |
| SME retail secured by residential mortgage (2) | **3,543** | 3,329 | 2,862 | 214 | 6 |
| Sovereign | **5,330** | 3,985 | 3,684 | 1,345 | 34 |
| Bank | **10,131** | 10,073 | 10,328 | 58 | 1 |
| Residential mortgage (2) | **65,986** | 64,468 | 63,879 | 1,518 | 2 |
| Qualifying revolving retail | **8,215** | 6,553 | 6,683 | 1,662 | 25 |
| Other retail | **12,757** | 11,827 | 11,093 | 930 | 8 |
| Impact of the regulatory scaling factor (3) | **10,967** | 10,550 | 11,222 | 417 | 4 |
| **Total RWA subject to advanced IRB approach** | **193,754** | 186,375 | 198,257 | 7,379 | 4 |
| **Specialised lending** | **48,935** | 48,514 | 50,392 | 421 | 1 |
| **Subject to standardised approach** | | | | | |
| Corporate | **10,850** | 11,087 | 3,684 | (237) | (2) |
| SME corporate | **4,924** | 5,382 | 525 | (458) | (9) |
| SME retail | **5,207** | 4,615 | 4,572 | 592 | 13 |
| Sovereign | **124** | 106 | 249 | 18 | 17 |
| Bank | **220** | 247 | 176 | (27) | (11) |
| Residential mortgage | **6,040** | 6,182 | 2,432 | (142) | (2) |
| Other retail | **2,648** | 2,571 | 2,224 | 77 | 3 |
| Other assets | **4,214** | 4,586 | 4,395 | (372) | (8) |
| **Total RWA subject to standardised approach** | **34,227** | 34,776 | 18,257 | (549) | (2) |
| Securitisation | **5,010** | 5,722 | 5,373 | (712) | (12) |
| Credit valuation adjustment | **6,636** | 6,381 | 7,395 | 255 | 4 |
| Central counterparties | **576** | 436 | - | 140 | 32 |
| **Total RWA for credit risk exposures** | **289,138** | 282,204 | 279,674 | 6,934 | 2 |
| Traded market risk | **5,284** | 5,970 | 5,151 | (686) | (11) |
| Interest rate risk in the banking book | **14,762** | 17,543 | 16,289 | (2,781) | (16) |
| Operational risk | **28,531** | 28,480 | 28,044 | 51 | 0 |
| **Total risk weighted assets** | **337,715** | 334,197 | 329,158 | 3,518 | 1 |

(1) Effective 31 December 2013 APRA revoked the extension of the Group's AIRB accreditation to the Bankwest non-retail portfolio. This resulted in a reclassification of exposures and RWA from Advanced to Standardised. The impact on the Group's RWA and overall capital levels was not material.

(2) Advanced RWA for SME retail exposures secured by residential mortgages is calculated using the same method as advanced residential mortgages. From June 2014, unless specified otherwise, the Group will include these exposures under SME retail. Prior to that date, these exposures were included in residential mortgages.

(3) APRA requires RWA amounts that are derived from IRB risk weight functions to be multiplied by a factor of 1.06.

## Risk Weighted Assets

Total RWA increased by $3.5 billion or 1.1% on the prior half to $337.7 billion.

## Credit Risk Exposure and RWA

Credit risk RWA increased $6.9 billion or 2.5% to $289.1 billion, primarily due to:

- Volume growth across most portfolios; and
- Refresh of Credit Risk Estimates (CREs).

These increases were partly offset by foreign exchange movements and net improvement in credit quality.

## Traded Market Risk RWA

Traded market risk RWA decreased by $0.7 billion or 11% to $5.3 billion. The decrease was mainly the result of lower market volatility that impacted the Value-at-Risk (VaR) capital charges under the Internal Model Approach.

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

IRRBB RWA decreased by $2.8 billion during the half year as a result of treasury risk management activities and increased offset of embedded gains from lower long term interest rates.

## Operational Risk RWA

Operational Risk RWA remained stable at $28.5 billion.

The Group continues to monitor industry events and the current regulatory environment to assess the impact on its Operational Risk profile.

## Explanation of change in credit RWA

The composition of the movement in Credit RWA over the prior half commencing 1 January 2014, as reflected in APS 330 Table 6b to 6f (page 8), is shown below.

| | | Credit RWA movement drivers | | | | |
|---|---|---|---|---|---|---|
| **Asset Category** | **Change in Basel III RWA for June 14 half $M** | **Volume changes $M** | **FX changes $M** | **Credit risk estimates changes and regulatory treatments $M** | **Data and methodology changes $M** | **Change in credit quality $M** |
| AIRB corporate including SME and specialised lending | **1,955** | 4,302 | (729) | 1,435 | (63) | (2,990) |
| AIRB bank | **61** | 221 | (184) | 75 | (1) | (50) |
| AIRB sovereign | **1,427** | (147) | (42) | (217) | (7) | 1,840 |
| AIRB consumer retail | **4,357** | 2,740 | 150 | 954 | 1 | 512 |
| Standardised (including other assets and CCP) | **(154)** | - | - | - | (444) | 290 |
| Equity and securitisation exposures | **(712)** | (158) | (326) | - | - | (228) |
| **Total credit RWA movement** | **6,934** | 6,958 | (1,131) | 2,247 | (514) | (626) |

# 6 Risk Management

## 6.1 Risk Governance

Risk governance originates at Board level and cascades through to the CEO and businesses via Group and Business Unit risk appetite statements, Group policies, delegated authorities and committee structures.

The Group's Board has a comprehensive framework of Corporate Governance Guidelines (the "Guidelines"), which are designed to properly balance performance and compliance 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 11).

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, compliance, insurance and reputational risks assumed by the Group in the course of carrying on its business.

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

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

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

The Risk Committee also makes recommendations on the key policies relating to capital (that underpin the ICAAP) and 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) 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 eight 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:

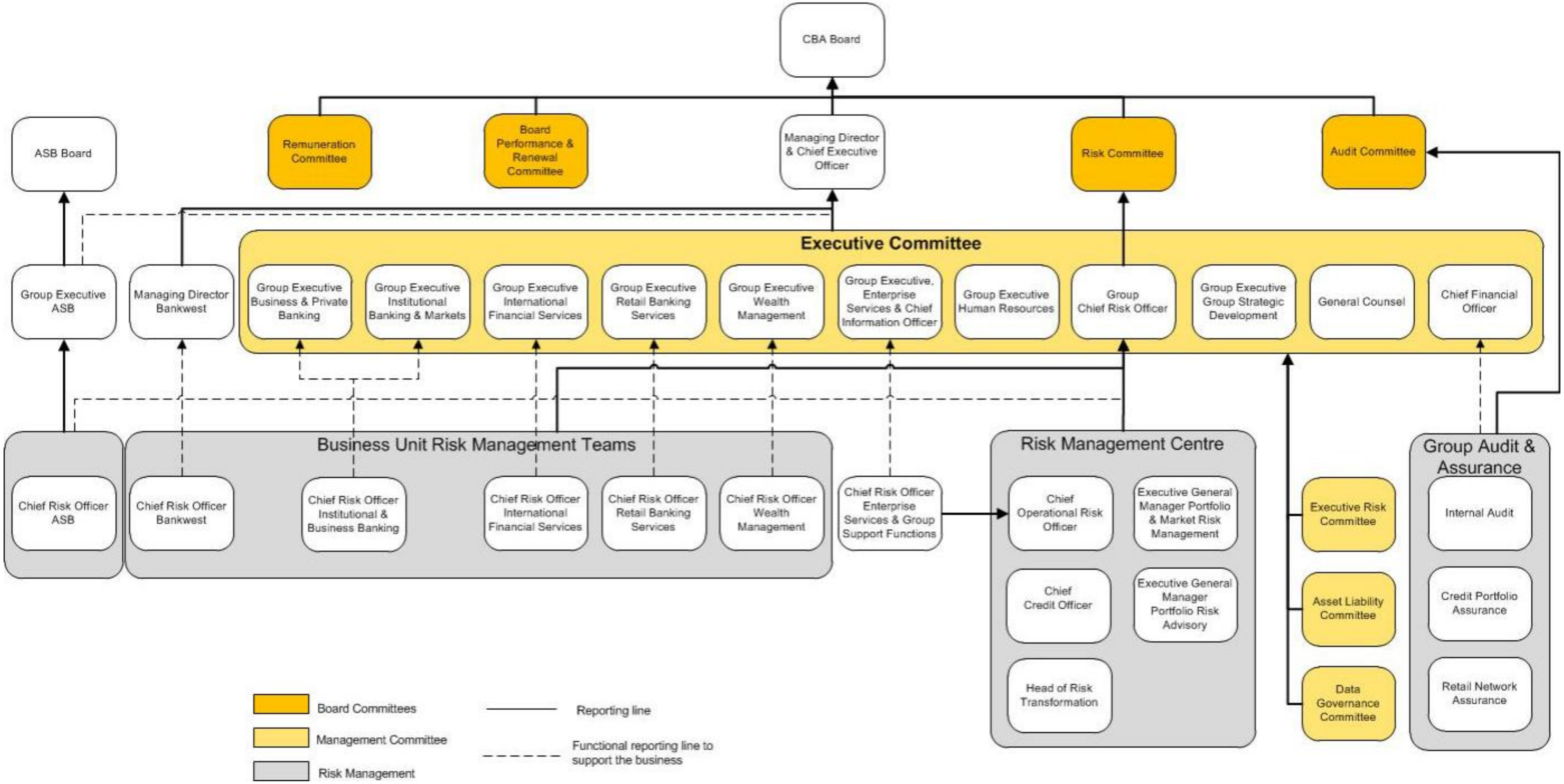
- Line 1 - Business Management - Risk is best managed at the place it occurs, therefore business managers are responsible for managing the risks for their business. This includes implementing approaches to proactively manage their risk within risk appetite levels, and using risk management outcomes ("the costs of risks") and considerations as part of their day-to-day business making processes. They are to establish and maintain all appropriate risk controls.
- Line 2 - Risk Management - Group, Business Unit and Divisional Risk Management units provide independent 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 measures risk exposures to support risk decisions by business owners and also to make certain market and credit risk decisions under approved delegations of authority; in particular it undertakes quantitative and qualitative analysis of the credit exposures originated by the business as part of its responsibility for credit rating and decisioning. Line 2 also monitors control testing by Line 1 and provides supplemental control testing.
- 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 including credit origination and credit quality of the portfolio.

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 policies and controls for each type of risk. It also helps 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.

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.

## Risk Governance Structure



## 6.2 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 define minimum standards and/or limits for capital, funding, asset/liability management, liquidity and other risk drivers.

Risk Appetite is dynamic in nature and is reviewed on a regular basis in conjunction with the Group's strategic plans and business actions. At least annually, strategic plans are validated to ensure that the plans are aligned with Risk Appetite, thus, the plans and Risk Appetite challenge each other. It also serves to identify emerging risks for the Group and provide an understanding of the trade-offs being made between risk and potential returns. This interaction of Risk Appetite with strategy is central to creating transparency over risk management and strategy decisions which in turn promotes a strong risk culture.

A Risk Appetite Framework (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) 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, so as to excel at securing and enhancing the financial wellbeing of people, businesses and communities;
- Maintain impeccable professional standards and business ethics;
- Differentiate between risk (with a relatively clear discernible distribution of possible outcomes), which is to be assessed on its merits, and uncertainty (which has an 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;
- Impose 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; and
- Maintain a control environment that, within practical constraints, minimises risks to the sustainability of its business.

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.

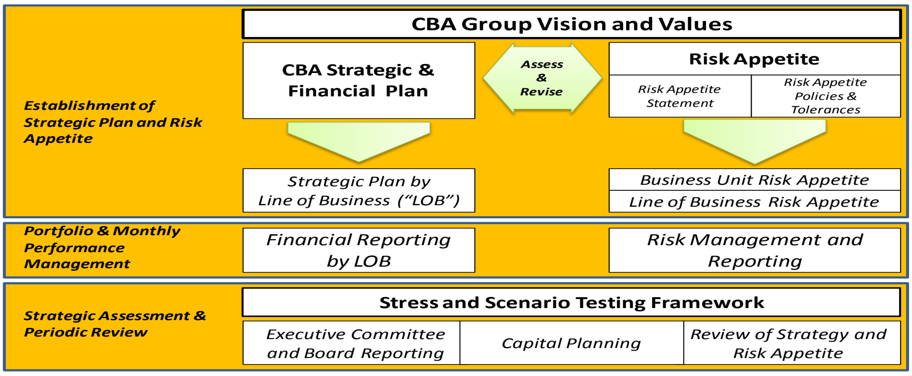
In conjunction with its risk culture and boundaries, the Group has a moderate appetite for each of the major risk types to which it is exposed, so as not to have an over concentration in any one area. It also requires operational and compliance risks to be kept at low absolute levels. The specific appetite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

Risk policies and tolerances, which are reviewed and endorsed annually by the Risk Committee or Board, support the Group and business risk appetite statements by:

- Summarising risk management principles and practices;
- Quantifying the limits for major risks, principally credit risk, market risk (both traded and non-traded), funding and liquidity risks; and
- Stating risk outcomes to which the Group is intolerant.

The principal risk types, their relevant governing policies and how they support risk appetite are outlined in the following table "Principal Risk Types".

**The Risk Appetite Framework**



## Principal Risk Types

| Risk Type | Description | Governing Policies | Key limits and approaches |
|---|---|---|---|
| Credit Risk<br>(see section 7) | 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 amoung counterparties and concentrations of exposure to countries, geographical regions, industry sectors and products. Exposure to credit risk also arises through securitisation activities. | ▪ The Group Credit Framework and Policies, (including: Aggregation Policy, Portfolio Standards, Product Standards, Large Credit Exposure Policy; Country Risk Exposure Policy; and Industry Sector Concentration Policy). | **Key quantitative limits/tolerances:**<br>▪ Exposures to a single or groups of related counterparties (differentiated by counterparty type, judgements on management quality, PD rating and security cover);<br>▪ Industry limits in terms of exposure and risk adjusted concentration;<br>▪ Country exposure limits to control transfer / cross-border and sovereign default risks; and<br>▪ Exposures to consumer credit products managed within credit quality boundaries in Business Unit Risk Appetite Statements.<br>The measurement of credit risk is based on an internal credit risk rating system, which uses judgements on individual or management supported by analytical tools (including scorecards) to estimate expected and unexpected loss within the credit portfolio. |
| Market Risk (including Equity Risk)<br>(see section 8 and section 9) | Market risk is the potential of an adverse impact on the Group's earnings or capital from changes in interest rates, foreign exchange rates, commodity and equity prices, credit spreads, and the resale value of assets underlying operating leases at maturity (lease residual value risk). | ▪ The Group Market Risk Framework (including the Group Market Risk Policy and Trading Book Policy Statement). | **Key quantitative limits/tolerances:**<br>▪ Traded Market Risk (VaR and Stress Testing limits);<br>▪ Interest Rate Risk in the Banking Book (Market Value Sensitivity and Net Interest Earnings at Risk limits);<br>▪ Seed Trust Market Risk limits;<br>▪ Lease Residual Value Risk limits;<br>▪ Market Risk in Insurance business (VaR limits); and<br>▪ Non-Traded Equity limits. |
| Liquidity & Funding Risk<br>(see section 9) | Liquidity risk is the combined risks of not being able to meet financial obligations as they fall due (funding liquidity risk); and that liquidity in financial markets, such as the market for debt securities, may reduce significantly (market liquidity risk). | ▪ Group Liquidity Risk Management Policy and Strategy. | **Key quantitative limits/tolerances:**<br>▪ Liquid asset holdings under name crisis scenario; and<br>▪ Source of funding (e.g. wholesale) limits and term funding limits. |
| Operational Risk<br>(see section 10) | Operational risk is defined as the risk of economic loss arising from inadequate or failed internal processes, people, systems or from external events. | ▪ Operational Risk Management Framework. | **Management via:**<br>▪ Reporting and case management of loss and near miss incidents;<br>▪ Comprehensive risk assessment and control assurance processes;<br>▪ Quantitative Risk Assessment Framework and Capital modelling; and<br>▪ Support from skilled risk professionals embedded across the Group. |
| Insurance Risk | Insurance risk is the risk of loss due to increases in claim payments arising from variations in the incidence or severity of insured events.<br>In the life insurance business this arises primarily through mortality (death) or morbidity (illness or injury) claims being greater than expected.<br>In the general insurance business, variability arises mainly through weather related incidents and similar events, as well as general variability in home, motor and travel insurance claim amounts. | ▪ Risk Management Frameworks (including Risk Management Strategy and Risk Appetite Statement; and Underwriting and claims standards). | The management of insurance risk is an integral part of the operation of the insurance business. It is applied on an end-to-end basis, from underwriting to policy termination or claim payment.<br>The major methods of mitigating insurance risk are:<br>▪ Sound product design and pricing, to ensure that customers understand the extent of their cover and that premiums are sufficient to cover the risk involved;<br>▪ Underwriting new customers to ensure that the cover provided and the premium rates quoted are appropriate for the level of risk accepted;<br>▪ Regular review of insurance experience, so that product design, policy liabilities and pricing remains sound;<br>▪ Claims management to ensure that claims are paid within the agreed policy terms and that these genuine claims are paid as soon as possible after documentation is received and reasonable investigations are undertaken; and<br>▪ Transferring a proportion of insurance risk to reinsurers to keep within risk appetite. |

**Principal Risk Types** (continued)

| Risk Type | Description | Governing Policies | Key limits and approaches |
|---|---|---|---|
| Compliance Risk<br>(see section 10) | 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. | ▪ Compliance Risk Management Framework (CRMF). | **Management via:**<br>▪ CRMF is consistent with the Australian Standard on Compliance Programs and is designed to meet the Group obligations under the Corporations Act 2001, the Group's Australian Financial Services License and Australian Credit Licences;<br>▪ CRMF, Group Compliance and Business Unit policies/standards/frameworks;<br>▪ Compliance Obligations Register and Guidance Notes;<br>▪ Alignment and integration with the ORMF methodology and tools; and<br>▪ Support from compliance professionals embedded across the Group. |
| Strategic Business Risk | Strategic Business Risk is defined as the risk of economic loss resulting from changes in the business environment caused by macroeconomic conditions, competitive forces at work, technology, regulatory or social trends. | ▪ Strategic Framework. | **Management via:**<br>Elements of other risk type policies and processes in addition to management controls including strategic planning, strategic implementation and financial management. The Board accepts or amends the Group's overall strategy and each key Business Unit's strategic plans. They do so as they simultaneously consider the Business Unit's Risk Appetite Statements, which include references to key risk limits, and changes to the risk profile arising from adopting the strategy. |
| 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 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. | ▪ Cultural Framework and Statement of Professional Practice. | **Management via:**<br>▪ Risk culture and behavioural standards are set out in the Group's Risk Appetite Statement and various other code of conduct and related standards;<br>▪ Reinforcing Group-wide requirements on leadership values that support the Group's vision to excel at securing and enhancing the financial wellbeing of people, businesses and communities; and<br>▪ Elements of other risk type policies and processes in addition to:<br>– Crisis management testing of leadership team; and<br>– Support from skilled risk professionals embedded across the Group. |

# 7 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 6 "Risk Management" of this document (page 10).

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

- Credit Risk Management Framework with associated policies and portfolio standards; and
- Credit Risk Rating and Measurement (pages 34 - 37).

### Credit Risk Management Framework

The Risk Committee operates under a Charter by which it oversees the Group's Credit Risk Management Framework 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 tests.

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.

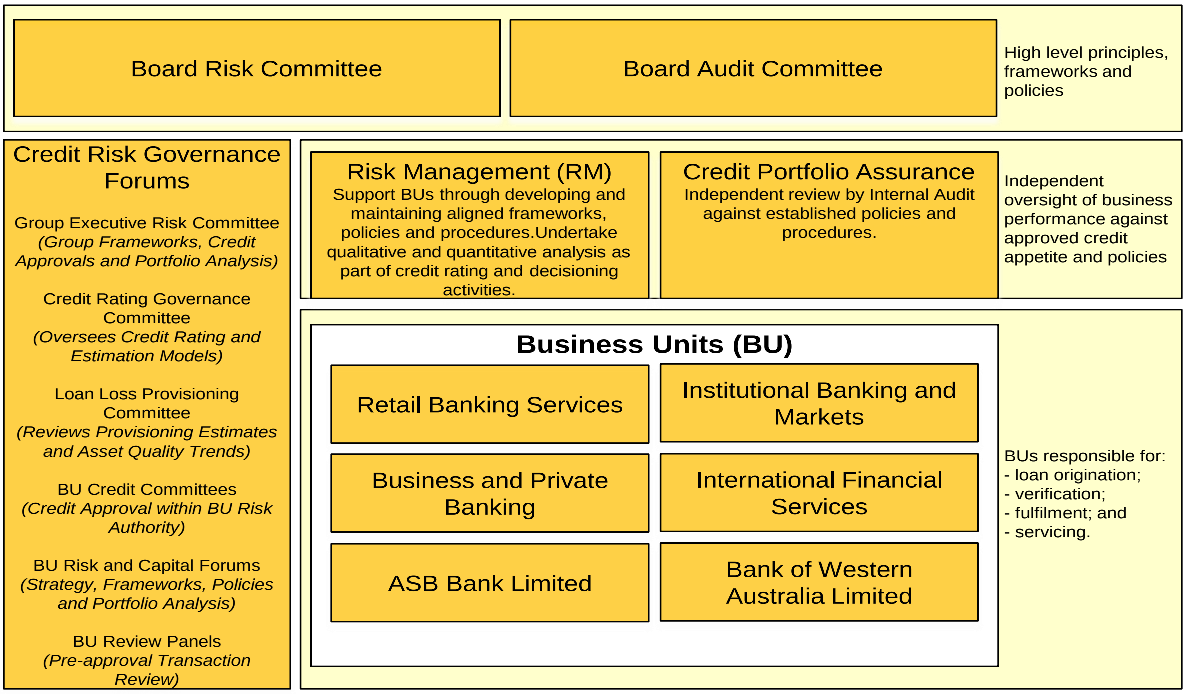
In addition, experts in each Business Unit search for ways to diversify credit risk exposure in the business, all within the limit framework boundaries.

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 often externally risk-rated and/or 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 (e.g. credit cards) is primarily unsecured.

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 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 Managed (refer to section 7.4 "Portfolios subject to Internal Ratings Based approaches" for further detail, page 34).



## 7.1 Credit Risk Exposure – Excluding Equities and Securitisation

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

### APS 330 Table 7i – Credit risk exposures by portfolio type and modelling approach

| | 30 June 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Off balance sheet | | | | | |
| Portfolio Type | On balance sheet $M | Non-market related $M | Market related $M | Total $M | Average exposure for June 2014 half [2] $M | Change in exposure for June 2014 half [3] $M | % |
| **Subject to advanced IRB approach** | | | | | | | |
| Corporate | 47,324 | 36,395 | 4,185 | **87,904** | 85,931 | 3,947 | 4. 7 |
| SME corporate | 31,210 | 5,704 | 482 | **37,396** | 37,102 | 589 | 1. 6 |
| SME retail | 7,365 | 3,211 | 9 | **10,585** | 9,809 | 1,552 | 17. 2 |
| SME retail secured by residential mortgage [4] | 6,007 | 1,348 | - | **7,355** | 7,643 | (576) | (7. 3) |
| Sovereign | 61,061 | 1,525 | 1,419 | **64,005** | 65,565 | (3,120) | (4. 6) |
| Bank | 27,737 | 5,575 | 9,573 | **42,885** | 42,812 | 146 | 0. 3 |
| Residential mortgage | 391,727 | 69,061 | - | **460,788** | 453,742 | 14,093 | 3. 2 |
| Qualifying revolving retail | 9,733 | 16,662 | - | **26,395** | 24,675 | 3,441 | 15. 0 |
| Other retail | 7,589 | 2,777 | - | **10,366** | 10,077 | 574 | 5. 9 |
| **Total advanced IRB approach** | 589,753 | 142,258 | 15,668 | **747,679** | 737,356 | 20,646 | 2. 8 |
| **Specialised lending** | 44,789 | 10,811 | 1,756 | **57,356** | 57,031 | 651 | 1. 1 |
| **Subject to standardised approach** | | | | | | | |
| Corporate | 8,906 | 2,097 | 62 | **11,065** | 11,162 | (194) | (1. 7) |
| SME corporate | 4,110 | 667 | 28 | **4,805** | 5,047 | (484) | (9. 2) |
| SME retail | 4,772 | 426 | - | **5,198** | 4,901 | 595 | 12. 9 |
| Sovereign | 256 | 2 | - | **258** | 249 | 18 | 7. 5 |
| Bank | 467 | 47 | 2 | **516** | 581 | (129) | (20. 0) |
| Residential mortgage | 8,671 | 906 | 17 | **9,594** | 9,544 | 101 | 1. 1 |
| Other retail | 2,594 | 33 | 1 | **2,628** | 2,590 | 73 | 2. 9 |
| Other assets | 10,165 | - | - | **10,165** | 10,222 | (114) | (1. 1) |
| Central counterparties | - | - | 1,870 | **1,870** | 1,717 | 306 | 19. 6 |
| **Total standardised approach** | 39,941 | 4,178 | 1,980 | **46,099** | 46,013 | 172 | 0. 4 |
| **Total credit exposures** [1] | 674,483 | 157,247 | 19,404 | **851,134** | 840,400 | 21,469 | 2. 6 |

(1) Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
(2) The simple average of exposures as at 30 June 2014 and at 31 December 2013.
(3) The difference between credit exposures as at 30 June 2014 and 31 December 2013.
(4) Advanced RWA for SME retail exposures secured by residential mortgages is calculated using the same method as advanced residential mortgages. From June 2014, unless specified otherwise, the Group will include these exposures under SME retail. Prior to that date, these exposures were included in residential mortgages.

### Explanation of change in credit risk exposure

Details of credit risk exposure movements over the half year are as follows:

| Asset Category | Total Exposure Change $M | Regulatory Exposure Driver |
|---|---|---|
| AIRB corporate (including SME) and specialised lending | **6,163** | Reflects portfolio growth and re-classification of SME Retail exposures secured by residential mortgages from the Residential Mortgage asset class to SME Retail. |
| AIRB sovereign | **(3,120)** | Reflects re-classification of exposures. |
| AIRB bank | **146** | Reflects portfolio growth partly offset by foreign currency movements. |
| AIRB consumer retail | **18,108** | Reflects annual CRE refresh and portfolio growth offset partly by the re-classification of SME Retail exposures secured by residential mortgages. |
| Total advanced and specialised lending | **21,297** | |
| Standardised including other assets and central counterparties | **172** | Reflects an increased volume of trades being centrally cleared. |
| Total excluding securitisation and equity exposures | **21,469** | |

**APS 330 Table 7i – Credit risk exposures by portfolio type and modelling approach** (continued)

| | 31 December 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Off balance sheet | | | | | |
| Portfolio Type | On balance sheet $M | Non-market related $M | Market related $M | Total $M | Average exposure for December 2013 half [2] $M | Change in exposure for December 2013 half [3] $M | % |
| **Subject to advanced IRB approach** | | | | | | | |
| Corporate | 45,503 | 34,099 | 4,355 | 83,957 | 86,248 | (4,582) | (5. 2) |
| SME corporate | 30,847 | 5,314 | 646 | 36,807 | 42,232 | (10,850) | (22. 8) |
| SME retail | 7,201 | 1,817 | 15 | 9,033 | 8,560 | 947 | 11. 7 |
| SME retail secured by residential mortgage [4] | 6,379 | 1,552 | - | 7,931 | 7,221 | 1,420 | 21. 8 |
| Sovereign | 62,451 | 2,988 | 1,686 | 67,125 | 62,043 | 10,165 | 17. 8 |
| Bank | 26,625 | 5,431 | 10,683 | 42,739 | 42,750 | (22) | (0. 1) |
| Residential mortgage [4] | 378,767 | 67,928 | - | 446,695 | 437,909 | 17,571 | 4. 1 |
| Qualifying revolving retail | 9,661 | 13,293 | - | 22,954 | 22,729 | 450 | 2. 0 |
| Other retail | 7,246 | 2,546 | - | 9,792 | 9,464 | 656 | 7. 2 |
| **Total advanced IRB approach** | 574,680 | 134,968 | 17,385 | 727,033 | 719,156 | 15,755 | 2. 2 |
| **Specialised lending** | 44,935 | 10,016 | 1,754 | 56,705 | 56,863 | (315) | (0. 6) |
| **Subject to standardised approach** | | | | | | | |
| Corporate | 9,253 | 1,949 | 57 | 11,259 | 7,569 | 7,381 | large |
| SME corporate | 4,744 | 516 | 29 | 5,289 | 2,916 | 4,747 | large |
| SME retail | 4,313 | 290 | - | 4,603 | 5,051 | (896) | (16. 3) |
| Sovereign | 239 | 1 | - | 240 | 385 | (290) | (54. 7) |
| Bank | 588 | 44 | 13 | 645 | 536 | 217 | 50. 7 |
| Residential mortgage | 8,575 | 900 | 18 | 9,493 | 7,366 | 4,255 | 81. 2 |
| Other retail | 2,521 | 33 | 1 | 2,555 | 2,426 | 258 | 11. 2 |
| Other assets | 10,279 | - | - | 10,279 | 9,811 | 933 | 10. 0 |
| Central counterparties | - | - | 1,564 | 1,564 | 782 | 1,564 | large |
| **Total standardised approach** | 40,512 | 3,733 | 1,682 | 45,927 | 36,842 | 18,169 | 65. 5 |
| **Total credit exposures** [1] | 660,127 | 148,717 | 20,821 | 829,665 | 812,861 | 33,609 | 4. 2 |

(1) Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
(2) The simple average of exposures as at 31 December 2013 and at 30 June 2013.
(3) The difference between credit exposures as at 31 December 2013 and 30 June 2013.
(4) Advanced RWA for SME retail exposures secured by residential mortgages is calculated using the same method as advanced residential mortgages. From June 2014, unless specified otherwise, the Group will include these exposures under SME retail. Prior to that date, these exposures were included in residential mortgages.

**APS 330 Table 7i – Credit risk exposures by portfolio type and modelling approach** (continued)

| | 30 June 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Off balance sheet | | | | | |
| Portfolio Type | On balance sheet $M | Non-market related $M | Market related $M | Total $M | Average exposure for June 2013 half (2) $M | Change in exposure for June 2013 half (3) $M | % |
| **Subject to advanced IRB approach** | | | | | | | |
| Corporate | 46,700 | 35,371 | 6,468 | 88,539 | 87,074 | 2,931 | 3. 4 |
| SME corporate | 40,375 | 6,605 | 677 | 47,657 | 47,060 | 1,194 | 2. 6 |
| SME retail | 6,551 | 1,509 | 26 | 8,086 | 8,302 | (432) | (5. 1) |
| SME retail secured by residential mortgage (4) | 5,243 | 1,268 | - | 6,511 | 6,345 | 332 | 5. 4 |
| Sovereign | 52,309 | 2,940 | 1,711 | 56,960 | 53,186 | 7,548 | 15. 3 |
| Bank | 26,250 | 3,925 | 12,586 | 42,761 | 41,221 | 3,081 | 7. 8 |
| Residential mortgage (4) | 363,981 | 65,143 | - | 429,124 | 420,745 | 16,759 | 4. 1 |
| Qualifying revolving retail | 9,463 | 13,041 | - | 22,504 | 22,286 | 436 | 2. 0 |
| Other retail | 6,923 | 2,213 | - | 9,136 | 8,656 | 961 | 11. 8 |
| **Total advanced IRB approach** | 557,795 | 132,015 | 21,468 | 711,278 | 694,875 | 32,810 | 4. 8 |
| **Specialised lending** | 46,207 | 9,482 | 1,331 | 57,020 | 55,844 | 2,353 | 4. 3 |
| **Subject to standardised approach** | | | | | | | |
| Corporate | 2,730 | 1,131 | 17 | 3,878 | 3,912 | (67) | (1. 7) |
| SME corporate | 351 | 190 | 1 | 542 | 439 | 207 | 61. 8 |
| SME retail | 4,200 | 1,298 | 1 | 5,499 | 5,188 | 622 | 12. 8 |
| Sovereign | 530 | - | - | 530 | 685 | (309) | (36. 8) |
| Bank | 390 | 38 | - | 428 | 389 | 78 | 22. 3 |
| Residential mortgage | 4,540 | 698 | - | 5,238 | 5,051 | 375 | 7. 7 |
| Other retail | 2,208 | 89 | - | 2,297 | 2,276 | 42 | 1. 9 |
| Other assets | 9,346 | - | - | 9,346 | 10,057 | (1,422) | (13. 2) |
| **Total standardised approach** | 24,295 | 3,444 | 19 | 27,758 | 27,997 | (474) | (1. 7) |
| **Total credit exposures (1)** | 628,297 | 144,941 | 22,818 | 796,056 | 778,716 | 34,689 | 4. 6 |

(1) Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
(2) The simple average of exposures as at 30 June 2013 and at 31 December 2012.
(3) The difference between credit exposures as at 30 June 2013 and 31 December 2012.
(4) Advanced RWA for SME retail exposures secured by residential mortgages is calculated using the same method as advanced residential mortgages. From June 2014, unless specified otherwise, the Group will include these exposures under SME retail. Prior to that date, these exposures were included in residential mortgages.

**APS 330 Table 7b – Credit risk exposure by portfolio type**

| Portfolio Type | As at 30 Jun 14 $M | Half year average [(1)] $M |
|---|---|---|
| Corporate | **98,969** | 97,093 |
| SME corporate | **42,201** | 42,149 |
| SME retail | **15,783** | 14,710 |
| SME retail secured by residential mortgage [(2)] | **7,355** | 7,643 |
| Sovereign | **64,263** | 65,814 |
| Bank | **43,401** | 43,393 |
| Residential mortgage [(2)] | **470,382** | 463,286 |
| Qualifying revolving retail | **26,395** | 24,675 |
| Other retail | **12,994** | 12,667 |
| Specialised lending | **57,356** | 57,031 |
| Other assets | **10,165** | 10,222 |
| Central counterparties | **1,870** | 1,717 |
| **Total credit exposures** [(3)] | **851,134** | 840,400 |

| Portfolio Type | As at 31 Dec 13 $M | Half year average [(1)] $M |
|---|---|---|
| Corporate | 95,216 | 93,817 |
| SME corporate | 42,096 | 45,148 |
| SME retail | 13,636 | 13,611 |
| SME retail secured by residential mortgage [(2)] | 7,931 | 7,221 |
| Sovereign | 67,365 | 62,428 |
| Bank | 43,384 | 43,286 |
| Residential mortgage [(2)] | 456,188 | 445,275 |
| Qualifying revolving retail | 22,954 | 22,729 |
| Other retail | 12,347 | 11,890 |
| Specialised lending | 56,705 | 56,863 |
| Other assets | 10,279 | 9,811 |
| Central counterparties | 1,564 | 782 |
| **Total credit exposures** [(3)] | 829,665 | 812,861 |

| Portfolio Type | As at 30 Jun 13 $M | Half year average [(1)] $M |
|---|---|---|
| Corporate | 92,417 | 90,986 |
| SME corporate | 48,199 | 47,499 |
| SME retail | 13,585 | 13,490 |
| SME retail secured by residential mortgage [(2)] | 6,512 | 6,345 |
| Sovereign | 57,490 | 53,871 |
| Bank | 43,189 | 41,610 |
| Residential mortgage [(2)] | 434,361 | 425,796 |
| Qualifying revolving retail | 22,504 | 22,286 |
| Other retail | 11,433 | 10,932 |
| Specialised lending | 57,020 | 55,844 |
| Other assets | 9,346 | 10,057 |
| **Total credit exposures** [(3)] | 796,056 | 778,716 |

(1) The simple average of closing balances of each half year.

(2) Advanced RWA for SME retail exposures secured by residential mortgages is calculated using the same method as advanced residential mortgages. From June 2014, unless specified otherwise, the Group will include these exposures under SME retail. Prior to that date, these exposures were included in residential mortgages.

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

## APS 330 Table 7c – Credit risk exposure by portfolio type and geographic distribution

| Portfolio Type | Australia $M | New Zealand $M | Other $M | Total $M |
|---|---|---|---|---|
| **30 June 2014** [3] | | | | |
| Corporate | 67,377 | 6,492 | 25,100 | **98,969** |
| SME corporate | 31,249 | 10,532 | 420 | **42,201** |
| SME retail [1] | 20,913 | 1,966 | 259 | **23,138** |
| Sovereign | 40,904 | 2,099 | 21,260 | **64,263** |
| Bank | 19,579 | 1,532 | 22,290 | **43,401** |
| Residential mortgage | 425,680 | 44,506 | 196 | **470,382** |
| Qualifying revolving retail | 26,395 | - | - | **26,395** |
| Other retail | 10,593 | 2,385 | 16 | **12,994** |
| Specialised lending | 44,805 | 5,564 | 6,987 | **57,356** |
| Other assets | 7,588 | 925 | 1,652 | **10,165** |
| Central counterparties | 43 | - | 1,827 | **1,870** |
| **Total credit exposures** [2] | 695,126 | 76,001 | 80,007 | **851,134** |

| Portfolio Type | Australia $M | New Zealand $M | Other $M | Total $M |
|---|---|---|---|---|
| **31 December 2013** [3] | | | | |
| Corporate | 64,475 | 6,246 | 24,495 | 95,216 |
| SME corporate | 31,618 | 9,693 | 785 | 42,096 |
| SME retail | 11,710 | 1,898 | 28 | 13,636 |
| Sovereign | 39,922 | 2,739 | 24,704 | 67,365 |
| Bank | 19,290 | 1,477 | 22,617 | 43,384 |
| Residential mortgage [1] | 420,231 | 43,402 | 486 | 464,119 |
| Qualifying revolving retail | 22,954 | - | - | 22,954 |
| Other retail | 10,086 | 2,246 | 15 | 12,347 |
| Specialised lending | 44,179 | 5,472 | 7,054 | 56,705 |
| Other assets | 9,366 | 584 | 329 | 10,279 |
| Central counterparties | 13 | - | 1,551 | 1,564 |
| **Total credit exposures** [2] | 673,844 | 73,757 | 82,064 | 829,665 |

| Portfolio Type | Australia $M | New Zealand $M | Other $M | Total $M |
|---|---|---|---|---|
| **30 June 2013** [3] | | | | |
| Corporate | 65,358 | 5,676 | 21,383 | 92,417 |
| SME corporate | 38,784 | 8,729 | 686 | 48,199 |
| SME retail | 11,498 | 2,059 | 28 | 13,585 |
| Sovereign | 36,295 | 2,676 | 18,519 | 57,490 |
| Bank | 19,343 | 1,808 | 22,038 | 43,189 |
| Residential mortgage [1] | 401,323 | 39,110 | 440 | 440,873 |
| Qualifying revolving retail | 22,504 | - | - | 22,504 |
| Other retail | 9,479 | 1,954 | - | 11,433 |
| Specialised lending | 46,459 | 4,727 | 5,834 | 57,020 |
| Other assets | 8,150 | 509 | 687 | 9,346 |
| **Total credit exposures** [2] | 659,193 | 67,248 | 69,615 | 796,056 |

(1) Includes SME retail secured by residential property.
(2) Total credit risk exposures do not include equities or securitisation exposures.
(3) Balances are reported based on the risk domicile of the borrowers.

## APS 330 Table 7d – Credit risk exposure by portfolio type and industry sector

30 June 2014

| 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 | - | - | 1,785 | - | - | 13,329 | 1,872 | 8,651 |
| SME corporate | - | 570 | 3,056 | - | - | 1,807 | 12,744 | 282 |
| SME retail [2] | - | 773 | 3,479 | - | - | 536 | 2,091 | 68 |
| Sovereign | - | - | - | 64,263 | - | - | - | - |
| Bank | - | - | - | - | 43,401 | - | - | - |
| Residential mortgage | 466,859 | - | - | - | - | 104 | 327 | 24 |
| Qualifying revolving retail | - | 26,395 | - | - | - | - | - | - |
| Other retail | - | 12,994 | - | - | - | - | - | - |
| Specialised lending | - | - | 11 | - | - | 307 | 384 | 3,223 |
| Other assets | - | 3,277 | - | - | - | - | - | - |
| Central counterparties | - | - | - | - | - | 1,870 | - | - |
| **Total credit exposures** [1] | 466,859 | 44,009 | 8,331 | 64,263 | 43,401 | 17,953 | 17,418 | 12,248 |

| 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 | 11,900 | 5,863 | 1,930 | 10,370 | 10,565 | 15,105 | 17,599 | **98,969** |
| SME corporate | 2,567 | 76 | 1,881 | 5,456 | 1,255 | 538 | 11,969 | **42,201** |
| SME retail [2] | 739 | 32 | 1,325 | 2,389 | 466 | 2,750 | 8,490 | **23,138** |
| Sovereign | - | - | - | - | - | - | - | **64,263** |
| Bank | - | - | - | - | - | - | - | **43,401** |
| Residential mortgage | 166 | 1 | 275 | 626 | 79 | 1,265 | 656 | **470,382** |
| Qualifying revolving retail | - | - | - | - | - | - | - | **26,395** |
| Other retail | - | - | - | - | - | - | - | **12,994** |
| Specialised lending | 99 | 2,111 | 1,589 | 453 | 6,294 | 37,701 | 5,184 | **57,356** |
| Other assets | - | - | - | - | - | - | 6,888 | **10,165** |
| Central counterparties | - | - | - | - | - | - | - | **1,870** |
| **Total credit exposures** [1] | 15,471 | 8,083 | 7,000 | 19,294 | 18,659 | 57,359 | 50,786 | **851,134** |

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

**APS 330 Table 7d – Credit risk exposure by portfolio type and industry sector** (continued)

| | 31 December 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Industry Sector | | | | | | | |
| Portfolio Type | Residential mortgage $M | Other personal $M | Asset finance $M | Sovereign $M | Bank $M | Other finance $M | Agriculture $M | Mining $M |
| Corporate | - | - | 1,568 | - | - | 13,461 | 1,776 | 8,531 |
| SME corporate | - | 724 | 2,926 | - | - | 2,191 | 12,339 | 281 |
| SME retail | - | 861 | 3,339 | - | - | 271 | 1,764 | 38 |
| Sovereign | - | - | - | 67,365 | - | - | - | - |
| Bank | - | - | - | - | 43,384 | - | - | - |
| Residential mortgage (2) | 452,710 | - | - | - | - | 371 | 692 | 45 |
| Qualifying revolving retail | - | 22,954 | - | - | - | - | - | - |
| Other retail | - | 12,347 | - | - | - | - | - | - |
| Specialised lending | - | - | 5 | - | - | 353 | 274 | 3,824 |
| Other assets | - | 3,185 | - | - | - | - | - | - |
| Central counterparties | - | - | - | - | - | 1,564 | - | - |
| **Total credit exposures (1)** | 452,710 | 40,071 | 7,838 | 67,365 | 43,384 | 18,211 | 16,845 | 12,719 |

| | Industry Sector | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Portfolio Type | Manufacturing $M | Energy $M | Construction $M | Retail/ wholesale trade $M | Transport and storage $M | Property (3) $M | Other $M | Total $M |
| Corporate | 11,939 | 4,664 | 1,723 | 10,412 | 10,154 | 13,532 | 17,456 | 95,216 |
| SME corporate | 2,546 | 28 | 1,766 | 5,306 | 1,311 | 601 | 12,077 | 42,096 |
| SME retail | 426 | 15 | 632 | 1,159 | 223 | 1,660 | 3,248 | 13,636 |
| Sovereign | - | - | - | - | - | - | - | 67,365 |
| Bank | - | - | - | - | - | - | - | 43,384 |
| Residential mortgage (2) | 498 | 17 | 1,053 | 1,774 | 362 | 1,749 | 4,848 | 464,119 |
| Qualifying revolving retail | - | - | - | - | - | - | - | 22,954 |
| Other retail | - | - | - | - | - | - | - | 12,347 |
| Specialised lending | 172 | 2,087 | 1,505 | 269 | 6,745 | 36,677 | 4,794 | 56,705 |
| Other assets | - | - | - | - | - | - | 7,094 | 10,279 |
| Central counterparties | - | - | - | - | - | - | - | 1,564 |
| **Total credit exposures (1)** | 15,581 | 6,811 | 6,679 | 18,920 | 18,795 | 54,219 | 49,517 | 829,665 |

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

**APS 330 Table 7d – Credit risk exposure by portfolio type and industry sector** (continued)

| Portfolio Type | Residential mortgage $M | Other personal $M | Asset finance $M | Sovereign $M | Bank $M | Other finance $M | Agriculture $M | Mining $M |
|---|---|---|---|---|---|---|---|---|
| | **30 June 2013** | | | | | | | |
| | **Industry Sector** | | | | | | | |
| Corporate | - | - | 1,666 | - | - | 12,879 | 2,080 | 8,701 |
| SME corporate | - | - | 3,324 | - | - | 2,274 | 13,126 | 373 |
| SME retail | - | - | 3,082 | - | - | 334 | 1,746 | 38 |
| Sovereign | - | - | - | 57,490 | - | - | - | - |
| Bank | - | - | - | - | 43,189 | - | - | - |
| Residential mortgage [(2)] | 434,775 | - | - | - | - | 240 | 256 | 13 |
| Qualifying revolving retail | - | 22,504 | - | - | - | - | - | - |
| Other retail | - | 11,433 | - | - | - | - | - | - |
| Specialised lending | - | - | 2 | - | - | 543 | 134 | 2,118 |
| Other assets | - | 3,269 | - | - | - | - | - | - |
| **Total credit exposures** [(1)] | 434,775 | 37,206 | 8,074 | 57,490 | 43,189 | 16,270 | 17,342 | 11,243 |

| 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 | 10,753 | 5,834 | 1,891 | 9,964 | 11,955 | 8,797 | 17,897 | 92,417 |
| SME corporate | 2,980 | 76 | 2,351 | 6,854 | 1,542 | 211 | 15,088 | 48,199 |
| SME retail | 433 | 18 | 730 | 1,228 | 230 | 1,273 | 4,473 | 13,585 |
| Sovereign | - | - | - | - | - | - | - | 57,490 |
| Bank | - | - | - | - | - | - | - | 43,189 |
| Residential mortgage [(2)] | 230 | 15 | 540 | 810 | 195 | 217 | 3,582 | 440,873 |
| Qualifying revolving retail | - | - | - | - | - | - | - | 22,504 |
| Other retail | - | - | - | - | - | - | - | 11,433 |
| Specialised lending | 328 | 1,246 | 1,856 | 260 | 4,873 | 43,254 | 2,406 | 57,020 |
| Other assets | - | - | - | - | - | - | 6,077 | 9,346 |
| **Total credit exposures** [(1)] | 14,724 | 7,189 | 7,368 | 19,116 | 18,795 | 53,752 | 49,523 | 796,056 |

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

## APS 330 Table 7e – Credit risk exposure by portfolio type and contractual maturity

| | 30 June 2014 | | | | |
|---|---|---|---|---|---|
| | ≤ 12mths | 1 ≤ 5yrs | > 5 years | No specified maturity | Total |
| **Portfolio Type** | $M | $M | $M | $M | $M |
| Corporate | 13,416 | 79,203 | 4,714 | 1,636 | **98,969** |
| SME corporate | 7,010 | 26,228 | 8,815 | 148 | **42,201** |
| SME retail (1) | 4,485 | 10,713 | 7,940 | - | **23,138** |
| Sovereign | 24,847 | 22,752 | 16,408 | 256 | **64,263** |
| Bank | 19,647 | 23,149 | 131 | 474 | **43,401** |
| Residential mortgage | 15,729 | 10,874 | 387,802 | 55,977 | **470,382** |
| Qualifying revolving retail | - | - | - | 26,395 | **26,395** |
| Other retail | 55 | 4,539 | 3,612 | 4,788 | **12,994** |
| Specialised lending | 14,600 | 38,123 | 4,633 | - | **57,356** |
| Other assets | 3,287 | 345 | 637 | 5,896 | **10,165** |
| Central counterparties | 611 | 1,196 | 63 | - | **1,870** |
| **Total credit exposures** (2) | 103,687 | 217,122 | 434,755 | 95,570 | **851,134** |

| | 31 December 2013 | | | | |
|---|---|---|---|---|---|
| | ≤ 12mths | 1 ≤ 5yrs | > 5 years | No specified maturity | Total |
| **Portfolio Type** | $M | $M | $M | $M | $M |
| Corporate | 13,852 | 75,565 | 4,211 | 1,588 | 95,216 |
| SME corporate | 6,863 | 26,314 | 8,596 | 323 | 42,096 |
| SME retail | 1,945 | 7,801 | 3,741 | 149 | 13,636 |
| Sovereign | 25,643 | 23,685 | 17,798 | 239 | 67,365 |
| Bank | 17,759 | 25,003 | 35 | 587 | 43,384 |
| Residential mortgage (1) | 14,619 | 10,286 | 383,396 | 55,818 | 464,119 |
| Qualifying revolving retail | - | - | - | 22,954 | 22,954 |
| Other retail | 134 | 4,338 | 3,419 | 4,456 | 12,347 |
| Specialised lending | 13,983 | 38,207 | 4,515 | - | 56,705 |
| Other assets | 3,248 | 745 | 710 | 5,576 | 10,279 |
| Central counterparties | 614 | 930 | 20 | - | 1,564 |
| **Total credit exposures** (2) | 98,660 | 212,874 | 426,441 | 91,690 | 829,665 |

| | 30 June 2013 | | | | |
|---|---|---|---|---|---|
| | ≤ 12mths | 1 ≤ 5yrs | > 5 years | No specified maturity | Total |
| **Portfolio Type** | $M | $M | $M | $M | $M |
| Corporate | 11,966 | 74,583 | 4,515 | 1,353 | 92,417 |
| SME corporate | 9,274 | 32,594 | 6,331 | - | 48,199 |
| SME retail | 2,049 | 7,396 | 3,976 | 164 | 13,585 |
| Sovereign | 15,555 | 21,989 | 19,416 | 530 | 57,490 |
| Bank | 13,130 | 29,093 | 522 | 444 | 43,189 |
| Residential mortgage (1) | 13,497 | 5,835 | 363,962 | 57,579 | 440,873 |
| Qualifying revolving retail | - | - | - | 22,504 | 22,504 |
| Other retail | 129 | 4,198 | 3,236 | 3,870 | 11,433 |
| Specialised lending | 17,580 | 34,875 | 4,565 | - | 57,020 |
| Other assets | 3,333 | 726 | 600 | 4,687 | 9,346 |
| **Total credit exposures** (2) | 86,513 | 211,289 | 407,123 | 91,131 | 796,056 |

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

## 7.2. 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" 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. Any shortfall of the Group's provisions eligible for inclusion in the GRCL are deducted from CET1 on an after tax basis.

APRA Prudential Standard APS 111 "Capital Adequacy: Measurement of Capital" requires the Group to reduce CET1 when the amount of regulatory expected losses is in excess of APRA defined eligible provisions.

### 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

All provisions for impairment assessed on an individual basis in accordance with the Australian Accounting Standards are classified as specific provisions in accordance with APS 220 "Credit Quality". Most of the collective provisions raised under the Australian Accounting Standards are included in the 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 7j – General reserve for credit losses**

| | 30 June 2014 | | |
|---|---|---|---|
| | General reserve for credit losses [1] | Specific provision [1] | Total provisions |
| | $M | $M | $M |
| Collective provision [2] | 2,614 | 165 | **2,779** |
| Individual provisions [2] | - | 1,127 | **1,127** |
| **Total provisions** | 2,614 | 1,292 | **3,906** |
| Additional GRCL requirement [3] | 305 | - | **305** |
| **Total regulatory provisions** | 2,919 | 1,292 | **4,211** |

(1) Provisions classified according to APS 220 "Credit Quality".
(2) Provisions as reported in financial accounts according to the Australian Accounting Standards.
(3) The Group has recognised an after tax deduction from CET1 of $214 million in order to maintain the required minimum GRCL.

| | 31 December 2013 | | |
|---|---|---|---|
| | General reserve for credit losses [1] | Specific provision [1] | Total provisions |
| | $M | $M | $M |
| Collective provision [2] | 2,722 | 148 | 2,870 |
| Individual provisions [2] | - | 1,416 | 1,416 |
| **Total provisions** | 2,722 | 1,564 | 4,286 |
| Additional GRCL requirement [3] | 283 | - | 283 |
| **Total regulatory provisions** | 3,005 | 1,564 | 4,569 |

(1) Provisions classified according to APS 220 "Credit Quality".
(2) Provisions as reported in financial accounts according to the Australian Accounting Standards.
(3) The Group has recognised an after tax deduction from CET1 of $198 million in order to maintain the required minimum GRCL.

| | 30 June 2013 | | |
|---|---|---|---|
| | General reserve for credit losses [1] | Specific provision [1] | Total provisions |
| | $M | $M | $M |
| Collective provision [2] | 2,699 | 159 | 2,858 |
| Individual provisions [2] | - | 1,628 | 1,628 |
| **Total provisions** | 2,699 | 1,787 | 4,486 |
| Additional GRCL requirement [3] | 297 | - | 297 |
| **Total regulatory provisions** | 2,996 | 1,787 | 4,783 |

(1) Provisions classified according to APS 220 "Credit Quality".
(2) Provisions as reported in financial accounts according to the Australian Accounting Standards.
(3) The Group has recognised an after tax deduction from CET1 of $208 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 7f (i) – Impaired, past due, specific provisions and write-offs charged by industry sector

| | 30 June 2014 | | | | |
|---|---|---|---|---|---|
| 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 | 898 | 1,620 | 186 | 69 | 121 |
| Other personal | 272 | 32 | 153 | (1) | 593 |
| Asset finance | 87 | 1 | 32 | 44 | 32 |
| Sovereign | - | - | - | - | - |
| Bank | 10 | - | 10 | (2) | 11 |
| Other finance | 97 | 33 | 73 | (31) | 102 |
| Agriculture | 408 | 87 | 126 | 65 | 138 |
| Mining | 150 | 8 | 29 | 37 | 9 |
| Manufacturing | 173 | 42 | 115 | 102 | 29 |
| Energy | 17 | 1 | 6 | (16) | 6 |
| Construction | 51 | 58 | 30 | (3) | 52 |
| Wholesale/retail trade | 120 | 96 | 67 | 28 | 86 |
| Transport and storage | 72 | 16 | 8 | 31 | 24 |
| Property | 373 | 127 | 213 | 7 | 256 |
| Other | 639 | 232 | 244 | 91 | 189 |
| **Total** | 3,367 | 2,353 | 1,292 | 421 | 1,648 |

(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 2014.

| | 31 December 2013 | | | | |
|---|---|---|---|---|---|
| Industry Sector | Impaired assets $M | Past due loans ≥ 90 days $M | Specific provision balance (1) $M | Net half year charges for individual provisions $M | Half year actual losses (2) $M |
| Home loans | 1,065 | 1,608 | 213 | 41 | 57 |
| Other personal | 245 | 31 | 137 | - | 294 |
| Asset finance | 79 | 3 | 42 | 33 | 12 |
| Sovereign | - | - | - | - | - |
| Bank | 15 | - | 13 | - | 10 |
| Other finance | 228 | 50 | 193 | 5 | 16 |
| Agriculture | 544 | 125 | 164 | 12 | 39 |
| Mining | 125 | 5 | 5 | 12 | 9 |
| Manufacturing | 68 | 52 | 58 | 30 | 12 |
| Energy | 18 | 1 | 7 | (16) | 6 |
| Construction | 68 | 91 | 40 | (6) | 37 |
| Wholesale/retail trade | 125 | 149 | 71 | 16 | 67 |
| Transport and storage | 23 | 21 | 11 | 9 | (1) |
| Property | 550 | 169 | 340 | 7 | 110 |
| Other | 786 | 307 | 270 | 36 | 89 |
| **Total** | 3,939 | 2,612 | 1,564 | 179 | 757 |

(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 2013.

**APS 330 Table 7f (i) – Impaired, past due, specific provisions and write-offs charged by industry sector** (continued)

| | 30 June 2013 | | | | |
|---|---|---|---|---|---|
| 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 | 1,117 | 1,760 | 225 | 124 | 233 |
| Other personal | 264 | 25 | 145 | 3 | 526 |
| Asset finance | 62 | 3 | 25 | 34 | 19 |
| Sovereign | - | - | - | - | - |
| Bank | 25 | - | 23 | (10) | 18 |
| Other finance | 356 | 15 | 199 | 66 | 62 |
| Agriculture | 543 | 66 | 184 | 86 | 34 |
| Mining | 10 | 4 | 2 | - | 1 |
| Manufacturing | 65 | 16 | 43 | (1) | 85 |
| Energy | 70 | 1 | 33 | 1 | - |
| Construction | 120 | 34 | 89 | 56 | 139 |
| Wholesale/retail trade | 282 | 53 | 109 | 67 | 42 |
| Transport and storage | 27 | 11 | 11 | 8 | 2 |
| Property | 677 | 71 | 400 | 73 | 380 |
| Other | 712 | 156 | 299 | 80 | 194 |
| **Total** | 4,330 | 2,215 | 1,787 | 587 | 1,735 |

(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 2013.

**APS 330 Table 7f (ii) – Impaired, past due, specific provisions and write-offs charged by portfolio**

| | 30 June 2014 | | | | |
|---|---|---|---|---|---|
| Portfolio | Impaired assets $M | Past due loans ≥ 90 days $M | Specific provision balance (1) $M | Net full year charges for individual provisions $M | Full year actual losses (2) $M |
| Corporate including SME and specialised lending | 2,187 | 701 | 943 | 355 | 923 |
| Sovereign | - | - | - | - | - |
| Bank | 10 | - | 10 | (2) | 11 |
| Residential mortgage | 898 | 1,620 | 186 | 69 | 121 |
| Qualifying revolving retail | 109 | - | 56 | - | 271 |
| Other retail | 163 | 32 | 97 | (1) | 322 |
| **Total** | 3,367 | 2,353 | 1,292 | 421 | 1,648 |

(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 2014.

| | 31 December 2013 | | | | |
|---|---|---|---|---|---|
| Portfolio | Impaired assets $M | Past due loans ≥ 90 days $M | Specific provision balance (1) $M | Net half year charges for individual provisions $M | Half year actual losses (2) $M |
| Corporate including SME and specialised lending | 2,614 | 973 | 1,201 | 138 | 396 |
| Sovereign | - | - | - | - | - |
| Bank | 15 | - | 13 | - | 10 |
| Residential mortgage | 1,065 | 1,608 | 213 | 41 | 57 |
| Qualifying revolving retail | 100 | - | 51 | - | 138 |
| Other retail | 145 | 31 | 86 | - | 156 |
| **Total** | 3,939 | 2,612 | 1,564 | 179 | 757 |

(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 2013.

| | 30 June 2013 | | | | |
|---|---|---|---|---|---|
| Portfolio | Impaired assets $M | Past due loans ≥ 90 days $M | Specific provision balance (1) $M | Net full year charges for individual provisions $M | Full year actual losses (2) $M |
| Corporate including SME and specialised lending | 2,924 | 430 | 1,394 | 470 | 958 |
| Sovereign | - | - | - | - | - |
| Bank | 25 | - | 23 | (10) | 18 |
| Residential mortgage | 1,117 | 1,760 | 225 | 124 | 233 |
| Qualifying revolving retail | 110 | - | 56 | - | 260 |
| Other retail | 154 | 25 | 89 | 3 | 266 |
| **Total** | 4,330 | 2,215 | 1,787 | 587 | 1,735 |

(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 2013.

## APS 330 Table 7g (i) – Impaired, past due and specific provisions by geographic region

| | 30 June 2014 | | |
|---|---|---|---|
| | Impaired assets | Past due loans ≥ 90 days | Specific provision balance |
| Geographic Region (1) | $M | $M | $M |
| Australia | 2,731 | 2,233 | 1,172 |
| New Zealand | 436 | 108 | 72 |
| Other | 200 | 12 | 48 |
| **Total** | 3,367 | 2,353 | 1,292 |

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

| | 31 December 2013 | | |
|---|---|---|---|
| | Impaired assets | Past due loans ≥ 90 days | Specific provision balance |
| Geographic Region (1) | $M | $M | $M |
| Australia | 3,227 | 2,498 | 1,478 |
| New Zealand | 469 | 103 | 47 |
| Other | 243 | 11 | 39 |
| **Total** | 3,939 | 2,612 | 1,564 |

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

| | 30 June 2013 | | |
|---|---|---|---|
| | Impaired assets | Past due loans ≥ 90 days | Specific provision balance |
| Geographic Region (1) | $M | $M | $M |
| Australia | 3,879 | 2,093 | 1,688 |
| New Zealand | 355 | 111 | 54 |
| Other | 96 | 11 | 45 |
| **Total** | 4,330 | 2,215 | 1,787 |

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

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

## APS 330 Table 7g (ii) – GRCL by geographic region

| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 |
|---|---|---|---|
| Geographic Region | $M | $M | $M |
| Australia | **2,632** | 2,679 | 2,694 |
| New Zealand | **156** | 160 | 158 |
| Other | **131** | 166 | 144 |
| **Total GRCL** | **2,919** | 3,005 | 2,996 |

### APS 330 Table 7h (i) – Movement in collective and other provisions

| | Half Year Ended | | |
|---|---|---|---|
| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 |
| **Movement in Collective Provisions** | $M | $M | $M |
| Opening balance | **2,870** | 2,858 | 2,858 |
| Net charge against profit and loss | **219** | 278 | 260 |
| Recoveries | **74** | 91 | 80 |
| Other | **-** | 12 | 6 |
| Write-offs | **(384)** | (369) | (346) |
| **Total collective provisions** | **2,779** | 2,870 | 2,858 |
| Less collective provisions transferred to specific provisions | **(165)** | (148) | (159) |
| Additional GRCL requirement (1) | **305** | 283 | 297 |
| **General reserve for credit losses** | **2,919** | 3,005 | 2,996 |

(1) The Group has recognised an after tax deduction from CET1 of $214 million for 30 June 2014 (31 December 2013: $198 million; 30 June 2013: $208 million) in order to maintain the required minimum GRCL.

### APS 330 Table 7h (ii) – Movement in individual provisions

| | Half Year Ended | | |
|---|---|---|---|
| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 |
| **Movement in Individual Provisions** | $M | $M | $M |
| Opening balance for the period | **1,416** | 1,628 | 1,845 |
| Net new and increased provisioning | **390** | 336 | 416 |
| Net write back of provisions no longer required | **(148)** | (157) | (210) |
| Discount unwind to interest income | **(21)** | (30) | (39) |
| Other | **71** | 118 | 149 |
| Write-offs | **(581)** | (479) | (533) |
| **Individual provisions** | **1,127** | 1,416 | 1,628 |
| Add collective provisions transferred to specific provisions | **165** | 148 | 159 |
| **Specific provisions** | **1,292** | 1,564 | 1,787 |

### 7.3 Portfolios Subject to Standardised and Supervisory Risk-Weights

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

The Standardised approach is also 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.

Portfolios that use the Standardised approach 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 and Vietnam).

Bankwest Division:

- Non-retail asset classes;
- Some residential mortgages (equity lines of credit); and
- Unsecured consumer retail (personal loans, credit cards and personal cheque amounts).

ASB Bank Limited:

- Personal Loans and Retail SME.

All exposures in the following entities:

- CommBank Europe Limited;
- PT Bank Commonwealth (Indonesia); and
- China County Banks.

From 31 December 2013, APRA revoked the use of the AIRB approach for Bankwest non-retail portfolios. APRA's decision was due to Bankwest not fully complying with agreed post-accreditation requirements. This reclassification had a minimal impact on the Group's capital. The Group will reapply for AIRB treatment of Bankwest's non-retail portfolios in the 2015 calendar year.

The Group continues to review other portfolios that use the Standardised approach. 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 approaches.

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)).

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.

## APS 330 Table 8b – Exposures subject to standardised and supervisory risk-weights

| Standardised Approach Exposures | Exposure After Risk Mitigation [1] | | |
|---|---|---|---|
| | 30 Jun 14 | 31 Dec 13 [2] | 30 Jun 13 |
| | $M | $M | $M |
| **Risk weight** | | | |
| 0% | **2,284** | 2,797 | 2,759 |
| 20% | **4,948** | 4,030 | 4,280 |
| 35% | **3,463** | 3,154 | 2,453 |
| 50% | **3,208** | 3,207 | 3,549 |
| 75% | **317** | 327 | 297 |
| 100% | **29,560** | 30,452 | 14,164 |
| 150% | **416** | 372 | 255 |
| > 150% | **-** | - | - |
| Capital deductions | **-** | - | - |
| **Total** | **44,196** | 44,339 | 27,757 |

(1) Exposure after credit risk mitigation does not include equity or securitisation exposures.
(2) Includes reclassification of Bankwest non-retail AIRB portfolio to Standardised as at 31 December 2013.

| Other Assets [1] | 30 June 2014 | | |
|---|---|---|---|
| | Exposure | Risk weight | RWA |
| | $M | % | $M |
| Cash | 2,209 | - | - |
| Cash items in course of collection | 1,400 | 20 | 280 |
| Margin lending | 3,277 | 20 | 655 |
| Fixed and forward purchased assets | 1,309 | 100 | 1,309 |
| Other | 1,970 | ≥100 | 1,970 |
| **Total** | 10,165 | 41 | 4,214 |

| Other Assets [1] | 31 December 2013 | | |
|---|---|---|---|
| | Exposure | Risk weight | RWA |
| | $M | % | $M |
| Cash | 2,772 | - | - |
| Cash items in course of collection | 477 | 20 | 95 |
| Margin lending | 3,185 | 20 | 637 |
| Fixed and forward purchased assets | 1,358 | 100 | 1,358 |
| Other | 2,487 | ≥100 | 2,496 |
| **Total** | 10,279 | 45 | 4,586 |

| Other Assets [1] | 30 June 2013 | | |
|---|---|---|---|
| | Exposure | Risk weight | RWA |
| | $M | % | $M |
| Cash | 1,772 | - | - |
| Cash items in course of collection | 705 | 20 | 141 |
| Margin lending | 3,269 | 20 | 654 |
| Fixed and forward purchased assets | 1,474 | 100 | 1,474 |
| Other | 2,126 | ≥100 | 2,126 |
| **Total** | 9,346 | 47 | 4,395 |

(1) Other Assets are included in Standardised Approach Exposures Table 8b above.

| Specialised Lending Exposures Subject to Supervisory Slotting | 30 Jun 14 $M | 31 Dec 13 $M | 30 Jun 13 $M |
|---|---|---|---|
| **Risk Weight** | | | |
| 0% | **620** | 586 | 1,349 |
| 70% | **22,548** | 23,278 | 17,117 |
| 90% | **27,883** | 25,745 | 28,528 |
| 115% | **5,708** | 6,437 | 9,133 |
| 250% | **597** | 659 | 893 |
| **Total exposures** | **57,356** | 56,705 | 57,020 |

### 7.4 Portfolios Subject to Internal Ratings Based Approaches

The Group, with the exception of Bankwest non-retail portfolios and some other relatively small portfolios, is accredited to use 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 estimates, 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 Measurement

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

PD 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. EAD and LGD estimates are based on downturn economic conditions.

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 9c below.

PD estimates are based on a long-run average default rate for the Group’s historical data. Application scores and account performance criteria are used to define retail risk pools. 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. PD 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 an undrawn amount that is expected to convert to drawn in the period leading up to default. For most committed facilities, the Group applies a credit conversion factor of 100% to the undrawn amount.

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

#### Loss Given Default

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

LGD is estimated as the net present value of the post default loss, 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.

Long-run LGD is used for Economic Capital purposes and is based on averages over an economic cycle.

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 9c – 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) and Expert Judgement 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 prescribed by APRA's 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 Regulatory EL is determined using 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 is not to exceed. 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 III Framework using a 99.9% probability that UL will not be exceeded.

### Economic Capital

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 long-run LGD is used in the economic capital model rather than the downturn LGD which is used for regulatory capital purposes.

The Group primarily evaluates risk-adjusted 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-based-pricing performance framework; ensuring the Group generates appropriate economic returns through its risk-pricing framework at both: (i) a transactional level where long-run 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 Ratings System

The Credit Risk Rating (CRR) is assigned by reference to a matrix that maps the PD and long-run LGD to a number commensurate with EL.

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

The Group's credit risk estimates are subject to annual review in accordance with a Risk Committee approved Model Policy to ensure independent validation and testing of assigned risk estimates.

### 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 exposures. 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.

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.

Obligors that are risk-rated have their PD rating assigned via expert judgement and 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 PD Tools, the ratings assigned by an external rating agency, benchmark rating criteria, management capability and integrity, 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 predict the rating outcome 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 PD rating is determined.

The PD rating reflects the estimated 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 (continued)

PD ratings fall within the following major 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 weak or doubtful.

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 prepares 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 Group in full, without the Group taking action such as realising on 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 master scale which allocates probabilities of default to each PD grade. PD Rating Tools are used to form a benchmark in 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 9b (page 37).

#### *ii) Retail Managed Segment*

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

The Group has been using scorecards to "auto-decision" loan applications for over 19 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.

Customers with similar characteristics, products and subject to the same origination process are allocated the same PD.

Portfolios in the Retail Managed Segment 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 Risk Management support unit.

Commercial lending up to $3 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 considered impaired at 90 days past due and are generally written off once they reach 180 days past due (unless arrangements have been made between the borrower and the Group).

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, 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 ratio exceeds 140%. An LGD rating of F applies where the security cover is less than 40%. An LGD rating of C reflects a security cover ratio 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 "LGD" 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.

**LGD Ratings** (continued)

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 in further detail in section 7.5 "Credit Risk Mitigation" (page 47).

**APS 330 Table 9b – Internal ratings structure for credit risk exposures**

| Description | Internal Rating | Probability of Default |
|---|---|---|
| Exceptional | A0, A1, A2, A3 | 0% - 0.038% |
| Strong | B1, B2, B3, C1, C2, C3 | >0.038% - 0.453% |
| Pass | D1, D2, D3, E1, E2, E3 | >0.453% - 5.924% |
| Weak/ doubtful | F1, F2, F3, G1, G2, G3 | >5.924% |
| Restructured/ default | R, H | 21.22%, 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 |
| Restructured/ default | D | C |

## APS 330 Table 9d (i) – Non-Retail exposures by portfolio type and PD band

| | 30 June 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $M |
| **Total credit risk exposures** | | | | | | | | |
| Corporate | - | 29,309 | 37,841 | 19,350 | 195 | 576 | 633 | **87,904** |
| SME corporate | - | 549 | 3,374 | 29,754 | 1,785 | 967 | 967 | **37,396** |
| SME retail | - | - | 2,973 | 10,610 | 3,675 | 419 | 263 | **17,940** |
| Sovereign | 57,793 | 4,815 | 938 | 459 | - | - | - | **64,005** |
| Bank | - | 40,050 | 2,200 | 510 | - | - | 125 | **42,885** |
| **Total** | 57,793 | 74,723 | 47,326 | 60,683 | 5,655 | 1,962 | 1,988 | **250,130** |
| **Undrawn commitments** [2] | | | | | | | | |
| Corporate | - | 13,680 | 16,284 | 6,248 | 55 | 98 | 30 | **36,395** |
| SME corporate | - | 133 | 756 | 4,471 | 178 | 113 | 53 | **5,704** |
| SME retail | - | - | 1,217 | 2,863 | 450 | 16 | 13 | **4,559** |
| Sovereign | 932 | 208 | 314 | 71 | - | - | - | **1,525** |
| Bank | - | 4,455 | 692 | 428 | - | - | - | **5,575** |
| **Total** | 932 | 18,476 | 19,263 | 14,081 | 683 | 227 | 96 | **53,758** |
| **Exposure - weighted average EAD ($M)** | | | | | | | | |
| Corporate | - | 2.294 | 2.061 | 0.605 | 0.649 | 0.383 | 1.501 | **1.800** |
| SME corporate | - | 0.312 | 0.195 | 0.187 | 0.199 | 0.197 | 0.253 | **0.192** |
| SME retail | - | - | 0.011 | 0.025 | 0.022 | 0.024 | 0.041 | **0.022** |
| Sovereign | 7.415 | 4.777 | 0.127 | 0.002 | - | - | - | **7.057** |
| Bank | - | 7.878 | 3.812 | 1.338 | 0.027 | - | 31.156 | **7.659** |
| **Exposure - weighted average LGD (%)** | | | | | | | | |
| Corporate | - | 57.0 | 56.0 | 47.2 | 41.8 | 46.2 | 50.7 | **54.3** |
| SME corporate | - | 56.8 | 32.8 | 30.6 | 29.1 | 35.8 | 34.3 | **31.4** |
| SME retail | - | - | 31.9 | 33.5 | 32.2 | 40.9 | 36.4 | **33.2** |
| Sovereign | 27.4 | 57.7 | 56.4 | 57.7 | 58.9 | 58.9 | - | **30.3** |
| Bank | - | 60.6 | 60.6 | 59.0 | 29.1 | - | 61.3 | **60.6** |
| **Exposure - weighted average risk weight (%)** | | | | | | | | |
| Corporate | - | 25.9 | 62.2 | 83.0 | 147.3 | 228.1 | 43.4 | **55.8** |
| SME corporate | - | 21.2 | 35.5 | 54.5 | 75.0 | 150.3 | 223.2 | **60.1** |
| SME retail | - | - | 16.9 | 41.8 | 66.7 | 107.4 | 372.8 | **49.2** |
| Sovereign | 6.8 | 10.6 | 49.3 | 93.5 | 167.4 | 252.0 | - | **8.3** |
| Bank | - | 21.3 | 54.1 | 82.6 | 82.6 | - | - | **23.6** |

(1) Excludes Bankwest non-retail portfolios which have been reclassified to standardised.
(2) The credit exposure value of undrawn commitments is included in total credit risk exposures above.

## APS 330 Table 9d (i) – Non-Retail exposures by portfolio type and PD band (continued)

| | 31 December 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $M |
| **Total credit risk exposure** | | | | | | | | |
| Corporate | - | 27,136 | 36,564 | 18,612 | 308 | 707 | 630 | 83,957 |
| SME corporate | - | 671 | 2,984 | 29,457 | 1,767 | 1,031 | 897 | 36,807 |
| SME retail | - | - | 1,313 | 5,440 | 1,572 | 549 | 159 | 9,033 |
| Sovereign | 63,832 | 904 | 608 | 1,767 | 9 | 5 | - | 67,125 |
| Bank | - | 39,749 | 2,231 | 600 | - | - | 159 | 42,739 |
| **Total** | 63,832 | 68,460 | 43,700 | 55,876 | 3,656 | 2,292 | 1,845 | 239,661 |
| **Undrawn commitments** [2] | | | | | | | | |
| Corporate | - | 11,884 | 16,404 | 5,530 | 143 | 103 | 35 | 34,099 |
| SME corporate | - | 84 | 691 | 4,242 | 182 | 90 | 25 | 5,314 |
| SME retail | - | - | 727 | 827 | 223 | 29 | 11 | 1,817 |
| Sovereign | 1,076 | 92 | 416 | 1,390 | 9 | 5 | - | 2,988 |
| Bank | - | 4,088 | 766 | 577 | - | - | - | 5,431 |
| **Total** | 1,076 | 16,148 | 19,004 | 12,566 | 557 | 227 | 71 | 49,649 |
| **Exposure - weighted average EAD ($M)** | | | | | | | | |
| Corporate | - | 2.266 | 2.037 | 0.229 | 0.792 | 0.348 | 2.188 | 1.693 |
| SME corporate | - | 0.403 | 0.190 | 0.125 | 0.195 | 0.270 | 0.119 | 0.143 |
| SME retail | - | - | 0.010 | 0.015 | 0.018 | 0.034 | 0.106 | 0.018 |
| Sovereign | 7.541 | 1.272 | 0.178 | 0.016 | 0.030 | 0.042 | - | 7.190 |
| Bank | - | 12.964 | 4.071 | 1.184 | - | - | 19.913 | 12.360 |
| **Exposure - weighted average LGD (%)** | | | | | | | | |
| Corporate | - | 57.3 | 56.0 | 47.6 | 51.5 | 48.9 | 51.2 | 54.4 |
| SME corporate | - | 60.7 | 30.5 | 31.4 | 28.9 | 36.3 | 35.5 | 32.0 |
| SME retail | - | - | 34.1 | 41.9 | 30.8 | 38.0 | 42.1 | 38.6 |
| Sovereign | 25.2 | 41.7 | 44.5 | 18.9 | 5.0 | 5.1 | - | 25.4 |
| Bank | - | 61.2 | 60.5 | 61.1 | - | - | 61.3 | 61.2 |
| **Exposure - weighted average risk weight (%)** | | | | | | | | |
| Corporate | - | 27.0 | 61.7 | 85.7 | 145.6 | 239.0 | 63.3 | 57.6 |
| SME corporate | - | 21.9 | 32.5 | 56.9 | 72.2 | 150.7 | 244.8 | 62.2 |
| SME retail | - | - | 18.0 | 49.2 | 44.1 | 77.5 | 427.7 | 52.2 |
| Sovereign | 4.7 | 19.1 | 36.3 | 34.6 | 15.6 | 24.3 | - | 6.0 |
| Bank | - | 20.7 | 59.7 | 88.0 | - | - | - | 23.6 |

(1) Excludes Bankwest non-retail portfolios which have been reclassified to standardised.
(2) The credit exposure value of undrawn commitments is included in total credit risk exposures above.

## APS 330 Table 9d (i) – Non-Retail exposures by portfolio type and PD band (continued)

| | 30 June 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | PD Grade | | | | | | | |
| | 0 < 0.03% | 0.03% < 0.15% | 0.15% < 0.5% | 0.5% < 3% | 3% < 10% | 10% < 100% | Default | Total |
| **Non Retail** | $M | $M | $M | $M | $M | $M | $M | $M |
| **Total credit risk exposure** | | | | | | | | |
| Corporate | - | 29,346 | 35,293 | 21,471 | 297 | 1,025 | 1,107 | 88,539 |
| SME corporate | - | 563 | 3,658 | 36,892 | 2,643 | 1,933 | 1,968 | 47,657 |
| SME retail | - | - | 965 | 5,008 | 1,453 | 423 | 237 | 8,086 |
| Sovereign | 54,016 | 886 | 670 | 1,368 | 14 | 6 | 0 | 56,960 |
| Bank | - | 40,292 | 1,741 | 569 | 0 | - | 159 | 42,761 |
| **Total** | 54,016 | 71,087 | 42,327 | 65,308 | 4,407 | 3,387 | 3,471 | 244,003 |
| **Undrawn commitments** (1) | | | | | | | | |
| Corporate | - | 12,386 | 15,944 | 6,677 | 81 | 174 | 109 | 35,371 |
| SME corporate | - | 76 | 863 | 5,203 | 232 | 157 | 74 | 6,605 |
| SME retail | - | - | 536 | 737 | 207 | 19 | 10 | 1,509 |
| Sovereign | 1,053 | 148 | 463 | 1,257 | 13 | 6 | - | 2,940 |
| Bank | - | 3,021 | 478 | 426 | - | - | - | 3,925 |
| **Total** | 1,053 | 15,631 | 18,284 | 14,300 | 533 | 356 | 193 | 50,350 |
| **Exposure - weighted average EAD ($M)** | | | | | | | | |
| Corporate | - | 13. 748 | 2. 007 | 0. 253 | 0. 570 | 0. 855 | 1. 841 | 9. 453 |
| SME corporate | - | 0. 368 | 0. 218 | 0. 131 | 0. 177 | 0. 258 | 0. 221 | 0. 152 |
| SME retail | - | - | 0. 007 | 0. 014 | 0. 015 | 0. 029 | 0. 114 | 0. 017 |
| Sovereign | 8. 328 | 1. 059 | 0. 181 | 0. 048 | 0. 032 | 0. 049 | 0. 000 | 7. 917 |
| Bank | - | 5. 324 | 1. 729 | 0. 160 | - | - | 26. 545 | 5. 188 |
| **Exposure - weighted average LGD (%)** | | | | | | | | |
| Corporate | - | 56. 6 | 55. 6 | 48. 3 | 40. 7 | 52. 6 | 50. 6 | 54. 0 |
| SME corporate | - | 58. 4 | 31. 0 | 31. 1 | 28. 6 | 33. 6 | 35. 1 | 31. 6 |
| SME retail | - | - | 34. 8 | 42. 3 | 30. 5 | 42. 3 | 36. 0 | 39. 1 |
| Sovereign | 23. 1 | 35. 5 | 45. 6 | 10. 2 | 7. 3 | 5. 1 | - | 23. 3 |
| Bank | - | 61. 2 | 60. 3 | 61. 1 | - | - | 61. 3 | 61. 2 |
| **Exposure - weighted average risk weight (%)** | | | | | | | | |
| Corporate | - | 27. 6 | 61. 6 | 88. 2 | 121. 9 | 250. 1 | 159. 3 | 60. 4 |
| SME corporate | - | 21. 0 | 31. 9 | 55. 4 | 71. 5 | 137. 2 | 236. 4 | 64. 7 |
| SME retail | - | - | 18. 4 | 50. 6 | 43. 5 | 85. 9 | 210. 9 | 52. 0 |
| Sovereign | 5. 4 | 19. 4 | 35. 6 | 26. 1 | 22. 5 | 24. 0 | - | 6. 5 |
| Bank | - | 21. 8 | 60. 1 | 88. 3 | - | - | - | 24. 2 |

(1) The credit exposure value of undrawn commitments is included in total credit risk exposures above.

## APS 330 Table 9d (ii) – Retail exposures by portfolio type and PD band

| | 30 June 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $M |
| **Total credit risk exposures** | | | | | | | | |
| Residential mortgage | 135,273 | 116,858 | 76,923 | 115,337 | 4,894 | 8,633 | 2,870 | **460,788** |
| Qualifying revolving retail | 13,415 | 9 | 3,608 | 5,514 | 3,087 | 609 | 153 | **26,395** |
| Other retail | 63 | 48 | 265 | 7,657 | 1,574 | 641 | 118 | **10,366** |
| **Total** | 148,751 | 116,915 | 80,796 | 128,508 | 9,555 | 9,883 | 3,141 | **497,549** |
| **Undrawn commitments** [(1)] | | | | | | | | |
| Residential mortgage | 51,262 | 7,177 | 3,685 | 6,791 | 82 | 45 | 19 | **69,061** |
| Qualifying revolving retail | 10,790 | 8 | 2,695 | 2,421 | 634 | 111 | 3 | **16,662** |
| Other retail | 60 | 41 | 237 | 2,160 | 245 | 31 | 3 | **2,777** |
| **Total** | 62,112 | 7,226 | 6,617 | 11,372 | 961 | 187 | 25 | **88,500** |
| **Exposure - weighted average EAD ($M)** | | | | | | | | |
| Residential mortgage | 0. 222 | 0. 257 | 0. 240 | 0. 204 | 0. 201 | 0. 242 | 0. 245 | **0. 230** |
| Qualifying revolving retail | 0. 010 | 0. 009 | 0. 008 | 0. 009 | 0. 009 | 0. 007 | 0. 008 | **0. 009** |
| Other retail | 0. 004 | 0. 004 | 0. 002 | 0. 009 | 0. 003 | 0. 005 | 0. 005 | **0. 008** |
| **Exposure - weighted average LGD (%)** | | | | | | | | |
| Residential mortgage | 20. 0 | 20. 2 | 20. 3 | 21. 0 | 21. 3 | 20. 2 | 20. 4 | **20. 4** |
| Qualifying revolving retail | 88. 0 | 88. 0 | 88. 0 | 88. 0 | 88. 0 | 88. 0 | 88. 0 | **88. 0** |
| Other retail | 94. 3 | 94. 0 | 94. 6 | 96. 9 | 97. 9 | 99. 0 | 98. 2 | **97. 1** |
| **Exposure - weighted average risk weight (%)** | | | | | | | | |
| Residential mortgage | 2. 9 | 9. 3 | 14. 4 | 24. 2 | 74. 3 | 99. 7 | - | **14. 3** |
| Qualifying revolving retail | 3. 9 | 7. 8 | 15. 1 | 38. 9 | 120. 6 | 209. 4 | - | **31. 1** |
| Other retail | 17. 9 | 48. 6 | 59. 7 | 117. 4 | 147. 8 | 194. 8 | 0. 4 | **123. 1** |

(1) The credit exposure value of undrawn commitments is included in total credit risk exposures above.

**APS 330 Table 9d (ii) – Retail exposures by portfolio type and PD band** (continued)

| | 31 December 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $M |
| **Total credit risk exposures** | | | | | | | | |
| Residential mortgage | 105,576 | 138,782 | 64,997 | 127,245 | 6,107 | 8,932 | 2,987 | 454,626 |
| Qualifying revolving retail | 11,315 | 3,048 | - | 5,044 | 2,862 | 547 | 138 | 22,954 |
| Other retail | 65 | 49 | 226 | 7,304 | 1,426 | 618 | 104 | 9,792 |
| **Total** | 116,956 | 141,879 | 65,223 | 139,593 | 10,395 | 10,097 | 3,229 | 487,372 |
| **Undrawn commitments** (1) | | | | | | | | |
| Residential mortgage | 49,153 | 9,025 | 3,087 | 7,829 | 308 | 54 | 24 | 69,480 |
| Qualifying revolving retail | 8,525 | 2,149 | - | 2,090 | 447 | 79 | 3 | 13,293 |
| Other retail | 62 | 43 | 209 | 1,986 | 215 | 28 | 3 | 2,546 |
| **Total** | 57,740 | 11,217 | 3,296 | 11,905 | 970 | 161 | 30 | 85,319 |
| **Exposure - weighted average EAD ($M)** | | | | | | | | |
| Residential mortgage | 0. 205 | 0. 262 | 0. 243 | 0. 209 | 0. 327 | 0. 230 | 0. 261 | 0. 232 |
| Qualifying revolving retail | 0. 008 | 0. 007 | - | 0. 008 | 0. 009 | 0. 007 | 0. 008 | 0. 008 |
| Other retail | 0. 004 | 0. 004 | 0. 002 | 0. 009 | 0. 003 | 0. 005 | 0. 005 | 0. 007 |
| **Exposure - weighted average LGD (%)** | | | | | | | | |
| Residential mortgage | 20. 0 | 20. 2 | 20. 4 | 21. 0 | 22. 7 | 20. 4 | 20. 7 | 20. 5 |
| Qualifying revolving retail | 78. 3 | 78. 6 | - | 84. 7 | 88. 4 | 88. 0 | 86. 7 | 81. 3 |
| Other retail | 94. 3 | 94. 1 | 94. 6 | 94. 3 | 98. 4 | 98. 6 | 97. 0 | 95. 2 |
| **Exposure - weighted average risk weight (%)** | | | | | | | | |
| Residential mortgage | 2. 5 | 8. 5 | 13. 9 | 24. 3 | 71. 4 | 97. 7 | 9. 1 | 14. 9 |
| Qualifying revolving retail | 3. 1 | 11. 3 | - | 33. 0 | 108. 6 | 198. 6 | - | 28. 5 |
| Other retail | 17. 9 | 48. 7 | 59. 7 | 114. 2 | 149. 1 | 192. 6 | 0. 9 | 120. 8 |

(1) The credit exposure value of undrawn commitments is included in total credit risk exposures above.

**APS 330 Table 9d (ii) – Retail exposures by portfolio type and PD band** (continued)

| | 30 June 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $M |
| **Total credit risk exposures** | | | | | | | | |
| Residential mortgage | 96,345 | 133,818 | 61,890 | 124,321 | 6,592 | 9,523 | 3,146 | 435,635 |
| Qualifying revolving retail | 10,801 | 3,054 | - | 4,966 | 2,947 | 583 | 153 | 22,504 |
| Other retail | 66 | 52 | 179 | 6,741 | 1,344 | 642 | 112 | 9,136 |
| **Total** | 107,212 | 136,924 | 62,069 | 136,028 | 10,883 | 10,748 | 3,411 | 467,275 |
| **Undrawn commitments** [(1)] | | | | | | | | |
| Residential mortgage | 44,744 | 9,764 | 2,972 | 8,490 | 367 | 56 | 18 | 66,411 |
| Qualifying revolving retail | 8,306 | 2,171 | - | 2,040 | 444 | 77 | 3 | 13,041 |
| Other retail | 63 | 43 | 164 | 1,737 | 178 | 26 | 2 | 2,213 |
| **Total** | 53,113 | 11,978 | 3,136 | 12,267 | 989 | 159 | 23 | 81,665 |
| **Exposure - weighted average EAD ($M)** | | | | | | | | |
| Residential mortgage | 0. 189 | 0. 237 | 0. 195 | 0. 192 | 0. 274 | 0. 226 | 0. 181 | 0. 207 |
| Qualifying revolving retail | 0. 008 | 0. 007 | - | 0. 008 | 0. 009 | 0. 007 | 0. 008 | 0. 008 |
| Other retail | 0. 004 | 0. 004 | 0. 002 | 0. 009 | 0. 003 | 0. 005 | 0. 004 | 0. 008 |
| **Exposure - weighted average LGD (%)** | | | | | | | | |
| Residential mortgage | 20. 0 | 20. 2 | 20. 3 | 21. 0 | 22. 7 | 20. 4 | 20. 4 | 20. 4 |
| Qualifying revolving retail | 77. 7 | 78. 3 | - | 84. 7 | 88. 4 | 88. 1 | 86. 9 | 81. 0 |
| Other retail | 94. 3 | 92. 6 | 94. 6 | 94. 2 | 98. 6 | 98. 6 | 97. 3 | 95. 2 |
| **Exposure - weighted average risk weight (%)** | | | | | | | | |
| Residential mortgage | 2. 4 | 8. 4 | 13. 7 | 24. 7 | 71. 0 | 97. 5 | 0. 2 | 15. 3 |
| Qualifying revolving retail | 3. 0 | 11. 3 | - | 33. 1 | 108. 7 | 199. 6 | - | 29. 7 |
| Other retail | 17. 9 | 47. 9 | 59. 7 | 114. 3 | 149. 7 | 191. 4 | 0. 4 | 121. 4 |

(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 9e) and a comparison of financial losses to regulatory EL estimates (APS 330 Table 9f (i)).

### APS 330 Table 9e – Actual losses by portfolio type

| | 30 June 2014 | | |
|---|---|---|---|
| | Full year losses in reporting period | | |
| | Gross write-offs (1) | Recoveries (1) | Actual losses (1) |
| **Portfolio Type** | $M | $M | $M |
| Corporate | 195 | (14) | 181 |
| SME corporate | 175 | (12) | 163 |
| SME retail (including SME retail secured by residential mortgages) | 40 | (6) | 34 |
| Specialised lending | 130 | (3) | 127 |
| **Total corporate including SME and specialised lending** | 540 | (35) | 505 |
| Sovereign | - | - | - |
| Bank | 11 | - | 11 |
| Residential mortgage (excluding SME retail secured by residential mortgages) | 126 | (5) | 121 |
| Qualifying revolving retail | 324 | (53) | 271 |
| Other retail | 306 | (44) | 262 |
| **Total advanced IRB and specialised lending portfolios** | 1,307 | (137) | 1,170 |

(1) Excludes Bankwest non-retail portfolios which have been reclassified to standardised.

| | 31 December 2013 | | |
|---|---|---|---|
| | Half year losses in reporting period | | |
| | Gross write-offs (1) | Recoveries (1) | Actual losses (1) |
| **Portfolio Type** | $M | $M | $M |
| Corporate | 47 | (10) | 37 |
| SME corporate | 96 | (14) | 82 |
| SME retail (including SME retail secured by residential mortgages) | 17 | (3) | 14 |
| Specialised lending | 72 | - | 72 |
| **Total corporate including SME and specialised lending** | 232 | (27) | 205 |
| Sovereign | - | - | - |
| Bank | 10 | - | 10 |
| Residential mortgage (excluding SME retail secured by residential mortgages) | 60 | (3) | 57 |
| Qualifying revolving retail | 163 | (25) | 138 |
| Other retail | 150 | (22) | 128 |
| **Total advanced IRB and specialised lending portfolios** | 615 | (77) | 538 |

(1) Excludes Bankwest non-retail portfolios which have been reclassified to standardised.

| | 30 June 2013 | | |
|---|---|---|---|
| | Full year losses in reporting period | | |
| | Gross write-offs | Recoveries | Actual losses |
| **Portfolio Type** | $M | $M | $M |
| Corporate | 188 | (6) | 182 |
| SME corporate | 262 | (11) | 251 |
| SME retail (including SME retail secured by residential mortgages) | 36 | (6) | 30 |
| Specialised lending | 490 | - | 490 |
| **Total corporate including SME and specialised lending** | 976 | (23) | 953 |
| Sovereign | - | - | - |
| Bank | 22 | (4) | 18 |
| Residential mortgage (excluding SME retail secured by residential mortgages) | 238 | (5) | 233 |
| Qualifying revolving retail | 315 | (55) | 260 |
| Other retail | 262 | (51) | 211 |
| **Total advanced IRB and specialised lending portfolios** | 1,813 | (138) | 1,675 |

## APS 330 Table 9f (i) – Historical loss analysis by portfolio type

| | 30 June 2014 | |
|---|---|---|
| | Full year actual loss [(1)] | Regulatory one year expected loss estimate [(1)] |
| | $M | $M |
| Corporate | 181 | 695 |
| SME corporate | 163 | 471 |
| SME retail (including SME retail secured by residential mortgages) | 34 | 147 |
| Specialised lending | 127 | 831 |
| **Total corporate including SME and specialised lending** | 505 | 2,144 |
| Sovereign | - | 8 |
| Bank | 11 | 141 |
| Residential mortgage (excluding SME retail secured by residential mortgages) | 121 | 1,333 |
| Qualifying revolving retail | 271 | 528 |
| Other retail | 262 | 515 |
| **Total advanced IRB and specialised lending portfolios** | 1,170 | 4,669 |

(1) Excludes Bankwest non-retail portfolios which have been reclassified to standardised.

| | 31 December 2013 | |
|---|---|---|
| | Half year actual loss [(1)] | Regulatory one year expected loss estimate [(1)] |
| | $M | $M |
| Corporate | 37 | 698 |
| SME corporate | 82 | 494 |
| SME retail (including SME retail secured by residential mortgages) | 14 | 148 |
| Specialised lending | 72 | 826 |
| **Total corporate including SME and specialised lending** | 205 | 2,166 |
| Sovereign | - | 7 |
| Bank | 10 | 174 |
| Residential mortgage (excluding SME retail secured by residential mortgages) | 57 | 1,292 |
| Qualifying revolving retail | 138 | 412 |
| Other retail | 128 | 465 |
| **Total advanced IRB and specialised lending portfolios** | 538 | 4,516 |

(1) Excludes Bankwest non-retail portfolios which have been reclassified to standardised.

| | 30 June 2013 | |
|---|---|---|
| | Full year actual loss | Regulatory one year expected loss estimate |
| | $M | $M |
| Corporate | 182 | 958 |
| SME corporate | 251 | 830 |
| SME retail (including SME retail secured by residential mortgages) | 30 | 141 |
| Specialised lending | 490 | 1,298 |
| **Total corporate including SME and specialised lending** | 953 | 3,227 |
| Sovereign | - | 5 |
| Bank | 18 | 174 |
| Residential mortgage (excluding SME retail secured by residential mortgages) | 233 | 1,375 |
| Qualifying revolving retail | 260 | 436 |
| Other retail | 211 | 465 |
| **Total advanced IRB and specialised lending portfolios** | 1,675 | 5,682 |

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. Hence, actual outcomes may differ from modelled regulatory estimates for a number of reasons.

Actual losses are expected to be below the regulatory EL estimate in most years. Regulatory EL is reported for both defaulted and non-defaulted exposures. Regulatory EL measures economic loss including costs (such as internal costs) not included in actual losses.

## Accuracy of Risk Estimates

The following tables provide a summary of credit risk estimates used in calculating regulatory capital compared to realised outcomes.

### Probability of Default

APS 330 Table 9f (ii) compares estimates of long-run PD to actual default rates averaged over six financial years to 30 June 2014.

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 number of defaulted obligors during the year compared to the non-defaulted obligors measured at the beginning of each financial year. Hence, in most years, the average estimated PD will exceed the average actual PD.

**APS 330 Table 9f (ii) – Accuracy of risk estimates – PD**

| | As at 30 June 2014 | |
|---|---|---|
| Portfolio Type | Average estimated PD % | Average actual PD % |
| Corporate | 1. 37 | 0. 94 |
| SME corporate | 2. 21 | 1. 92 |
| SME retail (including SME retail secured by residential mortgages) | 1. 86 | 0. 87 |
| Specialised lending (1) | n/a | 1. 61 |
| Sovereign (2) | 0. 65 | 0. 04 |
| Bank (2) | 0. 25 | 0. 35 |
| Residential mortgage (excluding SME retail secured by residential mortgages) | 0. 93 | 0. 81 |
| Qualifying revolving retail | 1. 99 | 2. 24 |
| Other retail | 4. 79 | 4. 30 |

(1) Average estimated PD is not relevant for specialised lending under the Supervisory Slotting approach.
(2) Realised PDs based on a low volume of defaults observed.

### Loss Given Default and Exposure at Default

LGDs for non-retail portfolios are based on accounts that defaulted in 2009 to 2012 financial years. LGDs for retail portfolios are based on accounts that defaulted in 2009 to 2013 financial years. (Defaults occurring in the most recent years have been excluded from the analysis to allow sufficient time for workout of impaired assets, booking of losses and more meaningful disclosures.)

The EAD ratio compares estimates of EAD prior to default to realised EAD for obligors that defaulted.

**APS 330 Table 9f (iii) – Accuracy of risk estimates – LGD and EAD**

| | As at 30 June 2014 | | |
|---|---|---|---|
| Portfolio Type | Average estimated downturn LGD % | Average actual LGD % | Ratio of estimated to actual EAD |
| Corporate | 58.0 | 44.0 | 1.1 |
| SME corporate | 34.1 | 25.4 | 1.1 |
| SME retail (including SME retail secured by residential mortgages) | 35.4 | 27.5 | 1.3 |
| Specialised lending (1) | n/a | 40.6 | 1.2 |
| Sovereign | n/a | nil | 0.0 |
| Bank (2) | 64.9 | 109.9 | 1.8 |
| Residential mortgage (excluding SME retail secured by residential mortgages) (3) | 20.8 | 7.1 | 1.0 |
| Qualifying revolving retail | 85.8 | 67.5 | 1.1 |
| Other retail | 95.5 | 82.4 | 1.0 |

(1) Average estimated LGD is not relevant for specialised lending under Supervisory Slotting approach.
(2) Realised LGDs based on a low volume of defaults observed.
(3) Estimated downturn LGD based on minimum regulatory floor requirements imposed by APRA and RBNZ.

## 7.5 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 the key determinants 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;
- Insurance - steps are taken to ensure that the commercial property taken as collateral is adequately insured against damage or destruction;
- 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 considered 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, with the exception of some relatively small portfolios, for loans with a Loan to Valuation (LVR) of higher than 80% either a Low Deposit Premium is levied, or Lenders Mortgage Insurance (LMI) is taken out to cover 100% of the principal amount at default 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.

The Group mitigates its counterparty Credit Risk exposure from dealing in Global Markets type products through the use of Credit Support Annexes (CSAs). CSAs require the counterparty (or the Group) to post collateral when mark-to-market positions exceed Threshold and Minimum Transfer Amounts.

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 10b and 10c (page 48) 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 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 and New Zealand 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 10b and 10c – Credit risk mitigation

| | 30 June 2014 | | | | |
|---|---|---|---|---|---|
| | Total exposure [1] $M | Eligible financial collateral $M | Exposures covered by guarantees $M | Exposures covered by credit derivatives $M | Coverage % |
| **Advanced approach** [2] | | | | | |
| Corporate | 87,904 | - | 1,027 | - | 1. 2 |
| SME corporate | 37,396 | - | - | 1 | - |
| SME retail | 17,940 | - | - | - | - |
| Sovereign | 64,005 | - | - | - | - |
| Bank | 42,885 | - | 663 | 321 | 2. 3 |
| Residential mortgage | 460,788 | - | - | - | - |
| Qualifying revolving retail | 26,395 | - | - | - | - |
| Other retail | 10,366 | - | - | - | - |
| **Total advanced approach** | 747,679 | - | 1,690 | 322 | 0. 3 |
| **Specialised lending** | 57,356 | - | - | - | - |
| **Standardised approach** | | | | | |
| Corporate | 11,065 | 148 | - | - | 1. 3 |
| SME corporate | 4,805 | 37 | - | - | 0. 8 |
| SME retail | 5,198 | 6 | - | - | 0. 1 |
| Sovereign | 258 | - | - | - | - |
| Bank | 516 | - | - | - | - |
| Residential mortgage | 9,594 | 21 | - | - | 0. 2 |
| Other retail | 2,628 | 1 | - | - | - |
| Other assets | 10,165 | - | - | - | - |
| Central clearing counterparties | 1,870 | - | - | - | - |
| **Total standardised approach** | 46,099 | 213 | - | - | 0. 5 |
| **Total exposures** | 851,134 | 213 | 1,690 | 322 | 0. 3 |

| | 31 December 2013 | | | | |
|---|---|---|---|---|---|
| | Total exposure [1] $M | Eligible financial collateral $M | Exposures covered by guarantees $M | Exposures covered by credit derivatives $M | Coverage % |
| **Advanced approach** [2] | | | | | |
| Corporate | 83,957 | - | 1,139 | - | 1. 4 |
| SME corporate | 36,807 | - | - | 2 | - |
| SME retail | 9,033 | - | - | - | - |
| Sovereign | 67,125 | - | - | - | - |
| Bank | 42,739 | - | 425 | 386 | 1. 9 |
| Residential mortgage | 454,626 | - | - | - | - |
| Qualifying revolving retail | 22,954 | - | - | - | - |
| Other retail | 9,792 | - | - | - | - |
| **Total advanced approach** | 727,033 | - | 1,564 | 388 | 0. 3 |
| **Specialised lending** | 56,705 | - | - | - | - |
| **Standardised approach** | | | | | |
| Corporate | 11,259 | 21 | - | - | 0. 2 |
| SME corporate | 5,289 | 28 | - | - | 0. 5 |
| SME retail | 4,603 | 6 | - | - | 0. 1 |
| Sovereign | 240 | - | - | - | - |
| Bank | 645 | - | - | - | - |
| Residential mortgage | 9,493 | 7 | - | - | 0. 1 |
| Other retail | 2,555 | - | - | - | - |
| Other assets | 10,279 | - | - | - | - |
| Central Counterparties | 1,564 | - | - | - | - |
| **Total standardised approach** | 45,927 | 62 | - | - | 0. 1 |
| **Total exposures** | 829,665 | 62 | 1,564 | 388 | 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.
(2) Advanced approach: Exposure for derivatives is after netting and financial collateral.

**APS 330 Table 10b and 10c – Credit risk mitigation** (continued)

| | 30 June 2013 | | | | |
|---|---|---|---|---|---|
| | Total exposure [1] $M | Eligible financial collateral $M | Exposures covered by guarantees $M | Exposures covered by credit derivatives $M | Coverage % |
| **Advanced approach** [2] | | | | | |
| Corporate | 88,539 | - | 1,098 | 3 | 1. 2 |
| SME corporate | 47,657 | - | - | 4 | - |
| SME retail | 8,086 | - | - | - | - |
| Sovereign | 56,960 | - | - | - | - |
| Bank | 42,761 | - | 356 | 315 | 1. 6 |
| Residential mortgage | 435,635 | - | - | - | - |
| Qualifying revolving retail | 22,504 | - | - | - | - |
| Other retail | 9,136 | - | - | - | - |
| **Total advanced approach** | 711,278 | - | 1,454 | 322 | 0. 2 |
| **Specialised lending** | 57,020 | - | - | - | - |
| **Standardised approach** | | | | | |
| Corporate | 3,878 | - | - | - | - |
| SME corporate | 542 | - | - | - | - |
| SME retail | 5,499 | - | - | - | - |
| Sovereign | 530 | - | - | - | - |
| Bank | 428 | - | - | - | - |
| Residential mortgage | 5,238 | - | - | - | - |
| Other retail | 2,297 | - | - | - | - |
| Other assets | 9,346 | - | - | - | - |
| **Total standardised approach** | 27,758 | - | - | - | - |
| **Total exposures** | 796,056 | - | 1,454 | 322 | 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.

(2) Advanced approach: Exposure for derivatives is after netting and financial collateral.

### 7.6 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.

Economic capital is allocated to CCR exposures after taking into account the risk-rating and expected exposure to the counterparty, and correlations and diversification impacts across risk types.

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

- Large Credit Exposure Policy;
- Country Risk Exposure 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.

CSAs are used with some large corporates and most bank and non-bank financial institution counterparties to collateralise CCR for global markets products. The use of CSAs is governed by the Global Markets Cross Product Collateralisation and Netting Policies. CSAs lower the wrong-way risk that arises from market movements by requiring the counterparty (or the Group) to post collateral to cover mark-to-market values that might be owed upon a counterparty default.

Aggregate Threshold and Minimum Transfer amounts (including "zero" for some counterparties), are the amounts by which the counterparty (or the Bank) can be out of the money before they may be obliged to post collateral. In approximately 25% of ISDA Master Agreement and CSAs these amounts vary depending on the counterparty's long term debt rating. In the remaining agreements the amounts are fixed. Generally, the better a counterparty's rating, the higher the Threshold and Minimum Transfer Amount given to that counterparty. A trend to lower Thresholds has been observed since the Global Financial Crisis. This trend will continue in line with regulatory change.

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 are input into the collateral management system.

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

As at 30 June 2014, the maximum additional collateral that could be posted based on the Group's current rating is $343 million. As at 30 June 2014, a unilateral one-notch and two-notch downgrade in the Group's rating would have resulted in a further $215 million and $259 million of collateral being posted to other counterparties respectively. 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.

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## 7.7 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 issues notes in different tranches with different risk and return profiles. Cash flow arising from those assets is used by the SPV to pay the coupons and principal on the notes issued by the SPV; 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 to the SPV.

### 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 equitably assigns the home loans it has originated to a SPV, which in turn raises wholesale funding by the issuance of notes to external investors. The Medallion Programme is CBA's securitisation program of CBA originated residential mortgage loans. CBA has also established an internal securitisation where CBA retains all the notes issued to use as collateral to raise contingent liquidity from the Reserve Bank of Australia. As the Group bear the majority of residual risks and rewards of the SPVs, they are consolidated;
- 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, cash reserves and/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 interest rate swaps, cross-currency swaps and/or liquidity support facilities to an external SPV where the Group may be the arranger, lead manager and/or originator of the respective securities or underlying assets.

As at 30 June 2014, the Group had a loan to a series issued by a Group sponsored SPV conduit; Shield Series 50 (Medallion CP). This series holds AAA, prime RMBS issued under the Group's Medallion programme. The underlying assets of Medallion CP are consolidated into the Group's financial statements. The loan arrangement to Medallion CP was approved under the Group's Risk Framework.

Medallion CP assets comprise AAA prime Residential Mortgage-Backed Securities (RMBS) issued under the Group's Medallion program. These RMBS are eligible collateral for repurchase agreements with the Reserve Bank of Australia (RBA) which are consolidated as per above.

For contingent liquidity, the Group manages a $75 billion RMBS portfolio which is not intended to be issued publicly. These notes will be held by the Group and the senior notes, 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. The Group, when 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.

The Bank uses a hierarchy detailed in APS 120 to determine the credit rating grade for regulatory capital purposes. The three approaches the Group uses are the Ratings-Based Approach, the Internal Assessment Approach (IAA) or Supervisory Formula Approach (SFA).

### IAA Process

The Bank may use the IAA methodology for unrated securitisation exposures where the underlying assets are residential mortgages (excluding reverse mortgages), equipment finance, 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 External Credit Assessment Institutions (ECAI) 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 ECAI. The Bank may use Standard & Poor's, Fitch Ratings or Moody's Investors Service criteria.

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

## Securitisation 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 Group-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 of the securities in a warehouse is also estimated by the Group using the accepted rating methodologies of the ECAI and/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 – Markets and Lending 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 9 page 66). 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.

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 IAA 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 ongoing 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 and compliant with APRA prudential regulations. These transactions are managed by the Group's Treasury.

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 arm's 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 SPVs are consolidated for accounting purposes as the Group bears the majority of residual risks and rewards. For regulatory purposes, as at 30 June 2014 the Group achieves capital relief for $3 billion of assets issued externally in RMBS with $10 billion not achieving relief.

The Group holds less than 20% (excepting permitted underwritings as per APS 120) of the public securities outstanding issued by an SPV for Group-originated securitisations.

### Purchase of Securities issued under Group-Originated Securitisation (continued)

The aggregated value of all securities held by the Group under its various public Medallion and Swan Programmes 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 139); 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 10 'Consolidated Financial Statements', which was applied by the Group from 1 July 2013. AASB 10 introduces control as the single basis for consolidation for all entities, regardless of the nature of the investee. AASB 10 replaces those parts of AASB 127 'Consolidated and Separate Financial Statements' that address when and how an investor should prepare consolidated financial statements and replaces SIC-12 'Consolidation – Special Purpose Entities' in its entirety. The implementation of AASB 10 did not impact the consolidation assessment of securitisation vehicles used by the Group.

For the Group's accounting policy on financial asset and financial liabilities derecognition refer to Note 1 of the 2014 Annual Report.

Any retained interests are valued in accordance with the Group's Accounting Policies Note 1, as set out in the 2014 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 2014.

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 'Financial Instruments: Recognition and Measurement'.

Assets are valued according to the normal methods appropriate to the asset class. At both 31 December 2013 and 30 June 2014, 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 2014 Annual Report. The Group provides support for securitisation transactions to the extent of those contractual obligations.

### APS 330 Table 12g (i) – Banking book exposures securitised – traditional securitisation

| | 30 June 2014 | | | |
|---|---|---|---|---|
| | Group originated assets - capital relief [(1)] | Group originated assets - non capital relief [(2)] | Group originated assets - internal RMBS [(3)] | Third party originated assets [(4)] |
| **Underlying Asset** | **$M** | **$M** | **$M** | **$M** |
| Residential mortgage | 3,047 | 9,935 | 74,765 | - |
| Credit cards and other personal loans | - | - | - | - |
| Auto and equipment finance | - | - | - | - |
| Commercial loans | - | - | - | - |
| Other | - | - | - | - |
| **Total** | 3,047 | 9,935 | 74,765 | - |

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | Group originated assets - capital relief [(1)] | Group originated assets - non capital relief [(2)] | Group originated assets - internal RMBS [(3)] | Third party originated assets [(4)] |
| **Underlying Asset** | **$M** | **$M** | **$M** | **$M** |
| Residential mortgage | 3,847 | 8,042 | 74,704 | - |
| Credit cards and other personal loans | - | - | - | - |
| Auto and equipment finance | - | - | - | 79 |
| Commercial loans | - | - | - | - |
| Other | - | - | - | - |
| **Total** | 3,847 | 8,042 | 74,704 | 79 |

| | 30 June 2013 | | | |
|---|---|---|---|---|
| | Group originated assets - capital relief [(1)] | Group originated assets - non capital relief [(2)] | Group originated assets - internal RMBS [(3)] | Third party originated assets [(4)] |
| **Underlying Asset** | **$M** | **$M** | **$M** | **$M** |
| Residential mortgage | 4,378 | 5,791 | 70,208 | - |
| Credit cards and other personal loans | - | - | - | - |
| Auto and equipment finance | - | - | - | 76 |
| Commercial loans | - | - | - | - |
| Other | - | - | - | - |
| **Total** | 4,378 | 5,791 | 70,208 | 76 |

(1) Group originated assets (capital relief) comprise CBA Medallion and Bankwest Swan Trusts subject to capital treatment under APS 120.
(2) Group originated assets (non-capital relief) comprise CBA Medallion and Bankwest Swan Trusts subject to capital treatment under APS 113.
(3) Group originated assets (internal RMBS) comprise CBA Medallion, Bankwest Swan and ASB Medallion Trusts held for contingent liquidity purposes.
(4) Third party originated assets comprise assets managed and sponsored by the Group.

### APS 330 Table 12g (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 12g (iii) – Total banking book exposures securitised

APS 330 Table 12g (i) discloses the total banking book exposures securitised by the Group.

## APS 330 Table 12h – Past due and impaired banking book exposures by asset type

| | 30 June 2014 | | | |
|---|---|---|---|---|
| | Group originated assets securitised | | | |
| Underlying Asset | Outstanding exposure $M | Impaired $M | Past due $M | Losses recognised $M |
| Residential mortgage | 87,748 | 48 | 356 | - |
| Credit cards and other personal loans | - | - | - | - |
| Auto and equipment finance | - | - | - | - |
| Commercial loans | - | - | - | - |
| Other | - | - | - | - |
| Total | 87,748 | 48 | 356 | - |

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | Group originated assets securitised | | | |
| Underlying Asset | Outstanding exposure $M | Impaired $M | Past due $M | Losses recognised $M |
| Residential mortgage | 86,594 | 57 | 331 | - |
| Credit cards and other personal loans | - | - | - | - |
| Auto and equipment finance | 79 | - | 1 | - |
| Commercial loans | - | - | - | - |
| Other | - | - | - | - |
| Total | 86,673 | 57 | 332 | - |

| | 30 June 2013 | | | |
|---|---|---|---|---|
| | Group originated assets securitised | | | |
| Underlying Asset | Outstanding exposure $M | Impaired $M | Past due $M | Losses recognised $M |
| Residential mortgage | 80,377 | 59 | 365 | - |
| Credit cards and other personal loans | - | - | - | - |
| Auto and equipment finance | 76 | - | - | - |
| Commercial loans | - | - | - | - |
| Other | - | - | - | - |
| Total | 80,453 | 59 | 365 | - |

## APS 330 Table 12i – 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 2014.

**APS 330 Table 12j (i) – Banking book activity for the reporting period**

The Group securitised $7.8 billion new exposures in the banking book during the full year ending 30 June 2014.

| | Full year ended 30 June 2014 | |
|---|---|---|
| Underlying Asset Type | Total exposures securitised $M | Recognised gain or loss on sale $M |
| Residential mortgages | 7,817 | - |
| Credit cards and other personal loans | - | - |
| Auto and equipment finance | - | - |
| Commercial loans | - | - |
| Other | - | - |
| **Total** | 7,817 | - |

| | Half year ended 31 December 2013 | |
|---|---|---|
| Underlying Asset Type | Total exposures securitised $M | Recognised gain or loss on sale $M |
| Residential mortgage | 4,788 | - |
| Credit cards and other personal loans | - | - |
| Auto and equipment finance | - | - |
| Commercial loans | - | - |
| Other | - | - |
| **Total** | 4,788 | - |

| | Full year ended 30 June 2013 | |
|---|---|---|
| Underlying Asset Type | Total exposures securitised $M | Recognised gain or loss on sale $M |
| Residential mortgage | 3,954 | - |
| Credit cards and other personal loans | - | - |
| Auto and equipment finance | - | - |
| Commercial loans | 108 | - |
| Other | - | - |
| **Total** | 4,062 | - |

### APS 330 Table 12k – Banking book exposures retained or purchased

| Securitisation facility type | 30 June 2014 On Balance Sheet $M | 30 June 2014 Off Balance Sheet $M | 30 June 2014 Total exposures $M |
|---|---|---|---|
| Liquidity support facilities | - | 104 | 104 |
| Warehouse facilities | 2,393 | 1,075 | 3,468 |
| Derivative facilities | 84 | - | 84 |
| Holdings of securities | 5,834 | - | 5,834 |
| Other | - | - | - |
| **Total securitisation exposures in the banking book** | 8,311 | 1,179 | 9,490 |

| Securitisation facility type | 31 December 2013 On Balance Sheet $M | 31 December 2013 Off Balance Sheet $M | 31 December 2013 Total exposures $M |
|---|---|---|---|
| Liquidity support facilities | - | 102 | 102 |
| Warehouse facilities | 1,913 | 1,417 | 3,330 |
| Derivative facilities | 123 | - | 123 |
| Holdings of securities | 5,638 | - | 5,638 |
| Other | - | - | - |
| **Total securitisation exposures in the banking book** | 7,674 | 1,519 | 9,193 |

| Securitisation facility type | 30 June 2013 On Balance Sheet $M | 30 June 2013 Off Balance Sheet $M | 30 June 2013 Total exposures $M |
|---|---|---|---|
| Liquidity support facilities | - | 142 | 142 |
| Warehouse facilities | 2,540 | 1,559 | 4,099 |
| Derivative facilities | 166 | - | 166 |
| Holdings of securities | 4,695 | - | 4,695 |
| Other | - | - | - |
| **Total securitisation exposures in the banking book** | 7,401 | 1,701 | 9,102 |

### APS 330 Table 12I (i) – Banking book exposure by risk weighting

Total securitisation exposures in the banking book increased by $388 million or 4.3% during the full year ending 30 June 2014. However, the corresponding RWA decreased by $350 million or 6.6%. This was mainly due to improvement in credit quality of some warehouse exposures.

| | 30 June 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Exposures | | Total | Risk Weighted Assets | | Total Risk |
| | Securitisation | Resecuritisation | exposures | Securitisation | Resecuritisation | Weighted Assets |
| Risk Weight Band | $M | $M | $M | $M | $M | $M |
| ≤ 25% | 8,410 | - | **8,410** | 658 | - | **658** |
| > 25% ≤ 35% | 371 | - | **371** | 105 | - | **105** |
| > 35% ≤ 50% | 300 | - | **300** | 150 | - | **150** |
| > 50% ≤ 75% | 28 | - | **28** | 20 | - | **20** |
| > 75% ≤ 100% | 2 | - | **2** | 2 | - | **2** |
| > 100% ≤ 650% | 34 | - | **34** | 34 | - | **34** |
| > 650% ≤ 1250% | 319 | 26 | **345** | 3,693 | 325 | **4,018** |
| **Total** | 9,464 | 26 | **9,490** | 4,662 | 325 | **4,987** |

| | 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Exposures | | Total | Risk Weighted Assets | | Total Risk |
| | Securitisation | Resecuritisation | exposures | Securitisation | Resecuritisation | Weighted Assets |
| Risk Weight Band | $M | $M | $M | $M | $M | $M |
| ≤ 25% | 8,034 | 1 | **8,035** | 715 | - | **715** |
| > 25% ≤ 35% | 137 | - | **137** | 48 | - | **48** |
| > 35% ≤ 50% | 300 | - | **300** | 150 | - | **150** |
| > 50% ≤ 75% | 250 | - | **250** | 162 | - | **162** |
| > 75% ≤ 100% | - | - | **-** | - | - | **-** |
| > 100% ≤ 650% | 96 | - | **96** | 258 | - | **258** |
| > 650% ≤ 1250% | 349 | 26 | **375** | 4,037 | 325 | **4,362** |
| **Total** | 9,166 | 27 | **9,193** | 5,370 | 325 | **5,695** |

| | 30 June 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Exposures | | Total | Risk Weighted Assets | | Total Risk |
| | Securitisation | Resecuritisation | exposures | Securitisation | Resecuritisation | Weighted Assets |
| Risk Weight Band | $M | $M | $M | $M | $M | $M |
| ≤ 25% | 7,841 | 3 | **7,844** | 729 | 1 | **730** |
| > 25% ≤ 35% | 639 | - | **639** | 224 | - | **224** |
| > 35% ≤ 50% | - | - | **-** | - | - | **-** |
| > 50% ≤ 75% | 250 | - | **250** | 162 | - | **162** |
| > 75% ≤ 100% | - | - | **-** | - | - | **-** |
| > 100% ≤ 650% | 6 | - | **6** | 37 | - | **37** |
| > 650% ≤ 1250% | 337 | 26 | **363** | 3,859 | 325 | **4,184** |
| **Total** | 9,073 | 29 | **9,102** | 5,011 | 326 | **5,337** |

### APS 330 Table 12l (ii) – Banking book exposure deducted entirely from capital

Total securitisation exposures deducted from Tier 1 and Tier 2 Capital decreased $5 million during the full year ended 30 June 2014 due to overall run off of third party subordinated tranches exposures.

| Underlying Asset Type | 30 June 2014 Common Equity Tier 1 Capital $M |
|---|---|
| Residential mortgage | 24 |
| Credit cards and other personal loans | - |
| Auto and equipment finance | - |
| Commercial loans | - |
| Other | - |
| **Total** | 24 |

| Underlying Asset Type | 31 December 2013 Common Equity Tier 1 Capital $M |
|---|---|
| Residential mortgage | 26 |
| Credit cards and other personal loans | - |
| Auto and equipment finance | - |
| Commercial loans | - |
| Other | - |
| **Total** | 26 |

| Underlying Asset Type | 30 June 2013 Common Equity Tier 1 Capital $M |
|---|---|
| Residential mortgage | 29 |
| Credit cards and other personal loans | - |
| Auto and equipment finance | - |
| Commercial loans | - |
| Other | - |
| **Total** | 29 |

### APS 330 Table 12m – Banking book exposures subject to early amortisation

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

### APS 330 Table 12n – Banking book resecuritisation exposures

As at 30 June 2014, banking book resecuritisation exposures without credit risk mitigation total $26 million (31 December 2013: $27 million, 30 June 2013: $29 million).

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

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

### APS 330 Table 12o (i) – Trading book exposures securitised – traditional securitisation

The Group has no traditional securitisation exposures in the trading book.

### APS 330 Table 12o (ii) – Trading book exposures securitised – synthetic securitisation

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

### APS 330 Table 12o (iii) – Total trading book exposures securitised

The Group has not securitised any exposures in the trading book.

### APS 330 Table 12p – 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 2014.

### APS 330 Table 12q – Trading book activity for the reporting period

As at 30 June 2014, the Group securitised $10 million new exposures in the trading book (30 June 2013: $nil million).

### APS 330 Table 12r – Trading book exposures subject to APS 116

The aggregate amount of securitisation exposures of the Group (including CBA originated and third party originated exposures) and subject to Prudential Standard APS 116 "Capital Adequacy: Market Risk" was $322 million as at 30 June 2014 (31 December 2013: $314 million, 30 June 2013: $452 million). This consists of:

- Securities held in the trading book subject to the Standard Method of $85 million (31 December 2013: $48 million, 30 June 2013: $43 million); and
- Derivatives held in the trading book subject to the Internal Models Approach (IMA) of $237 million (31 December 2013: $266 million, 30 June 2013 $409 million).

#### APS 330 Table 12s – Trading book exposures retained or purchased subject to APS 120

| Securitisation facility type | 30 June 2014<br>On Balance Sheet<br>$M | <br>Off Balance Sheet<br>$M | <br>Total exposures<br>$M |
|---|---|---|---|
| Liquidity support facilities | - | - | - |
| Warehouse facilities | - | - | - |
| Derivative facilities | 237 | - | 237 |
| Holdings of securities | 85 | - | 85 |
| Other | - | - | - |
| **Total securitisation exposures in the trading book** | 322 | - | 322 |

| Securitisation facility type | 31 December 2013<br>On Balance Sheet<br>$M | <br>Off Balance Sheet<br>$M | <br>Total exposures<br>$M |
|---|---|---|---|
| Liquidity support facilities | - | - | - |
| Warehouse facilities | - | - | - |
| Derivative facilities | 266 | - | 266 |
| Holdings of securities | 48 | - | 48 |
| Other | - | - | - |
| **Total securitisation exposures in the trading book** | 314 | - | 314 |

| Securitisation facility type | 30 June 2013<br>On Balance Sheet<br>$M | <br>Off Balance Sheet<br>$M | <br>Total exposures<br>$M |
|---|---|---|---|
| Liquidity support facilities | - | - | - |
| Warehouse facilities | - | - | - |
| Derivative facilities | 409 | - | 409 |
| Holdings of securities | 43 | - | 43 |
| Other | - | - | - |
| **Total securitisation exposures in the trading book** | 452 | - | 452 |

#### APS 330 Table 12t (i) – Trading book exposures retained/purchased subject to IMA

The Group has $237 million of derivatives exposures held in the trading book subject to IMA (default risk) under APS 116 as at 30 June 2014 (31 December 2013: $266 million, 30 June 2013: $409 million).

### APS 330 Table 12t (ii) – Trading book exposures subject to APS 120 by risk weighting

Total securitisation exposures in the trading book decreased by $130 million during the full year ending 30 June 2014 reflecting runoff of derivatives exposures.

| | 30 June 2014 | | | |
|---|---|---|---|---|
| Risk Weight Band | IAA Approach $M | RBA Approach $M | SFA Approach $M | Total exposures $M |
| ≤ 25% | - | 83 | 238 | **321** |
| > 25% ≤ 35% | - | - | - | **-** |
| > 35% ≤ 50% | - | - | - | **-** |
| > 50% ≤ 75% | - | - | - | **-** |
| > 75% ≤ 100% | - | - | - | **-** |
| > 100% ≤ 650% | - | - | 1 | **1** |
| > 650% ≤ 1250% | - | - | - | **-** |
| **Total** | - | 83 | 239 | **322** |

| | 31 December 2013 | | | |
|---|---|---|---|---|
| Risk Weight Band | IAA Approach $M | RBA Approach $M | SFA Approach $M | Total exposures $M |
| ≤ 25% | - | 45 | 267 | **312** |
| > 25% ≤ 35% | - | - | - | **-** |
| > 35% ≤ 50% | - | - | - | **-** |
| > 50% ≤ 75% | - | - | - | **-** |
| > 75% ≤ 100% | - | - | - | **-** |
| > 100% ≤ 650% | - | - | 2 | **2** |
| > 650% ≤ 1250% | - | - | - | **-** |
| **Total** | - | 45 | 269 | **314** |

| | 30 June 2013 | | | |
|---|---|---|---|---|
| Risk Weight Band | IAA Approach $M | RBA Approach $M | SFA Approach $M | Total exposures $M |
| ≤ 25% | 4 | 39 | 409 | **452** |
| > 25% ≤ 35% | - | - | - | **-** |
| > 35% ≤ 50% | - | - | - | **-** |
| > 50% ≤ 75% | - | - | - | **-** |
| > 75% ≤ 100% | - | - | - | **-** |
| > 100% ≤ 650% | - | - | - | **-** |
| > 650% ≤ 1250% | - | - | - | **-** |
| **Total** | 4 | 39 | 409 | **452** |

### APS 330 Table 12u (i) – RWA of trading book exposures retained/purchased subject to IMA

The Group has $171 million of RWA held in the trading book subject to IMA (default risk) under APS 116 as at 30 June 2014 (31 December 2013: $196 million, 30 June 2013: $218 million).

**APS 330 Table 12u (ii) – Capital requirements (RWA) of trading book exposures subject to APS 120 by risk weighting**

Total RWA for securitisation exposures in the trading book decreased by $14 million during the full year ended 30 June 2014 reflecting runoff of derivative exposures.

**30 June 2014**

| Risk Weight Band | IAA Approach | | RBA Approach | | SFA Approach | | Standardised Approach | | Total Capital Requirements | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M |
| ≤ 25% | - | - | 6 | - | 17 | - | - | - | 23 | - |
| > 25% ≤ 35% | - | - | - | - | - | - | - | - | - | - |
| > 35% ≤ 50% | - | - | - | - | - | - | - | - | - | - |
| > 50% ≤ 75% | - | - | - | - | - | - | - | - | - | - |
| > 75% ≤ 100% | - | - | - | - | - | - | - | - | - | - |
| > 100% ≤ 650% | - | - | - | - | 1 | - | - | - | 1 | - |
| > 650% ≤ 1250% | - | - | - | - | - | - | - | - | - | - |
| **Total** | - | - | 6 | - | 18 | - | - | - | 24 | - |

**31 December 2013**

| Risk Weight Band | IAA Approach | | RBA Approach | | SFA Approach | | Standardised Approach | | Total Capital Requirements | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M |
| ≤ 25% | - | - | 3 | - | 19 | - | - | - | 22 | - |
| > 25% ≤ 35% | - | - | - | - | - | - | - | - | - | - |
| > 35% ≤ 50% | - | - | - | - | - | - | - | - | - | - |
| > 50% ≤ 75% | - | - | - | - | - | - | - | - | - | - |
| > 75% ≤ 100% | - | - | - | - | - | - | - | - | - | - |
| > 100% ≤ 650% | - | - | - | - | 4 | - | - | - | 4 | - |
| > 650% ≤ 1250% | - | - | - | - | - | - | - | - | - | - |
| **Total** | - | - | 3 | - | 23 | - | - | - | 26 | - |

**30 June 2013**

| Risk Weight Band | IAA Approach | | RBA Approach | | SFA Approach | | Standardised Approach | | Total Capital Requirements | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M | Securitisation $M | Resecuritisation $M |
| ≤ 25% | 1 | - | 1 | 4 | 29 | - | - | - | 31 | 4 |
| > 25% ≤ 35% | - | - | - | - | - | - | - | - | - | - |
| > 35% ≤ 50% | - | - | - | - | - | - | - | - | - | - |
| > 50% ≤ 75% | - | - | - | - | - | - | - | - | - | - |
| > 75% ≤ 100% | - | - | - | - | - | - | - | - | - | - |
| > 100% ≤ 650% | - | - | - | - | - | - | - | - | - | - |
| > 650% ≤ 1250% | 3 | - | - | - | - | - | - | - | 3 | - |
| **Total** | 4 | - | 1 | 4 | 29 | - | - | - | 34 | 4 |

### APS 330 Table 12u (iii) – Trading book exposures entirely deducted from capital

The Group has no trading book exposures that are deducted entirely from Common Equity Tier 1 capital as at 30 June 2014 (31 December 2013: $nil; 30 June 2013: $nil).

The Group did 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 12v – Trading book exposures subject to early amortisation

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

### APS 330 Table 12w – Trading book resecuritisation exposures

The trading book resecuritisation exposures without credit risk mitigation as at 30 June 2014 is $nil (31 December 2013: $nil, 30 June 2013: $18 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 5a – 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 12j (banking book) and APS 330 Table 12q (trading book).

The total exposures (residential mortgages and other) securitised in the full year to 30 June 2014 was $7,827 million (30 June 2013: $4,062 million). The total exposures (residential mortgages and other) securitised in the half year to 31 December 2013 was $4,798 million.

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

| | As at 30 June 2014 | | |
|---|---|---|---|
| Securitisation facility type | On Balance Sheet $M | Off Balance Sheet $M | Total exposures $M |
| Liquidity support facilities | - | 104 | 104 |
| Warehouse facilities | 2,393 | 1,075 | 3,468 |
| Derivative facilities | 321 | - | 321 |
| Holdings of securities | 5,919 | - | 5,919 |
| Other | - | - | - |
| **Total securitisation exposures** | 8,633 | 1,179 | 9,812 |

| | As at 31 December 2013 | | |
|---|---|---|---|
| Securitisation facility type | On Balance Sheet $M | Off Balance Sheet $M | Total exposures $M |
| Liquidity support facilities | - | 102 | 102 |
| Warehouse facilities | 1,913 | 1,417 | 3,330 |
| Derivative facilities | 389 | - | 389 |
| Holdings of securities | 5,686 | - | 5,686 |
| Other | - | - | - |
| **Total securitisation exposures** | 7,988 | 1,519 | 9,507 |

| | As at 30 June 2013 | | |
|---|---|---|---|
| Securitisation facility type | On Balance Sheet $M | Off Balance Sheet $M | Total exposures $M |
| Liquidity support facilities | - | 142 | 142 |
| Warehouse facilities | 2,540 | 1,559 | 4,099 |
| Derivative facilities | 575 | - | 575 |
| Holdings of securities | 4,738 | - | 4,738 |
| Other | - | - | - |
| **Total securitisation exposures** | 7,853 | 1,701 | 9,554 |

## 8 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 between 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 undistributed 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.

Under the application of Basel III APRA requires that these equity investments be deducted 100% from CET1.

### APS 330 Table 16b to 16f – Equity investment exposures

| | 30 June 2014 | |
|---|---|---|
| Equity Investments | Balance sheet value $M | Fair value $M |
| Value of listed (publicly traded) equities | 782 | 782 |
| Value of unlisted (privately held) equities | 1,794 | 1,794 |
| **Total** (1) | 2,576 | 2,576 |

(1) Equity holdings comprise $1,694 million Investments in Associates, $1 million Assets Held for Sale and $881 million available-for-sale securities.

| | 31 December 2013 | |
|---|---|---|
| Equity Investments | Balance sheet value $M | Fair value (1) $M |
| Value of listed (publicly traded) equities | 1,163 | 1,191 |
| Value of unlisted (privately held) equities | 1,732 | 1,732 |
| **Total** (2) | 2,895 | 2,923 |

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

(2) Equity holdings comprise $2,068 million Investments in Associates, $723 million available-for-sale securities and $104 million Assets Held for Sale (excluding amounts treated as goodwill and intangibles for regulatory capital purposes).

| | 30 June 2013 | |
|---|---|---|
| Equity Investments | Balance sheet value $M | Fair value (1) $M |
| Value of listed (publicly traded) equities | 1,047 | 1,070 |
| Value of unlisted (privately held) equities | 1,642 | 1,642 |
| **Total** (2) | 2,689 | 2,712 |

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

(2) Equity holdings comprise $2,080 million Investments in Associates, $3 million Assets Held for Sale and $606 million available-for-sale securities.

| | Half year ended | | |
|---|---|---|---|
| Gain/(Losses) on Equity Investments | 30 Jun 14 $M | 31 Dec 13 $M | 30 Jun 13 $M |
| Cumulative realised gains in reporting period | **22** | 5 | - |
| Total unrealised gains | **50** | 205 | 192 |

# 9 Market Risk

Market risk is the potential of an adverse impact on the Group's earnings or capital from changes in interest rates, foreign exchange rates, equity and commodity prices, credit spreads, and the resale value of assets underlying operating leases at maturity (lease residual value risk).

The Group makes a distinction between Traded and Non-traded market risk for the purposes of risk management, measurement and reporting. Traded market risk principally arises from the Group's trading book activities within the Institutional Banking and Markets business and its subsidiary financial institutions.

Non-traded market risk includes interest rate risk that arises from banking book activities, non-traded equity risk, market risk arising from the insurance business, structural foreign exchange risk and lease residual value risk.

## 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's Asset and Liability Committee (ALCO). The central Portfolio and Market Risk Management (PMRM) unit provides support to the Risk Committee and ALCO in the performance of their market risk management accountabilities.

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

- An approved Trading, Treasury or Origination function;
- An independent Market Risk Oversight area; and
- A Senior Management Oversight Committee.

The table on page 67 details the major market risk types and identifies who performs these key activities for each.

The Market Risk Oversight areas support the implementation of the Board approved policies through the establishment of Market Risk Standards and other documents that define the operational requirements for managing market risk, including details of sub-limits, stress testing, key controls, delegations, reporting and escalation requirements. The Market Risk Oversight areas are responsible for the daily monitoring and analysis of risk positions against the limits and the profit and loss performance of the Trading, Treasury or Origination areas for which they have responsibility, including providing independent valuations of equity holdings across the Group and lease residual valuations. The Senior Management Oversight 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 market risk management framework together with any issues that may arise.

## Internal Market Risk Measurement

The Group uses 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 movement in market rates. The VaR measure for Non-traded Banking Book market risk uses six years of daily movement in market rates.

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

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

VaR is driven by historical observations and is not an estimate of the maximum 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 confidence levels significantly higher than 97.5%. Management then uses these results in decisions 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's ALCO on a regular basis. Stress tests also include a range of forward looking macro scenario stresses.

| Risk Type | Owned By | Oversight By | Oversight | Oversight Committees | Oversight |
|---|---|---|---|---|---|
| Traded Market Risk | CBA Domestic & Offshore:<br>• Institutional Banking & Markets<br>• Group Treasury Liquidity Operations<br>• International Financial Services (IFS) | • Portfolio & Market Risk Management (PMRM)<br>• IFS Risk Management and in-country risk teams<br>• ASB Market Risk | Global Monitoring by Portfolio & Market Risk Management (PMRM) | • Market Risk Forum<br>• CBA ALCO<br>• ASB Market Risk Committee<br>• ASB ALCO<br>• PTBC ALCO | Risk Committee and Subsidiary Boards or their Committees |
| | International & Domestic Banking Subsidiaries:<br>• ASB Global Markets (New Zealand)<br>• PT Bank Commonwealth (PTBC) Treasury (Indonesia) | • ASB Market Risk<br>• PTBC Risk Management (Indonesia) & IFS Risk Management (Sydney) | | | |
| Interest Rate Risk in the Banking Book | CBA Domestic & Offshore:<br>• Group Treasury | Portfolio & Market Risk Management (PMRM) | | • Market Risk Forum<br>• CBA ALCO<br>• ASB Market Risk Committee<br>• ASB ALCO<br>• PTBC ALCO | |
| | International & Domestic Banking Subsidiaries:<br>• ASB Treasury (New Zealand)<br>• PTBC Treasury (Indonesia) | • ASB Market Risk<br>• Portfolio & Market Risk Management (PMRM)<br>• PTBC Risk Management & IFS Risk Management | | | |
| Non-Traded Market Risk in Insurance Business | Wealth Management:<br>• The Colonial Mutual Life Assurance Society Limited (CMLA)<br>• Commonwealth Insurance Limited | • Wealth Risk Management | | • CommInsure ALCO<br>• CBA ALCO | |
| Non-Traded Equity Risk | CBA Domestic & Offshore:<br>• Wealth Management: Colonial First State Global Asset Management (CFSGAM) & Colonial First State Investments (CFSI)<br>• Institutional Banking & Markets | • Wealth Risk Management<br>• Portfolio & Market Risk Management (PMRM) | | • CFSGAM and CFS Risk Committee<br>• CBA ALCO | |
| Lease Residual Value Risk | CBA Domestic & Offshore:<br>• Institutional Banking & Markets | • Portfolio & Market Risk Management (PMRM) | | • Residual Value Risk Committee | |
| Seed Funding Risk | Globally by:<br>• Wealth Management CFSGAM and CFSI | • Wealth Risk Management | | • CFSGAM and CFS Seed Trust Risk Committee<br>• CBA ALCO | |
| Defined Benefit Pension Plans - Funding Risk | Globally by:<br>• Group Finance | • Wealth Risk Management | | • CBA ALCO<br>• Employee Superannuation Strategy Committee (ESSC) | |

## 9.1 Traded Market Risk

The Group trades and distributes financial market products and provides risk management solutions 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 interest rate, foreign exchange, 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 warehousing market risk. Trading positions are valued at fair value and taken to profit and loss on a mark-to-market basis. Market liquidity risk is controlled by concentrating trading activity in highly liquid markets.

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

CVA is comparable to Traded market risk and is managed using a VaR and stress-testing framework. The Risk Committee and the Group's ALCO regularly monitor CVA exposures. Daily oversight is managed by the independent Market Risk Oversight function. The Basel III framework has required a CVA regulatory capital charge since 1 January 2013.

### 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 interest rates, foreign exchange, equity, commodity and credit spread risk using this model.

There are also a small number of products in the trading book for which regulatory capital is determined using the Standard Method. 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. In accordance with the Standard Method, the Group applies the contingent loss and simplified approaches against these products for capital calculations, and a specific risk charge is calculated for debt specific and equity position risk. These products are therefore 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 rates related products are managed in this manner.

## Capital Calculation Methods (continued)

The breakdown of RWA for Traded market risk by modelling method is summarised below and the capital requirement for Traded market risk under the Standard Method is disclosed in APS 330 Table 13b below.

| Traded Market Risk RWA by Modelling Approach | 30 Jun 14 $M | 31 Dec 13 $M | 30 Jun 13 $M |
|---|---|---|---|
| Internal Model Approach | **2,773** | 3,729 | 3,208 |
| Standard Method | **2,511** | 2,241 | 1,943 |
| **Total Traded Market Risk RWA** | **5,284** | 5,970 | 5,151 |

### APS 330 Table 13b – Traded Market Risk under the Standard Method

| Exposure Type | 30 Jun 14 $M | 31 Dec 13 $M | 30 Jun 13 $M |
|---|---|---|---|
| Interest Rate risk | **131. 3** | 131. 4 | 125. 9 |
| Equity risk | **64. 7** | 40. 0 | 23. 9 |
| Foreign Exchange risk | **4. 9** | 7. 9 | 5. 6 |
| Commodity risk | **-** | - | - |
| **Total** | **200. 9** | 179. 3 | 155. 4 |
| **Risk Weighted Asset equivalent** [1] | **2,511** | 2,241 | 1,943 |

(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.

### APS 330 Table 14d – Value-at-risk and Stressed 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 2014 | 36 | 50 | 21 | 29 |
| Over the 6 months to 31 December 2013 | 45 | 65 | 36 | 45 |
| Over the 6 months to 30 June 2013 | 34 | 44 | 26 | 42 |

| | Aggregate SVaR Over the Reporting Period | | | |
|---|---|---|---|---|
| Stressed VaR [1] | Mean value $M | Maximum value $M | Minimum value $M | As at balance date $M |
| Over the 6 months to 30 June 2014 | 47 | 73 | 31 | 42 |
| Over the 6 months to 31 December 2013 | 53 | 78 | 38 | 56 |
| Over the 6 months to 30 June 2013 | 43 | 100 | 22 | 62 |

| Summary Table of the Number of Back-Testing Outliers [2] | |
|---|---|
| Over the 6 months to 30 June 2014 | 1 |
| Over the 6 months to 31 December 2013 | - |
| Over the 6 months to 30 June 2013 | 1 |

(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 was one outlier during the 6 months to 30 June 2014, when the hypothetical loss exceeded VaR at 99% confidence for the corresponding day. Total Traded Market Risk backtesting exceptions indicates acceptable operation of the VaR model within APRA guidelines.

| | Over the Reporting Period 1 January 2014 to 30 June 2014 | |
|---|---|---|
| | Hypothetical loss | VaR 99% |
| **Date** | **$M** | **$M** |
| 26 February 2014 | (12.3) | (10.6) |

| | Over the Reporting Period 1 July 2013 to 31 December 2013 | |
|---|---|---|
| | Hypothetical loss | VaR 99% |
| **Date** | **$M** | **$M** |
| | - | - |

| | Over the Reporting Period 1 January 2013 to 30 June 2013 | |
|---|---|---|
| | Hypothetical loss | VaR 99% |
| **Date** | **$M** | **$M** |
| 21 June 2013 | (8.1) | (7.9) |

## 9.2 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.

### 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 New Zealand banking subsidiary, ASB Bank, manages its own domestic interest rate risk in the Banking Book in accordance with its own interest rate risk management policies and the policies of the Group. The Group also has a relatively small banking subsidiary in Indonesia, PTBC that manages its own interest rate risk in the Banking Book on a similar basis.

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 in interest rates across the yield curve.

The prospective change to the net interest income is measured by using an Asset and 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.

#### (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 for all balance sheet assets and liabilities due 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

APRA requires Australian banks accredited for the Advanced Approach under the Basel III framework to incorporate regulatory capital for IRRBB in their assessment of total capital. The capital requirement associated with interest rate risk in the banking book item is measured by the Group's internal measurement model which incorporates the following risk calculations:

- 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.
- 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.
- 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.
- 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.

These interest rate risk calculations are summed (subject to the capital requirement not being less than zero in total) and multiplied by 12.5 to derive Regulatory RWA for IRRBB in accordance with APS Prudential Standard APS 110.

### Stress Testing of Interest Rate Risk in the Banking Book

Stress testing of IRRBB measures the impact of extreme but plausible market movements on both an earnings and an economic value basis. The results are reported to the Risk Committee and the Group ALCO on a regular basis.

The Stress Testing figures in APS 330 Table 17b (below) represent expected net change in the economic value of assets and liabilities, held for purposes other than trading, based on a 200 basis point parallel rate shock. In addition APS 330 Table 17b includes the Regulatory RWA for IRRBB.

**APS 330 Table 17b – Interest Rate Risk in the Banking Book**

| | Change in Economic Value | | |
|---|---|---|---|
| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 |
| **Stress Testing: Interest Rate Shock Applied** | $M | $M | $M |
| **AUD** | | | |
| 200 basis point parallel increase | **(503)** | (802) | (885) |
| 200 basis point parallel decrease | **550** | 869 | 960 |
| **NZD** | | | |
| 200 basis point parallel increase | **(209)** | (180) | (116) |
| 200 basis point parallel decrease | **223** | 193 | 125 |
| **Other** | | | |
| 200 basis point parallel increase | **(18)** | (23) | (23) |
| 200 basis point parallel decrease | **18** | 23 | 23 |

| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 |
|---|---|---|---|
| **Regulatory RWA** | $M | $M | $M |
| **Interest rate risk in the banking book** | **14,762** | 17,543 | 16,289 |

### 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 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 business activities in divisions including Institutional Banking and Markets, and Wealth Management. This activity is subject to governance arrangements approved by Risk Committee, and is monitored within the Risk Management function.

A 20-day, 97.5% confidence VaR is used to measure the economic impact of adverse changes in value. The 30 June 2014 VaR measure is $70 million (30 June 2013: $112 million) (refer also to section 8 "Equity Risk", page 65).

### 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 assets under management and reduce the fee income collected for this class of business and this risk is included in capital calculations.

#### 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 within an asset and liability management framework and monitoring the risk on a monthly basis.

However, for some contracts the ability to match asset characteristics with policy obligations is constrained by a number of factors such as the lack of investments that substantially align cash flows with the cash payments to be made to policyholders. This risk is managed through the use of hedging instruments.

#### 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 2014.

### 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 then exposes the Group to the movement in second-hand prices of these assets. The lease residual value risk within the Group is controlled through a risk management framework approved by the Risk Committee. Supporting this framework is an internal Market Risk Standard document, which has a risk limit framework that includes asset, geographic and maturity concentration limits, and stress testing that is performed by the Market Risk Oversight function.

### Commonwealth Bank Group Super Fund

The Commonwealth Bank Group Super Fund and the Commonwealth Bank of Australia (UK) Staff Benefits Scheme are the staff superannuation fund for the Group's current and former employees. These pension plans exposes the Group to longevity risk, currency risk, interest rate risk, inflation risk and market risk through the guarantees that have been made to members. Asset-Liability Matching (ALM) practices are performed to ensure the plan assets are appropriately matched to the nature and maturities of the defined benefit obligations.

## 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, has sufficient quality assets to borrow against on a secured basis, has sufficient quality liquid assets to sell to raise immediate funds without adversely affecting the Group's net asset value.

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, New Zealand, Bankwest, and overseas 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.

### Liquidity and Funding Risk Management Framework

The Group's liquidity and funding policies are approved by the Board and agreed with APRA. The Group has an Asset and Liability Committee (ALCO) 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. Group Treasury manages the Group's liquidity and funding positions in accordance with the Group's liquidity policies and has ultimate authority to execute liquidity decisions should the Group Contingent Funding Plan be evoked. Group Risk Management provides oversight of the Group's liquidity and

### Liquidity and Funding Risk Management Framework (continued)

funding risks, compliance with Group policies and manages the Group's relationship with prudential regulators.

Subsidiaries within the Colonial Group apply their own liquidity and funding strategies to address their specific needs. The Group's New Zealand banking subsidiary, ASB Bank, manages its own domestic liquidity and funding needs in accordance with its own liquidity policies and the policies of the Group. ASB's liquidity policy is also overseen by the Reserve Bank of New Zealand. The Group also has a relatively small banking subsidiary in Indonesia that manages its own liquidity and funding on a similar basis.

### 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, reviewed regularly and monitored to ensure that they are met. The Group's market capacity is regularly assessed and used as a factor in funding strategies;
- At least a prescribed minimum level of assets are retained in highly liquid form;
- This level of liquid assets complies with crisis scenario assumptions related to "stressed" wholesale and retail market conditions; is adequate to meet known funding obligations over certain timeframes and are held to provide for the risk of the Group's committed but undrawn lending obligations;
- Liquid assets are held in Australian dollar and foreign currency denominated securities in accordance with expected requirements;
- The Group has three categories of liquid assets within its domestic liquid assets portfolio. The first includes cash, government and Australian semi-government bonds. The second includes negotiable certificates of deposit, bank bills, bank term securities, supranational bonds and Australian Residential Mortgage-backed Securities (RMBS) securities that meet certain Reserve Bank of Australia (RBA) requirements. The final is internal RMBS, being mortgages that have been securitised but retained by the Bank, that are repo-eligible with the RBA under a stress scenario; and
- Offshore branches and subsidiaries adhere to liquidity policies and hold appropriate foreign currency liquid assets as required. All securities are central bank repo-eligible under normal market conditions.

The Group's key funding tools include:

- Its consumer retail funding base, which includes a wide range of retail transaction accounts, savings accounts and term deposits for individual consumers;
- Its small business customer and institutional deposit base; and
- Its wholesale international and domestic funding programs which include 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; U.S. Extendible Notes programs; Australian dollar Domestic Debt Program; U.S. 144a and 3a2 Medium Term Note Programs; Euro Medium Term Note Program, multi jurisdiction Covered Bond program and its Medallion securitisation program.

The Group's key liquidity tools include:

- A liquidity management model similar to a "maturity ladder" or "liquidity 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 "stress" 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;
- Central bank repurchase agreement facilities provide the Group with the ability to borrow funds on a secured basis, even when normal funding markets are unavailable; and
- A robust Contingent Funding Plan is in place and regularly tested so that it can be evoked in case of need due to a liquidity event.

## 10 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 business operations, exposing the Group to loss, reputation and/or regulatory scrutiny.

### Operational Risk Objectives

The Group's operational risk objectives support the achievement of its financial and business goals, through:

- The maintenance of an effective internal control environment and system;
- The 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 (ORMF) is integral to the achievement of the Group's operational risk objectives and is embedded within business practices across the Group. It comprises of four core components to ensure sound management and measurement of the Group's operational risk. The core components are:

- Governance;
- Management, Measurement and Systems;
- Analytics, Review and Reporting; and
- People and Culture.

The Group continues to enhance and embed its ORMF, 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.

### Compliance Risk Management

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

The Group's Compliance Risk Management Framework (CRMF) is consistent with the Australian Standard on Compliance Programs and is designed to help meet the Group's obligations under the Corporations Act 2001, the Group's Australian Financial Services Licence and Australian Credit Licenses. The CRMF incorporates key mandatory requirements and roles and responsibilities for achieving compliance. It captures Compliance Obligations, Group Policies, Regulatory Change and People and Culture considerations.

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.

### Roles and Responsibilities

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

Within the Group, accountability for operational and compliance risk has been structured into "Three Lines of Defence" as per section 6.1.

### Operational Risk Policies

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.

### Risk Mitigation through Insurance

The Group insures against selected unexpected insurable operational risk losses. The Group's insurance program is structured based upon the Group's risk appetite and risk retention strategies.

In designing the Group's insurance program, the adequacy and appropriateness of cover are considered along with the Group's operational risk profile.

The Group appoints an external advisor to provide insurance risk management advice and to deliver the optimal insurance program. The insurance program is subject to review by the Executive Committee, the Risk Committee and the Board.

### Capital Measurement Approach

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

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. Monte Carlo simulations are used to produce regulatory and economic capital results for the Group and each business.

This modelling system has been subject to review by APRA and other independent third parties. The operational risk measurement approach integrates the use of relevant factors as follows:

**Direct inputs**

- Scenario Analysis to capture business judgments (also called Quantitative Risk Assessments); and
- Internal Loss Data.

**Indirect inputs**

- External Loss Data (sourced from external providers such as Operational Riskdata eXchange association (ORX));
- Business Environment and Internal Control Factors; and
- Judgmental overlays and benchmarks.

### Economic Capital Calculation

The outcomes of the operational risk capital measurement process include an economic capital requirement based on a 99.95% confidence interval that is calibrated to the Group's overall target AA debt rating.

### Economic Capital Calculation (continued)

A primary outcome of the economic capital framework is that capital for operational risk is allocated across the Group's Business Units and this information is used to assist risk review and to drive risk-adjusted performance management metrics for each Business Unit.

### Regulatory Capital Calculation

The Group has approval from APRA to calculate its operational risk regulatory capital using the Basel II Advanced Measurement Approach, the requirements of which are unchanged under Basel III. Smaller overseas operations are computed using the Standardised Approach.

**APS 330 Table 15c – Capital requirements for operational risk**

| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 |
|---|---|---|---|
| | $M | $M | $M |
| Advanced measurement approach | **28,366** | 28,331 | 27,914 |
| Standardised approach | **165** | 149 | 130 |
| **Total operational risk RWA** | **28,531** | 28,480 | 28,044 |

# 11 Appendices

## 11.1 Detailed Capital Disclosures Template (APS 330 Attachment A)

The capital disclosures detailed in the template below represents the post 1 January 2018 Basel III common disclosure requirements. The Group is applying the Basel III regulatory adjustments in full as implemented by APRA. These tables should be read in conjunction with section 11.2 Regulatory balance sheet and section 11.3 Reconciliation between detailed capital disclosures template and the Regulatory balance sheet.

| Summary Group Capital Adequacy Ratios (Level 2) | 30 Jun 14 Basel III APRA % | 30 Jun 14 Basel III Internationally Harmonised % |
|---|---|---|
| CET1 | 9.3 | 12.1 |
| Tier 1 | 11.1 | 14.2 |
| Total Capital | 12.0 | 15.1 |

| | | 30 Jun 14 Basel III $M | Reconciliation Table Reference |
|---|---|---|---|
| **Common Equity Tier 1 Capital: instruments and reserves** | | | |
| 1 | Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital | **27,165** | Table A |
| 2 | Retained earnings | **18,459** | |
| 3 | Accumulated other comprehensive income (and other reserves) | **1,962** | |
| 4 | Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies) | **-** | |
| 5 | Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1) | **-** | Table B |
| 6 | Common Equity Tier 1 Capital before regulatory adjustments | **47,586** | |
| **Common Equity Tier 1 Capital : regulatory adjustments** | | | |
| 7 | Prudential valuation adjustments | **-** | |
| 8 | Goodwill (net of related tax liability) | **(7,566)** | Table C |
| 9 | Other intangibles other than mortgage servicing rights (net of related tax liability) | **(2,149)** | Table C |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | **-** | Table D |
| 11 | Cash-flow hedge reserve | **(224)** | |
| 12 | Shortfall of provisions to expected losses (1) | **(716)** | |
| 13 | Securitisation gain on sale (as set out in paragraph 562 of Basel II framework) | **-** | |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities | **(48)** | |
| 15 | Defined benefit superannuation fund net assets | **-** | |
| 16 | Investments in own shares (if not already netted off paid-in capital on reported balance sheet) | **(1)** | |
| 17 | Reciprocal cross-holdings in common equity | **-** | |
| 18 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold) | **-** | Table G |
| 19 | Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) | **-** | Table G |
| 20 | Mortgage service rights (amount above 10% threshold) | **-** | |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) | **-** | Table D |
| 22 | Amount exceeding the 15% threshold | **-** | |
| 23 | of which: significant investments in the ordinary shares of financial entities | **-** | Table G |
| 24 | of which: mortgage servicing rights | **-** | |
| 25 | of which: deferred tax assets arising from temporary differences | **-** | Table D |
| | CET1 (Internationally Harmonised) | **36,882** | |

(1) Represents regulatory expected loss (pre-tax) using stressed loss given default assumptions associated with the loan portfolio in excess of eligible credit provisions of $502 million and general reserve for credit losses (post-tax) of $214 million.

## 11.1 Detailed Capital Disclosures Template (APS 330 Attachment A) (continued)

| | | 30 Jun 14 Basel III $M | Reconciliation Table Reference |
|---|---|---|---|
| **APRA Specific Regulatory Adjustments** | | | |
| 26 | National specific regulatory adjustments (rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i, 26j) | **-** | |
| 26a | of which: treasury shares | **162** | Table A |
| 26b | of which: offset to dividends declared due to a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI | **-** | |
| 26c | of which: deferred fee income | **(103)** | |
| 26d | of which: equity investments in financial institutions not reported in rows 18, 19 and 23 | **(3,717)** | Table G |
| 26e | of which: deferred tax assets not reported in rows 10, 21 and 25 | **(1,164)** | Table D |
| 26f | of which: capitalised expenses | **(285)** | |
| 26g | of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements | **(91)** | Table G |
| 26h | of which: covered bonds in excess of asset cover in pools | **-** | |
| 26i | of which: undercapitalisation of a non-consolidated subsidiary | **-** | |
| 26j | of which: other national specific regulatory adjustments not reported in rows 26a to 26i | **(272)** | |
| 27 | Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions | **-** | |
| 28 | Total regulatory adjustments to CET1 (1) | **16,174** | |
| 29 | CET1 (APRA) | **31,412** | |
| **Additional Tier 1 Capital: instruments** | | | |
| 30 | Directly issued qualifying Additional Tier 1 instruments | **-** | |
| 31 | of which: classified as equity under applicable accounting standards | **-** | |
| 32 | of which: classified as liabilities under applicable accounting standards | **2,000** | Table E |
| 33 | Directly issued capital instruments subject to phase out from Additional Tier 1 | **3,792** | Table E |
| 34 | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1) | **-** | |
| 35 | of which: instruments issued by subsidiaries subject to phase out | **404** | Table E |
| 36 | Additional Tier 1 Capital before regulatory adjustments | **6,196** | Table E |
| **Additional Tier 1 Capital: regulatory adjustments** | | | |
| 37 | Investments in own Additional Tier 1 instruments | **-** | |
| 38 | Reciprocal cross-holdings in Additional Tier 1 instruments | **-** | |
| 39 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold) | **-** | |
| 40 | Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | **-** | |
| 41 | National specific regulatory adjustments (rows 41a, 41b, 41c) | **-** | |
| 41a | of which: holdings of capital instruments in group members by other group members on behalf of third parties | **-** | |
| 41b | of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40 | **-** | |
| 41c | of which: other national specific regulatory adjustments not reported in rows 41a and 41b | **-** | |
| 42 | Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions | **-** | |
| 43 | Total regulatory adjustments to Additional Tier 1 Capital | **-** | |
| 44 | Additional Tier 1 Capital (AT1) | **6,196** | Table E |
| 45 | Tier 1 Capital (T1=CET1+AT1) | **37,608** | |
| **Tier 2 Capital: instruments and provisions** | | | |
| 46 | Directly issued qualifying Tier 2 instruments | **234** | Table F |
| 47 | Directly issued capital instruments subject to phase out from Tier 2 | **2,530** | Table F |
| 48 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | **-** | |
| 49 | of which: instruments issued by subsidiaries subject to phase out | **-** | |
| 50 | Provisions | **171** | |
| 51 | Tier 2 Capital before regulatory adjustments | **2,935** | |

(1) Total regulatory adjustments to CET1 of $16,174 million in row 28 is net of APRA's allowance for treasury shares held by the group's employee share scheme trusts of $162 million as detailed in row 26a.

## 11.1 Detailed Capital Disclosures Template (APS 330 Attachment A) (continued)

| | | 30 Jun 14 Basel III $M | Reconciliation Table Reference |
|---|---|---|---|
| **Tier 2 Capital: regulatory adjustments** | | | |
| 52 | Investments in own Tier 2 instruments | - | |
| 53 | Reciprocal cross-holdings in Tier 2 instruments | - | |
| 54 | Investments in the Tier 2 Capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold) | - | |
| 55 | Significant investments in the Tier 2 Capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions | - | |
| 56 | National specific regulatory adjustments (rows 56a, 56b, 56c) | - | |
| 56a | of which: holdings of capital instruments in group members by other group members on behalf of third parties | - | |
| 56b | of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55 | - | |
| 56c | of which: other national specific regulatory adjustments not reported in rows 56a and 56b | - | |
| 57 | Total regulatory adjustments to Tier 2 Capital | - | |
| 58 | Tier 2 Capital (T2) | **2,935** | |
| 59 | Total Capital (TC=T1+T2) | **40,543** | |
| 60 | Total risk-weighted assets based on APRA standards | **337,715** | |
| **Capital ratios and buffers** | | | |
| 61 | Common Equity Tier 1 (as a percentage of risk-weighted assets) | **9. 3%** | |
| 62 | Tier 1 (as a percentage of risk-weighted assets) | **11. 1%** | |
| 63 | Total Capital (as a percentage of risk-weighted assets) | **12. 0%** | |
| 64 | Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements, expressed as a percentage of risk-weighted assets) | - | |
| 65 | of which: capital conservation buffer requirement | - | |
| 66 | of which: ADI-specific countercyclical buffer requirements | - | |
| 67 | of which: G-SIB buffer requirement (not applicable) | - | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets) | - | |
| **National minima** | | | |
| 69 | National Common Equity Tier 1 minimum ratio | **4. 5%** | |
| 70 | National Tier 1 minimum ratio | **6. 0%** | |
| 71 | National total capital minimum ratio | **8. 0%** | |
| **Amount below thresholds for deductions (not risk-weighted)** | | | |
| 72 | Non-significant investments in the capital of other financial entities | **877** | Table G |
| 73 | Significant investments in the ordinary shares of financial entities | **2,840** | Table G |
| 74 | Mortgage servicing rights (net of related tax liability) | - | |
| 75 | Deferred tax assets arising from temporary differences (net of related tax liability) | **1,164** | Table D |
| **Applicable caps on the inclusion of provisions in Tier 2** | | | |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap) | **171** | |
| 77 | Cap on inclusion of provisions in Tier 2 under standardised approach | **518** | |
| 78 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap) | - | |
| 79 | Cap for inclusion of provisions in Tier 2 under internal ratings-based approach | **1,486** | |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)** | | | |
| 80 | Current cap on CET1 instruments subject to phase out arrangements | - | |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | - | |
| 82 | Current cap on AT1 instruments subject to phase out arrangements | **4,196** | Table E |
| 83 | Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities) | **1,114** | Table E |
| 84 | Current cap on Tier 2 instruments subject to phase out arrangements | **2,530** | Table F |
| 85 | Amount excluded from Tier 2 due to cap (excess over cap after redemptions and maturities) | - | Table F |

## 11.2 Regulatory Balance Sheet

The following table provides details on the Commonwealth Bank of Australia Group's balance sheet and the Level 2 [1] Regulatory balance sheet as at 30 June 2014.

| | Group Balance Sheet $M | Adjustment [2] $M | Level 2 Regulatory Balance Sheet $M | Template/ Reconciliation Table Reference |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and liquid assets | **26,409** | (501) | 25,908 | |
| Receivables due from other financial institutions | **8,065** | (101) | 7,964 | |
| Assets at fair value through Income Statement: | | | | |
| Trading | **21,459** | (23) | 21,436 | |
| Insurance | **15,142** | (15,142) | - | |
| Other | **760** | (199) | 561 | |
| Derivative assets | **29,247** | 108 | 29,355 | |
| Available-for-sale investments | **66,137** | (65) | 66,072 | Table G |
| Loans, bills discounted and other receivables | **597,781** | (2,253) | 595,528 | |
| Bank acceptances of customers | **5,027** | - | 5,027 | |
| Investment in regulatory non consolidated subsidiaries [3] | **-** | 1,219 | 1,219 | Table G |
| Property, plant and equipment | **2,816** | (26) | 2,790 | |
| Investment in associates | **1,844** | (150) | 1,694 | Table G |
| Intangible assets | **9,792** | - | 9,792 | Table C |
| Deferred tax assets | **586** | 102 | 688 | Table D |
| Other assets | **6,386** | (1,851) | 4,535 | |
| **Total assets** | **791,451** | (18,882) | 772,569 | |
| **Liabilities** | | | | |
| Deposits and other public borrowings | **498,352** | 2,508 | 500,860 | |
| Payables due to other financial institutions | **24,978** | - | 24,978 | |
| Liabilities at fair value through Income Statement | **7,508** | - | 7,508 | |
| Derivative liabilities | **27,259** | (76) | 27,183 | |
| Bank acceptances | **5,027** | - | 5,027 | |
| Current tax liabilities | **688** | (61) | 627 | |
| Deferred tax liabilities | **366** | (366) | - | Table D |
| Other provisions | **1,265** | (190) | 1,075 | |
| Insurance policy liabilities | **13,166** | (13,166) | - | |
| Debt issues | **142,219** | (4,397) | 137,822 | |
| Managed funds units on issue | **1,214** | (1,214) | - | |
| Bills payable and other liabilities | **10,467** | (1,614) | 8,853 | |
| Loan capital | **9,594** | - | 9,594 | Table E |
| **Total liabilities** | **742,103** | (18,576) | 723,527 | |
| **Net assets** | **49,348** | (306) | 49,042 | |
| **Shareholders' equity** | | | | |
| Share capital: | | | | |
| Ordinary share capital | **27,036** | 129 | 27,165 | Row 1, Table A |
| Other equity instruments | **939** | - | 939 | Table E |
| Reserves | **2,009** | (47) | 1,962 | Row 3 |
| Retained profits | **18,827** | (368) | 18,459 | Row 2 |
| **Shareholders' equity attributable to Equity holders of the Bank** | **48,811** | (286) | 48,525 | |
| Non-controlling interests | **537** | (20) | 517 | Table B |
| **Total Shareholders' Equity** | **49,348** | (306) | 49,042 | |

(1) Level 2 balance sheet based on historic definition of Level 2 Group, prior to APRA clarification provided in May 2014.

(2) Reflects the deconsolidation of the Insurance and funds management entities and those entities through which securitisation of the Group's assets are conducted. These entities are classified as non-consolidated subsidiaries by APRA and are excluded from the Level 2 Regulatory Consolidated Banking Group.

(3) Represents the tangible investment in non-consolidated subsidiaries only. No adjustment has been made to the intangible component of the investment as APRA requires this to be deducted in full from CET1.

## 11.3 Reconciliation between Detailed Capital Template and Regulatory Balance Sheet

The following tables provide additional information on the differences between the detailed capital disclosures (section 11.1) and the Regulatory balance sheet (section 11.2).

| Table A | 30 Jun 14 $M | Template Reference |
|---|---|---|
| **Share Capital** | | |
| Ordinary Share Capital | 27,036 | |
| Add Treasury Shares held by the Group's life insurance operations | 129 | |
| Total per Balance Sheet (Ordinary Share Capital Internationally Harmonised) (1) | 27,165 | Row 1 |
| Treasury Shares held by the Group's employee share scheme trusts (APRA specific adjustment) | 162 | Row 26a |
| **Total Ordinary Share Capital and Treasury Shares (APRA)** | 27,327 | |

| Table B | 30 Jun 14 $M | Template Reference |
|---|---|---|
| **Non Controlling Interests** | | |
| Total per Balance Sheet (1) | 517 | |
| Less ASB perpetual Shares transferred to Additional Tier 1 Capital (refer Table E) | (505) | |
| Less other non controlling interests not included in capital | (12) | |
| **Total per Capital Template (APRA and Internationally Harmonised)** | - | Row 5 |

| Table C | 30 Jun 14 $M | Template Reference |
|---|---|---|
| **Goodwill & Other Intangibles** | | |
| Total per Balance Sheet (1) | 9,792 | |
| Less capitalised software and other intangibles separately disclosed in template | (2,226) | |
| **Total per Capital Template - Goodwill (APRA and Internationally Harmonised)** | 7,566 | Row 8 |
| Capitalised software | 1,854 | |
| Other intangibles | 372 | |
| Total per Balance Sheet | 2,226 | |
| Less DTL associated with other intangibles | (77) | |
| **Total per Capital Template - Other Intangibles (APRA and Internationally Harmonised)** | 2,149 | Row 9 |

| Table D | 30 Jun 14 $M | Template Reference |
|---|---|---|
| **Deferred Tax Assets** | | |
| Deferred tax asset per Balance Sheet (1) | 688 | |
| Less deferred tax liability per Balance Sheet (1) | - | |
| Net Deferred Tax Assets (2) | 688 | |
| Add back deferred tax liability associated with other intangibles | 77 | |
| Add deferred tax asset associated with General reserve for credit losses | 92 | |
| Adjustments required in accordance with APRA prudential standards (3) | 307 | |
| Deferred tax asset adjustment before applying prescribed thresholds (APRA specific adjustment) | 1,164 | Row 26e |
| Less amounts below prescribed threshold - risk weighted (4) | (1,164) | Row 75 |
| **Total per Capital Template (Internationally Harmonised)** | - | Row 10, 21, 25 |

(1) Represents the balance per Level 2 Regulatory balance sheet.
(2) Represents the balance of deferred tax asset net of deferred tax liability per Level 2 Regulatory Balance Sheet.
(3) Represents the deferred tax balances associated with reserves ineligible for inclusion in regulatory capital and the impact of limitations of netting of balances within the same geographic tax authority.
(4) The BCBS allows these items to be risk-weighted at 250% if the balance falls below prescribed threshold levels. APRA require these to be deducted from Common Equity Tier 1 Capital.

## 11.3 Reconciliation between Detailed Capital Template and Regulatory Balance Sheet (continued)

| Table E | 30 Jun 14 $M | Template Reference |
|---|---|---|
| **Additional Tier 1 Capital** | | |
| Total Loan Capital per Balance Sheet (1) | 9,594 | |
| Less fair value hedge adjustments (2) | (394) | |
| Total Loan Capital net of issue costs at their contractual values | 9,200 | |
| Less amount related to Tier 2 Capital Instruments | (3,368) | |
| Total Tier 1 Loan Capital | 5,832 | |
| Add ASB perpetual Shares transferred from Non Controlling interest (refer Table B) | 505 | |
| Add other equity instruments included in share capital (3) | 939 | |
| Add issue costs (4) | 34 | |
| Less Basel III transitional relief amortisation for directly issued instruments (5) | (1,013) | Row 83 |
| Less Basel III transitional relief amortisation for instruments issued by subsidiaries (5) | (101) | Row 83 |
| **Total per Capital Template** | 6,196 | Row 36, 44 |
| | | |
| **Additional Tier 1 Capital Instruments comprises** | | |
| **Basel III Complying Instruments** | | |
| PERLS VI | 2,000 | Row 32 |
| | | |
| **Basel III Non Complying Instruments** | | |
| PERLS III | 1,166 | |
| PERLS V | 2,000 | |
| TPS 03 | 585 | |
| TPS 06 (3) (4) | 948 | |
| Other Instruments | 106 | |
| Less Basel III transitional relief amortisation for directly issued instruments (5) | (1,013) | Row 83 |
| | 3,792 | Row 33 |
| **Basel III Non Complying Instruments - issued by subsidiaries** | | |
| ASB preference shares | 505 | |
| Less Basel III transitional relief amortisation for instruments issued by subsidiaries (5) | (101) | Row 83 |
| | 404 | Row 35 |
| **Total Basel III Non Complying Instruments** | 4,196 | Row 82 |
| | | |
| **Total Additional Tier 1 Capital Instruments (APRA and Internationally Harmonised)** | 6,196 | Row 36, 44 |

| Table F | 30 Jun 14 $M | Template Reference |
|---|---|---|
| **Tier 2 Capital Instruments** | | |
| Total included in Balance Sheet | 3,368 | |
| Less amount of Tier 2 debt issued by subsidiary ineligible for inclusion in the Group's Capital (6) | (138) | |
| Add issue costs (4) | 17 | |
| Less amortisation of instruments (7) | (483) | |
| Less Basel III transitional relief amortisation for directly issued instruments (5) | - | Row 85 |
| **Total per Capital Template (APRA and Internationally Harmonised)** | 2,764 | Row 46, 47 |

Details on the main features of Capital instruments included in the Group's Regulatory Capital, (Ordinary Share Capital, Additional Tier 1 Capital and Tier 2 Capital) as required by APS 330 Attachment B can be found at www.commbank.com.au/about-us/investors/shareholders.

(1) Represents the balance per Level 2 Regulatory balance sheet.
(2) For regulatory capital purposes, APRA requires these instruments to be included as if they were unhedged.
(3) Represents Trust Preferred Securities 2006 issued on 15 March 2006.
(4) Unamortised issue costs relating to capital instruments are netted off against each instrument in the balance sheet. For regulatory capital purposes, these capital instruments are shown at face value. The unamortised issue costs are deducted from CET1 as part of capitalised expenses in Row 26f in the Capital template.
(5) Basel III transitional arrangements apply to directly issued capital instruments and instruments issued by subsidiaries not compliant with the new Basel III requirements.
(6) In April 2014 the Group issued NZD$400 million ASB Subordinated Notes through ASB, its New Zealand subsidiary. The notes are Basel III compliant Tier 2 securities and fully contribute towards ASB capital ratios. The amount of these notes that contributes to ASB capital in excess of its minimum regulatory requirements is not eligible for inclusion in the Group's capital (30 June 2014 ineligible amount AUD$138 million).
(7) APRA requires these instruments to be amortised by 20% of the original amount during each of the last five years to maturity. This is in addition to Basel III transitional arrangements.

### 11.3 Reconciliation between Detailed Capital Template and Regulatory Balance Sheet (continued)

| Table G | 30 Jun 14 $M | Template Reference |
|---|---|---|
| **Equity Investments** | | |
| Investment in commercial entities | 91 | Row 26g |
| Investments in significant financial entities | 1,621 | Row 26d, 73 |
| Investments in non-significant financial entities | 877 | Row 26d, 72 |
| | 2,589 | |
| Equity investment in non consolidated subsidiaries | 1,219 | Row 26d, 73 |
| **Total Equity Investments before applying prescribed thresholds APRA specific adjustment** (1) | 3,808 | |
| Less amounts risk weighted under Internationally Harmonised (2) | (3,808) | |
| **Total per Capital Template (Internationally Harmonised)** | - | Row 18, 19, 23 |

(1) Equity Investments are classified in the Level 2 Regulatory balance sheet across Investments in Associates, Assets held for Sale, Available-for-sale Securities & Investment in non-consolidated subsidiaries. In additional, the Group has undrawn commitments (off balance sheet) which are deemed in the nature of equity for Regulatory Capital purposes.

(2) The aggregate of investments in significant financial entities of $1,621 million, investments in non-significant financial entities of $877 million and equity investment in non-consolidated subsidiaries of $1,219 million is a total of $3,717 million and is included in row 26d in the Capital template. The BCBS allows for equity investments to be concessionally risk weighted provided they are below prescribed thresholds. APRA requires such items to be deducted 100% from CET1 capital. The remaining balance of $91 million related to Investments in commercial entities are risk weighted under Internationally Harmonised methodology, with no prescribed threshold limits.

## 11.4 Entities excluded from Level 2 Regulatory Consolidated Group

The legal entities included within the accounting scope of consolidation, but excluded from the Level 2 [(1)] regulatory consolidated Group are detailed below.

The total assets and liabilities should not be aggregated as some of the entities listed are holding companies for other entities included in the table below.

| Entity name | Total Assets $M | Total Liabilities $M |
|---|---|---|
| **(a) Securitisation** | | |
| Medallion Trust Series 2005-2G | 197 | 197 |
| Medallion Trust Series 2006-1G | 685 | 685 |
| Medallion Trust Series 2007-1G | 1,253 | 1,253 |
| Swan Trust Series 2006-1E | 358 | 358 |
| Swan Trust Series 2007-1E | 466 | 465 |
| Swan Trust Series 2010-1 | 194 | 194 |

| Entity name | $M | $M |
|---|---|---|
| **(b) Insurance and Funds Management** | | |
| Advice Essentials Pty Limited | 1 | - |
| ASB Group (Life) Limited | 947 | 2 |
| Avanteos Investments Limited | 39 | 11 |
| Avanteos Pty Ltd | 7 | 6 |
| BW Financial Advice Limited | 4 | - |
| BW Securitisation Management Pty Ltd | 8 | - |
| Capital 121 Pty Limited | 1,577 | - |
| CFS Managed Property Limited | 16 | 5 |
| CFSPAI Europe Co Limited | 1 | - |
| CFSPAI Europe Holdco Limited | - | - |
| CISL (Hazelwood) Pty. Limited | - | - |
| CLL Property Trust | 16 | - |
| CMG Asia Life Holdings Limited | 25 | - |
| CMG Asia Pty Ltd | 16 | 1 |
| Colonial (UK) Trustees Limited | - | - |
| Colonial Finance Limited | 309 | 73 |
| Colonial Financial Corporation Ltd | - | - |
| Colonial First State Asset Management (Australia) Limited | 47 | 33 |
| Colonial First State Group Limited | 280 | 2 |
| Colonial First State Investment Managers (UK) Limited | 4 | - |
| Colonial First State Investments (NZ) Limited | 60 | - |
| Colonial First State Investments Limited | 330 | 187 |
| Colonial First State Private Equity Pty Limited | - | - |
| Colonial First State Property Limited | 77 | 57 |
| Colonial First State Property Retail Pty Limited | - | - |
| Colonial First State Property Retail Trust | 14 | 14 |
| Colonial Holding Company Limited | 8,024 | 2,475 |
| Colonial LGA Holdings Pty Limited | - | - |
| Colonial Mutual Superannuation Pty Ltd | 16 | - |
| Colonial Services Pty Limited | 2 | 2 |
| Commonwealth Custodial Services Limited | - | - |
| Commonwealth Financial Planning Limited | 24 | 11 |
| Commonwealth Insurance Holdings Limited | 7,301 | - |
| Commonwealth Insurance Limited | 849 | 567 |
| Commonwealth Investment Services Pty Limited | - | - |
| Commonwealth International Holdings Pty Ltd | 61 | - |
| Copacabana Beach Pty Limited | - | - |
| Count Finance Pty Limited | - | - |
| Count Financial Limited | 57 | 14 |
| Emerald Holding Company Limited | - | - |
| Financial Wisdom Limited | 13 | 6 |

(1) The Level 2 Regulatory Consolidated group is based on the historic definition of the Level 2 Group, prior to APRA clarification provided in May 2014.

### 11.4 Entities excluded from Level 2 Regulatory Consolidated Group (continued)

| Entity name | Total Assets $M | Total Liabilities $M |
|---|---|---|
| Finconnect (Australia) Pty Ltd | 58 | 10 |
| First State (Hong Kong) LLC | - | - |
| First State European Diversified Infrastructure Sarl | 1 | 1 |
| First State Investment Management (UK) Limited | 115 | 5 |
| First State Investment Managers (Asia) Limited | 46 | - |
| First State Investment Services (UK) Limited | 140 | 126 |
| First State Investments (Hong Kong) Limited | 155 | 64 |
| First State Investments (NZ) Limited | 1 | - |
| First State Investments (Singapore) | 172 | 55 |
| First State Investments (UK Holdings) Limited | 102 | - |
| First State Investments (UK) Limited | 429 | 416 |
| First State Investments Fund Management Sarl | 9 | 7 |
| First State Investments GIP Management Sarl | 2 | 1 |
| First State Investments Holdings (Singapore) Limited | 16 | - |
| First State Investments International Inc | 4 | 4 |
| First State Investments International Limited | 72 | 5 |
| First State Nominees (Hong Kong) Limited | - | - |
| FSIB Ltd. | 25 | - |
| FSIC Ltd. | 1 | 1 |
| Harboard Beach Pty Ltd | - | - |
| Jacques Martin Administration and Consulting Pty Ltd | 4 | - |
| Jacques Martin Pty. Ltd. | 3 | - |
| KIP NZ Limited | 52 | 1 |
| Kiwi Property Management Limited | 10 | 1 |
| Premium Alternative Investments Pty Limited | - | - |
| Premium Plantations Pty Limited | - | - |
| Premium Plantations Services Pty Limited | - | - |
| PT Commonwealth Life | 566 | 452 |
| PT First State Investments Indonesia | 8 | 5 |
| Realindex Investments Pty Limited | 8 | 6 |
| Securitisation Advisory Services Pty. Limited | 19 | 11 |
| SI Holdings Limited | 64 | - |
| Sovereign Assurance Company Limited | 850 | 1,510 |
| Sovereign Financial Services Limited | 1 | - |
| Sovereign Limited | 736 | - |
| Sovereign Services Limited | 74 | - |
| Sovereign Superannuation Funds Limited | 7 | - |
| Sovereign Superannuation Trustees Limited | - | - |
| St Andrew's Australia Pty Ltd | - | - |
| The Colonial Mutual Life Assurance Society Limited | 13,753 | 12,126 |
| Torquay Beach Pty Ltd | - | - |
| Total Keen Investment Limited | - | - |
| Westside Properties Limited | 24 | - |
| Whittaker Macnaught Pty. Ltd. | 8 | 1 |

## 11.5 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 C.

## 11.5 List of APRA APS 330 Tables (continued)

### 11.6 List of Supplemental Tables and Diagrams

### 11.7 Glossary

| Term | Definition |
|---|---|
| Additional Tier 1 Capital | Additional Tier 1 Capital is a Basel III defined concept and consists of high quality capital that essentially includes providing a permanent and unrestricted commitment of funds, is freely available to absorb losses, ranks behind the claims of depositors and other more senior creditors in the event of a wind-up, and provides for fully discretionary capital distributions. |
| Australian Accounting Standards | The Australian Accounting Standards as issued by the Australian Accounting Standards Board. |
| 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 III accreditation approval 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 approval that allows the Group to use its own internal 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. |
| Basel 2.5 | Refers to the Basel II framework revised (2009) to include additional requirements such as the Incremental Risk Charge (IRC), Stressed VaR (SVaR), the treatment of securitisation exposures, and the Comprehensive Risk Measure (CRM) for certain correlation trading activities. |
| Basel III | Refers to the Basel Committee on Banking Supervision's Basel III: A global regulatory framework for the more resilient banks and banking systems issued December 2010 (revised June 2011) and Capital requirements for bank exposures to central counterparties (July 2012). |
| CBA | Commonwealth Bank of Australia - the head entity of the Group. |
| Central counterparty (CCP) | A clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, thereby ensuring the future performance of open contracts. |
| CET1 | Common Equity Tier 1 Capital - the highest quality of capital available to the Group reflecting the permanent and unrestricted commitment of funds that are freely available to absorb losses. It comprises ordinary share capital, retained earnings and reserves less prescribed deductions. |
| Collective Provision | All loans and receivables that do not have an individually assessed provision are assessed collectively for impairment. The collective provision is maintained to reduce the carrying value of the portfolio of loans to their estimated recoverable amounts. These provisions are as reported in the Group's Financial Statements in accordance with the Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement"). |
| Corporate | APS asset class - includes commercial credit risk where annual revenues exceed $50 million. |

## 11.7 Glossary (continued)

| Term | Definition |
|---|---|
| Credit Valuation Adjustment (CVA) | A capital charge that covers the risk of mark-to-market losses on the counterparty credit risk arising from bilateral OTC derivative contracts CVA reported as the amount of counterparty credit risk net of the mark-to-market calculated for CBA. |
| EAD | Exposure at Default - the extent to which a bank may be exposed upon default of an obligor. |
| ECAI | External Credit Assessment Institution, for example Moody's, Standard & Poor's or Fitch. |
| ELE | Extended Licenced Entity – APRA may deem an entity of an ADI to be part of the ADI itself for the purposes of measuring the ADIs exposures to related entities. |
| General Reserve for Credit Losses (GRCL) | APS 220 requires the Group to establish a reserve that covers credit losses prudently estimated, but not certain to arise, over the full life of all individual facilities making up the business of the ADI. Most of the Group's collective provisions are included in the General Reserve for Credit Losses. An excess of required General Reserve for Credit Losses over the Group's collective provisions is recognised as a deduction from CET1 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 earned over the period. The APS117 IRRBB regulatory capital requirement is calculated using the net present value approach. |
| Level 1 | Represents the ADI and each entity of the ADI that has been approved as an extended licence entity by APRA. |
| Level 2 | The level at which the Group reports its capital adequacy to APRA being the consolidated banking group comprising the ADI and all of its subsidiary entities other than non-consolidated subsidiaries. This is the basis on which this report has been produced. |
| Level 3 | The entire conglomerate group including the Group's insurance and wealth management business. |
| LGD | Loss Given Default – the fraction of 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 (QRR) | 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 exposures that are secured by residential mortgage property. |

## 11.7 Glossary (continued)

| Term | Definition |
|---|---|
| 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. |
| SME Retail | APS asset class - includes small and medium enterprise exposures up to $1 million that are not secured by residential mortgage property. |
| SME Retail Secured by Residential Mortgage | Includes small and medium enterprise exposures up to $1 million that are partly or fully 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), object finance 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). |
| Stress VaR | Stressed Value at Risk using the same methodology as Value at Risk (VaR) except that the historical data used is taken from a one year observation period of significant market volatility as seen during the Global Financial Crisis. |
| Tier 1 Capital | Comprises CET1 and Additional Tier 1 Capital. |
| Tier 2 Capital | Capital items that fall short of the necessary conditions to qualify as Tier 1 Capital. |