**Commonwealth Bank of Australia**
**Recent Developments**

*The information set forth below is not complete and should be read in conjunction with the information contained on the "Supplementary business and financial disclosure" page of the U.S. investor website of the Commonwealth Bank of Australia (the "Group") at http://www.commbank.com.au/usinvestors (the "U.S. Investor Website"). This "Recent Developments" release supplements and, to the extent inconsistent with any information previously included on the U.S. Investor Website, amends and supersedes such information.*

*This "Recent Developments" release contains certain forward-looking statements which involve known and unknown risks and uncertainties. Such forward-looking statements, including economic forecasts and assumptions and business and financial projections, involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. See "Special Note Regarding Forward-Looking Statements" in the Group's Annual U.S. Disclosure Report for the year ended June 30, 2014 (the "2014 Annual Disclosure Report") included on the U.S. Investor Website.*

*References to "$" are to Australian Dollars.*

## Trading Update for the Quarter ended September 30, 2014

On November 5, 2014, the Group advised that its unaudited cash earnings[1] for the three months ended September 30, 2014 (the "quarter") were approximately $2.3 billion. Statutory net profit on an unaudited basis for the same period was approximately $2.4 billion, with non-cash items treated on a consistent basis to prior periods.

Key outcomes for the quarter are summarized below:

- Revenue growth and continued cost discipline resulted in a positive "Jaws ratio"[2] for the quarter;

[1] Except as expressly noted, this update is based on the Group's cash earnings, which are prepared on a different basis than Australian equivalents to International Financial Reporting Standards ("IFRS"). The difference between cash and statutory earnings for the period is predominantly made up of hedging and IFRS volatility. Cash earnings is used by management of the Group to present a view of the Group's underlying operating results, excluding a number of items that management believes introduce volatility and/or one-off distortions of the Group's current period performance. These items are calculated consistently period on period and do not discriminate between positive and negative adjustments. For a more detailed description of these items, please refer to page 6 of the Group's 2014 Annual Disclosure Report.

[2] "Jaws ratio" is defined as the difference between the percentage growth in income and the percentage growth in expenses.

- Group Net Interest Margin was marginally lower, with improved wholesale funding costs more than offset by competitive pricing impacts;

- Underlying trading income was consistent with run rates experienced during the financial year ended June 30, 2014, with total trading income boosted by a small positive contribution from the Credit Valuation Adjustment[3] in the quarter, which is further detailed on page 2 of Annex A;

- The overall business momentum experienced during the financial year ended June 30, 2014 was maintained in the quarter. In home lending, the focus remains on profitable growth in a competitive market, with strong new business levels balanced by higher repayment activity in a low interest rate environment. In commercial lending, system credit growth remained subdued, with the Group growing relatively strongly in priority markets. Household deposit growth continued in the quarter, with the Group growing slightly ahead of system. In Wealth Management, net flows, investment performance and foreign exchange impacts contributed to Assets under Management growing by 3.5% during the quarter, notwithstanding equity markets ending the quarter at lower levels than at June 30, 2014. Insurance inforce premiums increased by 2%;

- Bankwest profitability continued to be supported by cost discipline during the quarter;

- ASB maintained above-system growth in business and rural lending, with margins benefitting from a favorable funding environment;

- Credit quality remained sound during the quarter, with retail arrears flat to slightly improved and impaired assets lower than at June 30, 2014 at $3.1 billion at September 30, 2014. Total loan impairment expense was $198 million in the quarter, with strong provisioning levels maintained and the economic overlay unchanged;

- Funding and liquidity positions remained strong, with liquid assets of $145 billion, customer deposit funding at 63% and the average tenor of the wholesale funding portfolio at 3.8 years, each as at September 30, 2014. The Group completed $12 billion of new term issuance in the quarter; and

- The Group's Basel III Common Equity Tier 1 ratio as at September 30, 2014, calculated on the Australian Prudential Regulatory Authority basis, was 8.6%, down from 9.3% as at June 30, 2014. Organic capital generation in the quarter was offset by the impact of the declaration of the 2014 final dividend, which included the on-market purchase of shares in respect of the Group's Dividend Reinvestment Plan, as well as growth in Risk Weighted Assets. In October 2014, the Group issued $3.0 billion of Tier 1 CommBank

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3 "Credit Valuation Adjustment" is a capital charge that covers the risk of mark-to-market losses on the counterparty credit risk arising from bilateral OTC derivative contracts. It is the amount of counterparty credit risk net of mark-to-market calculated for the Group.

PERLS VII Capital Notes, the largest hybrid capital issuance ever completed in the Australian market. The Group also completed a buy-back of $2.0 billion PERLS V Tier 1 capital securities.

**US Investor Basel III Capital Disclosure as at September 30, 2014**

The US Investor Basel III Capital Disclosure as at September 30, 2014 is attached as Annex A hereto.

# ANNEX A

Commonwealth Bank of Australia

# US Investor Basel III Capital Disclosure

Capital Adequacy and Risk Disclosures as at 30 September 2014

Commonwealth Bank of Australia | ACN 123 123 124
24 November 2014

## 1 Scope of Application

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

This document is prepared in accordance with Board approved policy and quarterly reporting requirements set out in APRA's prudential standard APS 330 "Public Disclosure". It presents information on the Group's capital adequacy and Risk Weighted Asset (RWA) calculations for credit risk including securitisation 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 (AIRB) approach for credit risk and Advanced Measurement Approach (AMA) for operational risk. The Group is also required to assess its traded market risk and IRRBB requirement under Pillar 1 of the Basel capital framework.

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

The Group's capital adequacy and risk disclosures for the year ended 30 June 2014 are available on the Group's corporate website:

www.commbank.com.au/about-us/investors/shareholders.

## 2 Group Capital Ratios

The Group's Basel III CET1 ratio as measured on an APRA basis was 8.6% at 30 September 2014, compared to 9.3% at 30 June 2014.

The decrease in the APRA capital ratios during the quarter primarily reflects:

- The impact of the June 2014 final dividend, which included the on market purchase of shares in respect of the dividend reinvestment plan; and
- The increase in RWA as outlined in section 3.

This was partially offset by capital generated from earnings.

### Capital Initiatives

The following significant capital initiatives were undertaken during the quarter:

- The Dividend Reinvestment Plan (DRP) in respect of the 2014 final dividend was satisfied in full by the on market purchase of shares. The participation ratio for the DRP was 19.9%; and
- In October 2014 the Bank issued $3 billion of CommBank PERLS VII Capital Notes (PERLS VII) a Basel III compliant Additional Tier 1 security, the proceeds of which were used to fund the Group's business. In turn, the Bank bought back and cancelled $2 billion of PERLS V issued in 2009.

**APS 330 Table 3f – Capital ratios**

| Summary Group Capital Adequacy Ratios (Level 2) | 30 Sep 14 % | 30 Jun 14 % |
|---|---|---|
| Common Equity Tier 1 | **8.6** | 9.3 |
| Tier 1 | **10.3** | 11.1 |
| Tier 2 | **0.8** | 0.9 |
| **Total Capital (APRA)** | **11.1** | 12.0 |

## 3 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 3a to 3e – Basel III capital requirements (RWA)**

| | Risk Weighted Assets | | Change in RWA for Sep 2014 quarter | |
|---|---|---|---|---|
| Asset Category | 30 Sep 14 $M | 30 Jun 14 $M | $M | % |
| **Credit Risk** | | | | |
| **Subject to advanced IRB approach** | | | | |
| Corporate | **52,041** | 49,067 | 2,974 | 6 |
| SME corporate | **22,978** | 22,478 | 500 | 2 |
| SME retail | **5,033** | 5,280 | (247) | (5) |
| SME retail secured by residential mortgage | **3,409** | 3,543 | (134) | (4) |
| Sovereign | **5,250** | 5,330 | (80) | (2) |
| Bank | **11,309** | 10,131 | 1,178 | 12 |
| Residential mortgage (1) | **70,813** | 65,986 | 4,827 | 7 |
| Qualifying revolving retail (1) | **8,499** | 8,215 | 284 | 4 |
| Other retail (1) | **13,187** | 12,757 | 430 | 3 |
| Impact of the regulatory scaling factor (2) | **11,551** | 10,967 | 584 | 5 |
| **Total RWA subject to advanced IRB approach** | **204,070** | 193,754 | 10,316 | 5 |
| **Specialised lending** | **48,819** | 48,935 | (116) | (0) |
| **Subject to standardised approach** | | | | |
| Corporate | **10,746** | 10,850 | (104) | (1) |
| SME corporate | **4,850** | 4,924 | (74) | (2) |
| SME retail | **5,884** | 5,207 | 677 | 13 |
| Sovereign | **143** | 124 | 19 | 15 |
| Bank | **216** | 220 | (4) | (2) |
| Residential mortgage | **6,098** | 6,040 | 58 | 1 |
| Other retail | **2,806** | 2,648 | 158 | 6 |
| Other assets | **4,412** | 4,214 | 198 | 5 |
| **Total RWA subject to standardised approach** | **35,155** | 34,227 | 928 | 3 |
| Securitisation | **4,850** | 5,010 | (160) | (3) |
| Credit valuation adjustment | **7,385** | 6,636 | 749 | 11 |
| Central counterparties | **727** | 576 | 151 | 26 |
| **Total RWA for credit risk exposures** | **301,006** | 289,138 | 11,868 | 4 |
| Traded market risk | **6,025** | 5,284 | 741 | 14 |
| Interest rate risk in the banking book | **20,446** | 14,762 | 5,684 | 39 |
| Operational risk | **29,010** | 28,531 | 479 | 2 |
| **Total risk weighted assets** | **356,487** | 337,715 | 18,772 | 6 |

(1) A change in the application of the Retail Best Estimate of Expected Loss (BEEL) resulted in an increase RWA of $6.2 billion which was largely offset by a drop in the regulatory Expected Loss deduction for CET1 capital. The equivalent RWA increase in June 2014 would have been $6.6 billion however, this has not been reflected in the table above.

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

### Risk Weighted Assets

Total RWA increased by $18.8 billion or 5.6% on the prior quarter to $356.5 billion.

### Credit Risk Exposure and RWA

Credit risk RWA increased $11.9 billion or 4.1% to $301.0 billion, mainly due to:

- A one-off revision to regulatory treatments ($8.2 billion), primarily in relation to the application of Retail Best Estimate of Expected Loss (BEEL); and
- Business growth in most portfolios ($8.2 billion).

Credit risk RWA increases were partly offset by:

- Improved credit quality ($3.0 billion); and
- Reclassification of some Specialised Lending exposures to Corporate and SME Corporate ($1.5 billion).

### Traded Market Risk RWA

Traded market risk RWA increased by $0.7 billion or 14.0% to $6.0 billion due to the impact of the Stressed Value-at-Risk (VaR) capital charge under the Internal Model Approach.

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

IRRBB RWA increased by $5.7 billion during the quarter as a result of treasury risk management activities increasing exposure to long term interest rates.

### Operational Risk RWA

Operational Risk RWA increased by $0.5 billion during the quarter as a result of changes in the external environment.

## 4 Credit Risk Exposure

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

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

| | 30 September 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Off balance sheet | | | Average exposure for September 2014 quarter (1) | Change in exposure for September 2014 quarter (2) | |
| Portfolio Type | On balance sheet $M | Non-market related $M | Market related $M | Total $M | $M | $M | % |
| **Subject to advanced IRB approach** | | | | | | | |
| Corporate | 50,247 | 37,114 | 5,322 | **92,683** | 90,294 | 4,779 | 5. 4 |
| SME corporate | 32,563 | 5,885 | 567 | **39,015** | 38,206 | 1,619 | 4. 3 |
| SME retail | 7,242 | 3,178 | 8 | **10,428** | 10,507 | (157) | (1. 5) |
| SME retail secured by residential mortgage | 5,879 | 1,376 | - | **7,255** | 7,305 | (100) | (1. 4) |
| Sovereign | 68,560 | 1,515 | 2,088 | **72,163** | 68,084 | 8,158 | 12. 7 |
| Bank | 31,334 | 3,940 | 11,546 | **46,820** | 44,853 | 3,935 | 9. 2 |
| Residential mortgage | 395,027 | 70,966 | - | **465,993** | 463,388 | 5,205 | 1. 1 |
| Qualifying revolving retail | 9,652 | 16,956 | - | **26,608** | 26,502 | 213 | 0. 8 |
| Other retail | 7,573 | 2,800 | - | **10,373** | 10,370 | 7 | 0. 1 |
| **Total advanced IRB approach** | 608,077 | 143,730 | 19,531 | **771,338** | 759,509 | 23,659 | 3. 2 |
| **Specialised lending** | 44,305 | 11,300 | 1,920 | **57,525** | 57,441 | 169 | 0. 3 |
| **Subject to standardised approach** | | | | | | | |
| Corporate | 8,776 | 2,135 | 58 | **10,969** | 11,017 | (96) | (0. 9) |
| SME corporate | 3,973 | 742 | 25 | **4,740** | 4,773 | (65) | (1. 4) |
| SME retail | 5,414 | 461 | - | **5,875** | 5,537 | 677 | 13. 0 |
| Sovereign | 289 | 1 | - | **290** | 274 | 32 | 12. 4 |
| Bank | 636 | 1 | 1 | **638** | 577 | 122 | 23. 6 |
| Residential mortgage | 8,915 | 925 | 17 | **9,857** | 9,726 | 263 | 2. 7 |
| Other retail | 2,756 | 32 | 1 | **2,789** | 2,709 | 161 | 6. 1 |
| Other assets | 10,328 | - | - | **10,328** | 10,244 | 163 | 1. 6 |
| Central counterparties | - | - | 2,632 | **2,632** | 2,251 | 762 | 40. 7 |
| **Total standardised approach** | 41,087 | 4,297 | 2,734 | **48,118** | 47,108 | 2,019 | 4. 4 |
| **Total credit exposures (3)** | 693,469 | 159,327 | 24,185 | **876,981** | 864,058 | 25,847 | 3. 0 |

(1) The simple average of exposures as at 30 September 2014 and 30 June 2014.
(2) The difference between credit exposures as at 30 September 2014 and 30 June 2014.
(3) Total credit risk exposures (calculated as EAD) do not include equities or securitisation exposures.

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

| | 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 quarter [1] $M | Change in exposure for June 2014 quarter [2] $M | % |
| **Subject to advanced IRB approach** | | | | | | | |
| Corporate | 47,324 | 36,395 | 4,185 | 87,904 | 86,236 | 3,337 | 3. 9 |
| SME corporate | 31,210 | 5,704 | 482 | 37,396 | 37,200 | 392 | 1. 1 |
| SME retail | 7,365 | 3,211 | 9 | 10,585 | 9,822 | 1,527 | 16. 9 |
| SME retail secured by residential mortgage | 6,007 | 1,348 | - | 7,355 | 7,649 | (588) | (7. 4) |
| Sovereign | 61,061 | 1,525 | 1,419 | 64,005 | 66,307 | (4,603) | (6. 7) |
| Bank | 27,737 | 5,575 | 9,573 | 42,885 | 44,001 | (2,232) | (4. 9) |
| Residential mortgage | 391,727 | 69,061 | - | 460,788 | 457,416 | 6,745 | 1. 5 |
| Qualifying revolving retail | 9,733 | 16,662 | - | 26,395 | 24,818 | 3,154 | 13. 6 |
| Other retail | 7,589 | 2,777 | - | 10,366 | 10,247 | 238 | 2. 3 |
| **Total advanced IRB approach** | 589,753 | 142,258 | 15,668 | 747,679 | 743,696 | 7,970 | 1. 1 |
| **Specialised lending** | 44,789 | 10,811 | 1,756 | 57,356 | 57,146 | 420 | 0. 7 |
| **Subject to standardised approach** | | | | | | | |
| Corporate | 8,906 | 2,097 | 62 | 11,065 | 11,114 | (97) | (0. 9) |
| SME corporate | 4,110 | 667 | 28 | 4,805 | 4,857 | (103) | (2. 1) |
| SME retail | 4,772 | 426 | - | 5,198 | 5,055 | 287 | 5. 8 |
| Sovereign | 256 | 2 | - | 258 | 257 | 2 | 0. 8 |
| Bank | 467 | 47 | 2 | 516 | 608 | (184) | (26. 3) |
| Residential mortgage | 8,671 | 906 | 17 | 9,594 | 9,489 | 211 | 2. 2 |
| Other retail | 2,594 | 33 | 1 | 2,628 | 2,619 | 18 | 0. 7 |
| Other assets | 10,165 | - | - | 10,165 | 9,905 | 521 | 5. 4 |
| Central counterparties | - | - | 1,870 | 1,870 | 1,651 | 438 | 30. 6 |
| **Total standardised approach** | 39,941 | 4,178 | 1,980 | 46,099 | 45,555 | 1,093 | 2.4 |
| **Total credit exposures** [3] | 674,483 | 157,247 | 19,404 | 851,134 | 846,397 | 9,483 | 1.1 |

(1) The simple average of exposures as at 30 June 2014 and 31 March 2014.
(2) The difference between credit exposures as at 30 June 2014 and 31 March 2014.
(3) Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.

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

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

| | 30 September 2014 | | |
|---|---|---|---|
| | General reserve for credit losses (1) $M | Specific provision (1) $M | Total provisions $M |
| Collective provision (2) | 2,649 | 154 | **2,803** |
| Individual provisions (2) | - | 1,042 | **1,042** |
| **Total provisions** | 2,649 | 1,196 | **3,845** |
| Additional GRCL requirement (3) | 319 | - | **319** |
| **Total regulatory provisions** | 2,968 | 1,196 | **4,164** |

(1) Provisions classified according to APS 220 "Credit Quality".
(2) Provisions according to the Australian Accounting Standards.
(3) The Group has recognised an after tax deduction from CET1 of $223 million in order to maintain the required minimum GRCL.

| | 30 June 2014 | | |
|---|---|---|---|
| | General reserve for credit losses (1) $M | Specific provision (1) $M | Total provisions $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.

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

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

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

| | As at 30 September 2014 | | | Quarter ended 30 September 2014 | |
|---|---|---|---|---|---|
| Portfolio | Impaired assets $M | Past due loans ≥ 90 days $M | Specific provision balance [1] $M | Net charges for individual provisions $M | Actual losses [2] $M |
| Corporate including SME and specialised lending | 1,955 | 616 | 865 | 22 | 111 |
| Sovereign | - | - | - | - | - |
| Bank | 10 | - | 10 | - | - |
| Residential mortgage | 889 | 1,520 | 177 | 14 | 20 |
| Qualifying revolving retail | 104 | - | 53 | - | 66 |
| Other retail | 151 | 19 | 91 | (1) | 76 |
| **Total** | 3,109 | 2,155 | 1,196 | 35 | 273 |

(1) Specific provision balance includes certain Australian Accounting Standards collective provisions on some past due loans ≥ 90 days.
(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the quarter.

| | As at 30 June 2014 | | | Quarter ended 30 June 2014 | |
|---|---|---|---|---|---|
| Portfolio | Impaired assets $M | Past due loans ≥ 90 days $M | Specific provision balance [1] $M | Net charges for individual provisions $M | Actual losses [2] $M |
| Corporate including SME and specialised lending | 2,187 | 701 | 943 | 163 | 447 |
| Sovereign | - | - | - | - | - |
| Bank | 10 | - | 10 | - | - |
| Residential mortgage | 898 | 1,620 | 186 | 14 | 29 |
| Qualifying revolving retail | 109 | - | 56 | - | 67 |
| Other retail | 163 | 32 | 97 | - | 83 |
| **Total** | 3,367 | 2,353 | 1,292 | 177 | 626 |

(1) Specific provision balance includes certain Australian Accounting Standards collective provisions on some past due loans ≥ 90 days.
(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the quarter.

## 6 Securitisation

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

| | For the 3 months to 30 September 2014 | |
|---|---|---|
| | Total exposures securitised | Recognised gain or loss on sale |
| **Underlying Asset Type** | **$M** | **$M** |
| Residential mortgage | 4,442 | - |
| Credit cards and other personal loans | - | - |
| Auto and equipment finance | - | - |
| Commercial loans | - | - |
| Other | - | - |
| **Total** | 4,442 | - |

| | For the 3 months to 30 June 2014 | |
|---|---|---|
| | Total exposures securitised | Recognised gain or loss on sale |
| **Underlying Asset Type** | **$M** | **$M** |
| Residential mortgage | 543 | - |
| Credit cards and other personal loans | - | - |
| Auto and equipment finance | - | - |
| Commercial loans | - | - |
| Other | - | - |
| **Total** | 543 | - |

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

| | As at 30 September 2014 | | |
|---|---|---|---|
| | On Balance Sheet | Off Balance Sheet | Total exposures |
| **Securitisation Facility Type** | **$M** | **$M** | **$M** |
| Liquidity support facilities | - | 86 | 86 |
| Warehouse facilities | 2,227 | 1,650 | 3,877 |
| Derivative facilities | 192 | - | 192 |
| Holdings of securities | 6,251 | - | 6,251 |
| Other | - | - | - |
| **Total securitisation exposures** | 8,670 | 1,736 | 10,406 |

| | As at 30 June 2014 | | |
|---|---|---|---|
| | On Balance Sheet | Off Balance Sheet | Total exposures |
| **Securitisation Facility Type** | **$M** | **$M** | **$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 |

## 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. |
| Authorised Deposit-taking Institution (ADI) | Includes banks, building societies and credit unions which are authorised by APRA to take deposits from customers. |
| Advanced Internal Ratings Based (AIRB) Approach | Used to measure credit risk in accordance with the Group's Basel III accreditation that allows the Group to use internal estimates of PD, LGD and EAD for the purposes of calculating regulatory capital. |
| Advanced Measurement Approach (AMA) | Used to measure operational risk in accordance with the Group's Basel III accreditation that allows the Group to use its own internal model for the purposes of calculating regulatory capital. |
| Australian Prudential Regulation Authority (APRA) | The regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia. |
| ADI Prudential Standards (APS) | APRA's ADI Prudential Standards. For more information, refer to the APRA web site. |
| ASB | ASB Bank Limited – a subsidiary of the Commonwealth Bank of Australia that is directly regulated by the Reserve Bank of New Zealand. |
| Bank | 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 framework for more resilient banks and banking systems issued December 2010 (revised June 2011) and Capital requirements for bank exposures to central counterparties (July 2012). |
| CBA | Commonwealth Bank of Australia – the head entity of the Group. |
| Central counterparty (CCP) | A clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, thereby ensuring the future performance of open contracts. |
| Common Equity Tier 1 (CET1) Capital | The highest quality of capital available to the Group reflecting the permanent and unrestricted commitment of funds that are freely available to absorb losses. It comprises ordinary share capital, retained earnings and reserves less prescribed deductions. |
| Collective Provision | All loans and receivables that do not have an individually assessed provision are assessed collectively for impairment. The collective provision is maintained to reduce the carrying value of the portfolio of loans to their estimated recoverable amounts. These provisions are as reported in the Group's Financial Statements in accordance with the Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement"). |
| Corporate | APS asset class – includes commercial credit risk where annual revenues exceed $50 million. |

| 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 is the amount of counterparty credit risk net of the mark-to-market calculated for CBA. |
| Exposure at Default (EAD) | The extent to which a bank may be exposed upon default of an obligor. |
| External Credit Assessment Institution (ECAI) | For example Moody's, Standard & Poor's or Fitch. |
| Extended Licenced Entity (ELE) | APRA may deem an entity of an ADI to be part of the ADI itself for the purposes of measuring the ADIs exposures to related entities. |
| General Reserve for Credit Losses (GRCL) | APS 220 requires the Group to establish a reserve that covers credit losses prudently estimated, but not certain to arise, over the full life of all individual facilities making up the business of the ADI. Most of the Group's collective provisions are included in the General Reserve for Credit Losses. An excess of required General Reserve for Credit Losses over the Group's collective provisions is recognised as a deduction from CET1 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. |
| Interest Rate Risk in the Banking Book (IRRBB) | The risk that the Bank's profit derived from Net Interest Income (interest earned less interest paid), in current and future periods, is adversely impacted from changes in interest rates. This is measured from two perspectives; firstly by quantifying the change in the net present value of the balance sheet's future earnings potential and secondly, as the anticipated change to the Net Interest Income earned over 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 the insurance and funds management entities through which securitisation of Group assets is conducted. This is the basis on which this report has been produced. |
| Level 3 | The conglomerate group including the Group's insurance and wealth management business. |
| Loss Given Default (LGD) | 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. |
| Probability of Default (PD) | The likelihood that a debtor fails to meet an obligation or contractual commitment. |
| Qualifying Revolving Retail | APS asset class – represents revolving exposures to individuals less than $0.1m, unsecured and unconditionally cancellable by the Group. Only Australian retail credit cards qualify for this AIRB asset class. |
| Residential Mortgage | APS asset class – includes retail exposures that are secured by residential mortgage property. |
| RBA | Reserve Bank of Australia. |
| RBNZ | Reserve Bank of New Zealand. |

| Term | Definition |
| --- | --- |
| Risk Weighted Assets (RWA) | The value of the Group's on and off-balance sheet assets are adjusted by risk weights calculated according to various APRA prudential standards. For more information, refer to the APRA web site. |
| Scaling Factor | In order to broadly maintain the aggregate level of capital in the global financial system post implementation of Basel II, the Basel Committee on Banking Supervision applies a scaling factor to the risk-weighted asset amounts for credit risk under the IRB approach. The current scaling factor is 1.06. |
| Securitisation | APS asset class – includes Group-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities. |
| SME Corporate | APS asset class – includes Small and Medium Enterprise (SME) commercial credit risk where annual revenues are less than $50 million and exposures are greater than $1 million. |
| SME Retail | APS asset class – includes Small and Medium Enterprise (SME) exposures up to $1 million that are not secured by residential mortgage property. |
| 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 uses the same methodology as Value at Risk (VaR) except that the historical data used is taken from a one year observation period of significant market volatility as seen during the Global Financial Crisis. |
| Tier 1 Capital | Comprises CET1 and Additional Tier 1 Capital. |
| Tier 2 Capital | Capital items that fall short of the necessary conditions to qualify as Tier 1 Capital. |

**For further information contact:**

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