Basel II Pillar 3

Capital Adequacy and Risk Disclosures

QUARTERLY UPDATE AS AT 30 SEPTEMBER 2011

CommonwealthBank

Commonwealth Bank of Australia

ACN 123 123 124

Basel II Pillar 3 – Capital Adequacy and Risk Disclosures

Quarterly update as at 30 September 2011

1 Scope of Application

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

This document has been prepared in accordance with Board approved policy and quarterly reporting requirements set out in APRA Prudential Standard APS 330 'Capital Adequacy: Public Disclosures of Prudential Information' (APS 330). It presents information on the Group's capital adequacy and risk weighted assets (RWA) calculations for credit risk including securitisation and equity exposures, traded market risk, interest rate risk in the banking book (IRRBB) and operational risk.

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

The Group is accredited with advanced Basel II status to use the advanced internal ratings based approach (AIRB) for credit risk and advanced measurement approach (AMA) for operational risk under the Basel II 'Pillar One' minimum capital requirements. The Group is also required to assess its traded market risk and IRRBB requirement under Pillar One.

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

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

The Group's detailed qualitative and quantitative capital adequacy and risk disclosure for the year ended 30 June 2011 is available on the Group's corporate website www.commbank.com.au.

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

2 Group Capital Ratios

The Group's Common Equity, Tier One and Total Capital ratios as at 30 September 2011 are 7.58%, 9.85% and 11.37% respectively.

The modest decrease in the capital ratios during the September 2011 quarter was primarily attributable to an increase in risk weighted assets.

Comparable Common Equity, Tier One and Total Capital ratios as at 30 September 2011 under the UK Financial Services Authority method of calculating regulatory capital were 10.4% 13.0% and 14.3% respectively.

Capital Initiatives

The following significant capital initiatives have been undertaken since 30 June 2011.

- Participation in the Dividend Reinvestment Plan in respect of the final dividend for 2010/2011 was 28.4%. This was satisfied by the allocation of approximately $831 million of ordinary shares; and
- The redemption of three separate subordinated lower tier two debt issues, totalling approximately $670 million.

APS 330 Table 16e – Capital ratios

Summary Group Capital Adequacy Ratios (Level 2)	30/09/11 %	30/06/11 %
Common Equity	**7. 58**	7. 66
Tier One	**9. 85**	10. 01
Tier Two	**1. 52**	1. 69
Total Capital	**11. 37**	11. 70

3 Risk Weighted Assets

The following table details the Group's risk weighted assets (RWA) by risk and portfolio type.

APS 330 Table 16a to 16d – Capital adequacy (risk weighted assets)

	Risk Weighted Assets		Change in RWA for Sept 2011 quarter [2]	
	30/09/11	30/06/11		
Asset Category	$M	$M	$M	%
Credit Risk				
Subject to advanced IRB approach				
Corporate	**41,483**	39,180	2,303	5.9
SME corporate	**22,538**	22,471	67	0.3
SME retail	**4,446**	4,435	11	0.2
Sovereign	**2,895**	2,517	378	15.0
Bank	**8,888**	7,216	1,672	23.2
Residential mortgage	**56,015**	55,709	306	0.5
Qualifying revolving retail	**6,297**	6,398	(101)	(1.6)
Other retail	**7,543**	7,253	290	4.0
Impact of the regulatory scaling factor [1]	**9,006**	8,711	295	3.4
Total RWA subject to advanced IRB approach	**159,111**	153,890	5,221	3.4
Specialised lending	**36,066**	35,990	76	0.2
Subject to standardised approach				
Corporate	**9,418**	8,048	1,370	17.0
SME corporate	**6,695**	7,389	(694)	(9.4)
SME retail	**4,407**	4,461	(54)	(1.2)
Sovereign	**287**	103	184	large
Bank	**1,282**	1,238	44	3.6
Residential mortgage	**24,043**	23,515	528	2.2
Other retail	**2,560**	2,574	(14)	(0.5)
Other assets	**5,270**	4,751	519	10.9
Total RWA subject to standardised approach	**53,962**	52,079	1,883	3.6
Securitisation	**2,969**	2,670	299	11.2
Equity exposures	**2,274**	2,113	161	7.6
Total RWA for credit risk exposures	**254,382**	246,742	7,640	3.1
Traded market risk	**3,128**	3,162	(34)	(1.1)
Interest rate risk in the banking book	**13,536**	9,699	3,837	39.6
Operational risk	**23,201**	22,108	1,093	4.9
Total risk weighted assets	**294,247**	281,711	12,536	4.4

(1) APRA requires RWA that are derived from the IRB risk-weighted functions to be multiplied by a scaling factor of 1.06 (refer glossary).
(2) The difference between RWA as at 30 September 2011 and 30 June 2011.

Total RWA increased by $12.5 billion or 4.4% on the prior quarter to $294.2 billion.

Credit Risk RWA

Credit Risk RWA increased over the quarter by $7.6 billion or 3.1% to $254.4 billion. This was primarily due to:

- The Group holding more liquid assets in the Bank and Sovereign asset classes;
- Growth in the Corporate Portfolio, Standardised Portfolio and lower risk Retail exposures; and
- Movement in the Australian dollar.

The increases were partly offset by improvements in credit quality.

Traded Market Risk, IRRBB and Operational Risk RWA

Traded Market Risk RWA remained largely unchanged.

IRRBB RWA increased by $3.8 billion or 39.6% to $13.5 billion. This increase was driven by changes in the repricing term of loans and deposits and effects of treasury risk management activities which were partially offset by greater embedded gains from lower interest rates as compared to June 2011.

Operational Risk RWA increased $1.1 billion or 4.9% to $23.2 billion over the quarter, reflecting a conservative assessment of the operational risk profile of the Group including the impact of the external environment.

4 Credit Risk Exposure

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

APS 330 Table 17a – Total credit exposure (excluding equities and securitisation) by portfolio type and modelling approach

	30 September 2011						
		Off balance sheet					
Portfolio Type	On balance sheet $M	Non-market related $M	Market related $M	Total $M	Average exposure for Sept 2011 quarter [2] $M	Change in exposure for Sept 2011 quarter [3] $M	%
Subject to advanced IRB approach							
Corporate	37,758	27,174	6,470	**71,402**	69,514	3,776	5. 6
SME corporate	31,200	5,677	624	**37,501**	37,293	417	1. 1
SME retail	7,292	1,870	32	**9,194**	9,212	(35)	(0. 4)
Sovereign	40,443	1,626	1,993	**44,062**	42,860	2,405	5. 8
Bank	26,072	2,062	14,211	**42,345**	39,106	6,479	18. 1
Residential mortgage	291,910	53,968	-	**345,878**	343,779	4,199	1. 2
Qualifying revolving retail	8,825	10,552	-	**19,377**	18,969	817	4. 4
Other retail	5,525	1,348	-	**6,873**	6,762	222	3. 3
Total advanced IRB approach	449,025	104,277	23,330	**576,632**	567,495	18,280	3. 3
Specialised lending	32,588	7,918	999	**41,505**	41,599	(188)	(0. 5)
Subject to standardised approach							
Corporate	7,551	1,677	79	**9,307**	8,575	1,464	18. 7
SME corporate	5,925	877	36	**6,838**	7,170	(663)	(8. 8)
SME retail	3,832	1,422	-	**5,254**	5,336	(163)	(3. 0)
Sovereign	2,783	1	-	**2,784**	2,365	838	43. 1
Bank	6,208	72	59	**6,339**	6,251	176	2. 9
Residential mortgage	52,327	806	21	**53,154**	52,434	1,440	2. 8
Other retail	2,468	93	2	**2,563**	2,584	(41)	(1. 6)
Other assets	12,571	-	-	**12,571**	13,242	(1,341)	(9. 6)
Total standardised approach	93,665	4,948	197	**98,810**	97,957	1,710	1. 8
Total credit exposures [1]	575,278	117,143	24,526	**716,947**	707,051	19,802	2. 8

(1) Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
(2) The simple average of exposures as at 30 September 2011 and 30 June 2011.
(3) The difference between exposures as at 30 September 2011 and 30 June 2011.

4 **Credit Risk Exposure** (continued)

APS 330 Table 17a – Total credit exposure (excluding equities and securitisation) by portfolio type and modelling approach (continued)

	30 June 2011						
		Off balance sheet					
	On balance sheet	Non-market related	Market related	Total	Average exposure for June 2011 quarter (2)	Change in exposure for June 2011 quarter (3)	
Portfolio Type	$M	$M	$M	$M	$M	$M	%
Subject to advanced IRB approach							
Corporate	36,068	26,892	4,666	67,626	67,697	(142)	(0. 2)
SME corporate	31,189	5,542	353	37,084	37,616	(1,063)	(2. 8)
SME retail	7,367	1,835	27	9,229	9,081	296	3. 3
Sovereign	32,696	7,760	1,201	41,657	36,512	10,290	32. 8
Bank	23,737	2,377	9,752	35,866	35,778	177	0. 5
Residential mortgage	289,846	51,833	-	341,679	339,081	5,196	1. 5
Qualifying revolving retail	8,883	9,677	-	18,560	18,359	402	2. 2
Other retail	5,397	1,254	-	6,651	6,536	230	3. 6
Total advanced IRB approach	435,183	107,170	15,999	558,352	550,660	15,386	2. 8
Specialised lending	31,813	8,896	984	41,693	41,363	661	1. 6
Subject to standardised approach							
Corporate	6,899	908	36	7,843	8,030	(374)	(4. 6)
SME corporate	6,430	1,046	25	7,501	7,434	135	1. 8
SME retail	3,870	1,547	-	5,417	5,312	210	4. 0
Sovereign	1,945	1	-	1,946	1,877	139	7. 7
Bank	6,064	74	25	6,163	6,458	(590)	(8. 7)
Residential mortgage	50,907	794	13	51,714	50,913	1,602	3. 2
Other retail	2,508	95	1	2,604	2,567	75	3. 0
Other assets	13,912	-	-	13,912	13,955	(85)	(0. 6)
Total standardised approach	92,535	4,465	100	97,100	96,546	1,112	1. 2
Total credit exposures (1)	559,531	120,531	17,083	697,145	688,569	17,159	2. 5

(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 2011 and 31 March 2011.
(3) The difference between exposures as at 30 June 2011 and 31 March 2011.

5 Past Due and Impaired Exposures, Provisions and Reserves

Reconciliation of AIFRS and APS220 based credit provisions, and APS 330 Table 17c - General reserve for credit losses

	30 September 2011		
	General reserve for credit losses [2]	Specific provision [2]	Total provisions
	$M	$M	$M
Collective provision [1]	2,929	121	**3,050**
Individual provisions [1]	-	2,114	**2,114**
Total provisions	2,929	2,235	**5,164**
Additional GRCL requirement [3]	207	-	**207**
Total regulatory provisions	3,136	2,235	**5,371**

(1) Provisions according to AIFRS.
(2) Provisions classified according to APS 220 “Credit Quality”.
(3) The Group has recognised an after tax deduction from Tier One Capital of $145 million in order to maintain the required minimum GRCL.

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

(1) Provisions as reported in financial statements according to AIFRS.
(2) Provisions classified according to APS 220 “Credit Quality”.
(3) The Group recognised an after tax deduction from Tier One Capital of $132 million in order to maintain the required minimum GRCL.

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

The following tables summarise the Group's financial losses by portfolio type.

APS 330 Table 17b – Impaired, past due, specific provisions and write-offs charged by portfolio

	As at 30 September 2011			Quarter ended 30 September 2011	
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	3,929	458	1,831	70	157
Sovereign	-	-	-	-	-
Bank	39	-	29	-	-
Residential mortgage	973	2,799	262	38	27
Qualifying revolving retail	-	113	55	-	69
Other retail	13	131	58	-	67
Total	4,954	3,501	2,235	108	320

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

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

	As at 30 June 2011			Quarter ended 30 June 2011	
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	4,336	479	1,860	418	597
Sovereign	-	-	-	-	-
Bank	39	-	29	-	50
Residential mortgage	911	3,047	236	71	(4)
Qualifying revolving retail	-	109	60	-	70
Other retail	11	123	63	2	14
Total	5,297	3,758	2,248	491	727

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

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

6 Glossary

Term	Definition
Australian Accounting Standards	The Australian Accounting Standards as issued by the Australian Accounting Standards Board.
ADI	Authorised Deposit-taking Institution - includes banks, building societies and credit unions which are authorised by APRA to take deposits from customers.
AIRB	Advanced Internal Ratings Based approach - used to measure credit risk in accordance with the Group's Basel II accreditation approval provided by APRA 10 December 2007 that allows the Group to use internal estimates of PD, LGD and EAD for the purposes of calculating regulatory capital.
AMA	Advanced Measurement Approach - used to measure operational risk in accordance with the Group's Basel II accreditation approval provided by APRA 10 December 2007 that allows the Group to use internal estimates and operational model for the purposes of calculating regulatory capital.
APRA	Australian Prudential Regulation Authority - the regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia.
APS	APRA's ADI Prudential Standards. For more information, refer to the APRA web site.
ASB	ASB Bank Limited - a subsidiary of the Commonwealth Bank of Australia that is directly regulated by the Reserve Bank of New Zealand.
Bank	APS asset class - includes claims on central banks, international banking agencies, regional development banks, ADI and overseas banks.
Basel II	Refers to the Basel Committee on Banking Supervision's Revised Framework for International Convergence of Capital Measurement and Capital Standards issued in June 2006 and as subsequently amended.
CBA	Commonwealth Bank of Australia - the chief entity for the Group.
Collective Provision	All loans and receivables that do not have an individually assessed provision are assessed collectively for impairment. The collective provision is maintained to reduce the carrying value of the portfolio of loans to their estimated recoverable amounts. These provisions are as reported in the Group's Financial Statements in accordance with the Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement").
Corporate	APS asset class – includes commercial credit risk where annual revenues exceed $50 million, SME Corporate and SME Retail.
EAD	Exposure at Default – the extent to which a bank may be exposed to a counterparty in the event of default.
ECAI	External Credit Assessment Institution.
ELE	Extended Licensed Entity – APRA may deem a subsidiary of an ADI to be part of the ADI itself for the purposes of measuring the ADIs exposures to related entities.
General Reserve for Credit Losses	APS 220 requires the Group to establish a reserve that covers credit losses prudently estimated, but not certain to arise, over the full life of all individual facilities making up the business of the ADI. Most of the Group's collective provisions are included in the General Reserve for Credit Losses. An excess of required General Reserve for Credit Losses over the Group's collective provisions is recognised as a deduction from Tier One Capital on an after tax basis.
Individual Provisions	Provisions made against individual facilities in the credit-rated managed segment where there is objective evidence of impairment and full recovery of principal and interest is considered doubtful. These provisions are established based primarily on estimates of realisable value of collateral taken. These provisions are as reported in the Group's Financial Statements in accordance with the Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement"). Also known as individually assessed provisions or IAP.
IRRBB	Interest Rate Risk in the Banking Book - is the risk that the Bank's profit derived from Net Interest Income (interest earned less interest paid), in current and future periods, is adversely impacted from changes in interest rates. This is measured from two perspectives; firstly by quantifying the change in the net present value of the balance sheet's future earnings potential and secondly, as the anticipated change to the Net Interest Income which is reported in the Bank's Income Statement. The APS117 IRRBB regulatory capital requirement is calculated using the net present value approach.
Level 1	Represents the ADI and each subsidiary of the ADI that has been approved as an extended licence entity by APRA.

6 **Glossary** (continued)

Term	Definition
Level 2	The level at which the Group reports its capital adequacy to APRA being the consolidated banking group comprising the ADI and all of it's subsidiary entities other than non-consolidated subsidiaries. This is the basis of which this report has been produced.
Level 3	The conglomerate group including the Group's insurance and wealth management business.
LGD	Loss Given Default – the fraction of exposure at default (EAD) that is not expected to be recovered following default.
Other Assets	APS asset class – includes Cash, Investments in Related Entities, Fixed Assets and Margin Lending.
Other Retail	APS asset class – includes all retail credit exposures not otherwise classed as a residential mortgage, SME retail or a qualifying revolving retail asset.
PD	Probability of Default - the likelihood that a debtor fails to meet an obligation or contractual commitment.
Qualifying Revolving Retail	APS asset class - represents revolving exposures to individuals less than $0.1m, unsecured and unconditionally cancellable by the Group. Only Australian retail credit cards qualify for this AIRB asset class.
Residential Mortgage	APS asset class - includes retail and small and medium enterprise exposures up to $1 million that are secured by residential mortgage property.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
RWA	Risk Weighted Assets – the value of the Group's on and off-balance sheet assets are adjusted according to risk weights calculated according to various APRA prudential standards. For more information, refer to the APRA web site.
Scaling Factor	In order to broadly maintain the aggregate level of capital in the global financial system post implementation of Basel II, the Basel Committee on Banking Supervision applies a scaling factor to the risk-weighted asset amounts for credit risk under the IRB approach. The current scaling factor is 1.06.
Securitisation	APS asset class - includes Group-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities.
SME Corporate	APS asset class - includes small and medium enterprise (SME) commercial credit risk where annual revenues are less than $50 million and exposures are greater than $1 million.
SME Retail	APS asset class - includes small and medium enterprise (SME) exposures up to $1 million that are not secured by residential mortgage property.
Sovereign	APS asset class - includes claims on the Reserve Bank of Australia and on Australian and foreign governments.
Specialised Lending	APS asset classes subject to the supervisory slotting approach and which include Income Producing Real Estate (IPRE) and Project Finance assets.
Specific Provisions	APS 220 requires ADIs to report as specific provisions all provisions for impairment assessed by an ADI on an individual basis in accordance with the Australian Accounting Standards and that portion of provisions assessed on a collective basis which are deemed ineligible to be included in the General Reserve for Credit Losses (which are primarily collective provisions on some defaulted assets).
Tier One Capital	Tier One Capital is the highest quality of capital available to the Group and reflects the permanent and unrestricted commitment of funds that are freely available to absorb losses. It comprises: • Fundamental Capital (share capital, retained earnings and reserves); • Residual Capital (innovative and non innovative); and • Prescribed Regulatory deductions.
Tier Two Capital	Tier Two Capital represents those capital items that fall short of the necessary conditions to qualify as Tier One Capital. There are two main classes, upper and lower Tier Two.

For further information contact:

Investor Relations

Warwick Bryan
Phone: 02 9118 7112
Email: warwick.bryan@cba.com.au