



Basel III Pillar 3

**Capital Adequacy and Risks
Disclosures as at 31 March 2018**



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Introduction

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 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, Market Risk, Interest Rate Risk in the Banking Book (IRRBB) and Operational Risk.

This document also presents information on the Group's leverage ratio in accordance with prescribed methodology.

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 insurance and funds management businesses and entities through which securitisation of Group assets is 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.

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 2017 are available on the Group's corporate website:

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

Group Capital Ratios

The Group's Basel III Common Equity Tier 1 (CET1) APRA ratio was 10.1% at 31 March 2018, compared to 10.4% at 31 December 2017.

After allowing for the impact of the 2018 interim dividend (which included the issuance of shares in respect of the Dividend Reinvestment Plan (DRP)), the CET1 (APRA) ratio increased 37 basis points in the quarter. This was primarily

driven by capital generated from earnings, partly offset by higher risk weighted assets (RWA).

The Group's Basel III internationally comparable CET1 ratio as at 31 March 2018 was 15.7%, compared to 16.3% at 31 December 2017. The internationally comparable basis aligns with the APRA study entitled "International capital comparison study" (13 July 2015).

Capital Initiatives

The following significant capital initiatives were undertaken during the quarter:

Common Equity Tier 1 Capital

- The DRP in respect of the 2018 interim dividend was satisfied by the allocation of approximately \$536 million of ordinary shares, representing a participation rate of 15.3%.

Tier 2 Capital

- In January 2018, the Group issued a USD1.25 billion subordinated note that is Basel III compliant Tier 2 capital.

Subsequent to the period end, in April 2018, the Bank issued \$1.365 billion of CommBank PERLS X Capital Notes (PERLS X), a Basel III compliant Additional Tier 1 security. This will add approximately 30 basis points in Additional Tier 1 capital, over and above the 31 March 2018 reported level.

Leverage Ratio

The Group's Leverage Ratio, which is defined as Tier 1 Capital as a percentage of exposures, was 5.2% at 31 March 2018 (31 December 2017: 5.4%) on an APRA basis and 5.9% (31 December 2017: 6.1%) on an internationally comparable basis.

APRA's Prudential Inquiry

On 1 May 2018, APRA released the findings of the Prudential Inquiry into CBA. APRA requires CBA to increase Operational Risk regulatory capital by \$1 billion (RWA of \$12.5 billion). This adjustment is effective 30 April 2018, being the date the Group entered into an Enforceable Undertaking with APRA which states that CBA may apply for the removal of the adjustment only on meeting certain conditions. The pro-forma impact on the CET1 ratio as at 31 March 2018 is a decrease of 27 basis points, to 9.8%.

	31 Mar 18	31 Dec 17
	%	%
Common Equity Tier 1	10.1	10.4
Tier 1	12.0	12.4
Tier 2	2.8	2.4
Total Capital (APRA)	14.8	14.8
Common Equity Tier 1 (Internationally Comparable)⁽¹⁾	15.7	16.3

(1) Analysis aligns with the APRA study entitled "International capital comparison study" (13 July 2015).

2. Risk Weighted Assets

Risk weighted assets are calculated using 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 for rated exposures where APS 120 "Securitisation"

prohibits the Group using the ratings-based approach. The ratings-based approach is used for securitisation exposures rated by External Credit Assessment Institutions (ECAI) where APS 120 allows or requires.

APS 330 Table 3a to 3e – Basel III capital requirements (RWA)

Asset Category	Risk Weighted Assets		Change in RWA for March 2018 quarter	
	31 Mar 18	31 Dec 17	\$M	%
Credit Risk				
Subject to AIRB approach ⁽¹⁾				
Corporate	69,209	69,252	(43)	(0.1)
SME corporate	34,606	33,521	1,085	3.2
SME retail	4,620	4,675	(55)	(1.2)
SME retail secured by residential mortgage	2,523	2,534	(11)	(0.4)
Sovereign	2,264	2,186	78	3.6
Bank	11,672	10,780	892	8.3
Residential mortgage	137,603	136,047	1,556	1.1
Qualifying revolving retail	9,786	8,524	1,262	14.8
Other retail	15,763	15,413	350	2.3
Total RWA subject to AIRB approach	288,046	282,932	5,114	1.8
Specialised lending	56,504	56,183	321	0.6
Subject to standardised approach				
Corporate	1,481	1,250	231	18.5
SME corporate	299	279	20	7.2
SME retail	5,799	5,701	98	1.7
Sovereign	211	189	22	11.6
Bank	64	63	1	1.6
Residential mortgage	5,541	5,404	137	2.5
Other retail	1,533	2,717	(1,184)	(43.6)
Other assets	6,719	5,323	1,396	26.2
Total RWA subject to standardised approach	21,647	20,926	721	3.4
Securitisation	2,937	1,622	1,315	81.1
Credit valuation adjustment	4,736	4,498	238	5.3
Central counterparties	975	824	151	18.3
Total RWA for credit risk exposures	374,845	366,985	7,860	2.1
Traded market risk	6,584	4,829	1,755	36.3
Interest rate risk in the banking book	25,312	27,944	(2,632)	(9.4)
Operational risk	41,138	41,078	60	0.1
Total risk weighted assets	447,879	440,836	7,043	1.6

(1) Pursuant to APRA requirements, RWA amounts derived from AIRB risk weight functions have been multiplied by a scaling factor of 1.06.

Risk Weighted Assets

Total RWA increased by \$7.0 billion or 1.6% on the prior quarter to \$447.9 billion.

Credit Risk RWA

Credit Risk RWA increased \$7.9 billion or 2.1% on the prior quarter to \$374.8 billion, mainly due to:

- Higher residential mortgages, liquid assets as well as trades settling across the quarter end;
- Foreign currency movements;
- Deterioration in credit quality across some consumer retail portfolios and a small number of large corporate exposures;
- Implementation in January 2018 of revised APRA Securitisation Standard APS 120; and
- Refresh of credit risk estimates across some portfolios.

Traded Market Risk RWA

Traded Market Risk RWA increased by \$1.8 billion or 36.3%. This was driven by the conservative treatment, under the

internal model approach, of some interest rate exposures.

Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA decreased by \$2.6 billion or 9.4%. This was due to an increase in embedded gains as a result of higher domestic short-term and offshore interest rates.

Operational Risk RWA

Operational Risk RWA have remained largely unchanged from the prior quarter.

On 1 May 2018, APRA released the findings of the Prudential Inquiry into CBA. APRA requires CBA to increase Operational Risk regulatory capital by \$1 billion (RWA of \$12.5 billion). This adjustment is effective 30 April 2018, being the date the Group entered into an Enforceable Undertaking with APRA which states that CBA may apply for the removal of the adjustment only on meeting certain conditions. The pro-forma impact on the CET1 ratio as at 31 March 2018 is a decrease of 27 basis points, to 9.8%.

Credit Risk

3. Credit Risk

3.1 Credit Risk Exposures

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

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

Portfolio Type	31 March 2018				Average exposure for March 2018 quarter ⁽¹⁾	Change in exposure for March 2018 quarter ⁽²⁾	
	Off balance sheet			Total			
	On balance sheet	Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M	\$M	%
Subject to AIRB approach							
Corporate	72,349	44,447	7,836	124,632	125,221	(1,178)	(0.9)
SME corporate	47,651	9,646	768	58,065	57,275	1,579	2.8
SME retail	6,980	3,155	-	10,135	10,151	(32)	(0.3)
SME retail secured by residential mortgage	4,158	1,428	-	5,586	5,612	(52)	(0.9)
Sovereign	85,864	1,278	2,092	89,234	89,395	(322)	(0.4)
Bank	31,508	1,339	9,842	42,689	40,627	4,124	10.7
Residential mortgage	483,638	72,251	-	555,889	553,717	4,344	0.8
Qualifying revolving retail	11,044	18,318	-	29,362	28,058	2,609	9.8
Other retail	8,329	3,170	-	11,499	11,417	165	1.5
Total AIRB approach	751,521	155,032	20,538	927,091	921,473	11,237	1.2
Specialised lending	52,712	10,483	629	63,824	64,015	(384)	(0.6)
Subject to standardised approach							
Corporate	1,077	402	73	1,552	1,419	267	20.8
SME corporate	189	87	21	297	288	19	6.8
SME retail	4,801	952	30	5,783	5,735	95	1.7
Sovereign	444	18	-	462	431	62	15.5
Bank	201	-	-	201	214	(25)	(11.1)
Residential mortgage	11,200	1,725	-	12,925	12,769	311	2.5
Other retail	1,441	91	-	1,532	2,120	(1,175)	(43.4)
Other assets	12,478	-	-	12,478	11,879	1,198	10.6
Central counterparties	-	-	6,856	6,856	6,199	1,313	23.7
Total standardised approach	31,831	3,275	6,980	42,086	41,054	2,065	5.2
Total credit exposures⁽³⁾	836,064	168,790	28,147	1,033,001	1,026,542	12,918	1.3

(1) The simple average of exposures as at 31 March 2018 and 31 December 2017.

(2) The difference between exposures as at 31 March 2018 and 31 December 2017.

(3) Total credit risk exposures, calculated as Exposure at Default (EAD), do not include equities or securitisation exposures.

Credit Risk Exposures (continued)

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

Portfolio Type	31 December 2017				Average exposure for December 2017 quarter ⁽¹⁾	Change in exposure for December 2017 quarter ⁽²⁾	
	Off balance sheet			Total			
	On balance sheet	Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M	\$M	%
Subject to AIRB approach							
Corporate	72,772	46,163	6,875	125,810	127,411	(3,202)	(2.5)
SME corporate	46,337	9,551	598	56,486	55,913	1,146	2.1
SME retail	6,992	3,175	-	10,167	10,182	(30)	(0.3)
SME retail secured by residential mortgage	4,188	1,450	-	5,638	5,696	(116)	(2.0)
Sovereign	86,734	1,245	1,577	89,556	86,632	5,847	7.0
Bank	28,996	1,456	8,113	38,565	40,718	(4,306)	(10.0)
Residential mortgage	478,121	73,424	-	551,545	550,280	2,529	0.5
Qualifying revolving retail	9,887	16,866	-	26,753	26,809	(111)	(0.4)
Other retail	8,260	3,074	-	11,334	11,098	473	4.4
Total AIRB approach	742,287	156,404	17,163	915,854	914,739	2,230	0.2
Specialised lending	52,955	10,574	679	64,208	64,366	(315)	(0.5)
Subject to standardised approach							
Corporate	918	365	2	1,285	1,173	224	21.1
SME corporate	196	80	2	278	323	(89)	(24.3)
SME retail	4,687	951	50	5,688	5,822	(269)	(4.5)
Sovereign	400	-	-	400	446	(92)	(18.7)
Bank	225	1	-	226	287	(121)	(34.9)
Residential mortgage	10,865	1,749	-	12,614	12,334	559	4.6
Other retail	2,618	89	-	2,707	2,799	(183)	(6.3)
Other assets	11,280	-	-	11,280	10,528	1,504	15.4
Central counterparties	-	-	5,543	5,543	5,577	(69)	(1.2)
Total standardised approach	31,189	3,235	5,597	40,021	39,289	1,464	3.8
Total credit exposures ⁽³⁾	826,431	170,213	23,439	1,020,083	1,018,394	3,379	0.3

(1) The simple average of exposures as at 31 December 2017 and 30 September 2017.

(2) The difference between exposures as at 31 December 2017 and 30 September 2017.

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

Credit Risk

3.2 Past Due and Impaired Exposures, Provisions and Reserves

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 General Reserve for Credit Losses (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, APS 220 based credit provisions and APS 330 Table 4c – General reserve for credit losses

	31 March 2018		
	General	Specific	Total
	reserve for	provision	provisions
	credit losses ⁽¹⁾	⁽¹⁾	
	\$M	\$M	\$M
Collective provision ⁽²⁾	2,549	270	2,819
Individual provisions ⁽²⁾	-	972	972
Total provisions	2,549	1,242	3,791
Additional GRCL requirement ⁽³⁾	585	-	585
Total regulatory provisions	3,134	1,242	4,376

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

(2) Provisions according to the Australian Accounting Standards.

(3) The Group has recognised a deduction from CET1 of \$585 million in order to maintain the required minimum GRCL.

	31 December 2017		
	General	Specific	Total
	reserve for	provision	provisions
	credit losses ⁽¹⁾	⁽¹⁾	
	\$M	\$M	\$M
Collective provision ⁽²⁾	2,525	247	2,772
Individual provisions ⁽²⁾	-	978	978
Total provisions	2,525	1,225	3,750
Additional GRCL requirement ⁽³⁾	554	-	554
Total regulatory provisions	3,079	1,225	4,304

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

(2) Provisions according to the Australian Accounting Standards.

(3) The Group has recognised a deduction from CET1 of \$554 million in order to maintain the required minimum GRCL.

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

Portfolio	As at 31 March 2018			Quarter ended 31 March 2018	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance ⁽¹⁾	Net charges for individual provisions	Actual losses ⁽²⁾
	\$M	\$M	\$M	\$M	\$M
Corporate including SME, specialised lending and central counterparties	1,749	430	708	40	77
Sovereign	-	-	-	-	-
Bank	9	-	9	-	-
Residential mortgage	1,308	2,544	350	20	30
Qualifying revolving retail	127	-	62	-	56
Other retail	165	27	113	-	100
Total	3,358	3,001	1,242	60	263

(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 ended 31 March 2018.

Portfolio	As at 31 December 2017			Quarter ended 31 December 2017	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance ⁽¹⁾	Net charges for individual provisions	Actual losses ⁽²⁾
	\$M	\$M	\$M	\$M	\$M
Corporate including SME, specialised lending and central counterparties	1,847	388	718	170	140
Sovereign	-	-	-	-	-
Bank	9	-	9	-	-
Residential mortgage	1,243	2,249	344	18	26
Qualifying revolving retail	116	-	55	-	61
Other retail	152	23	99	-	98
Total	3,367	2,660	1,225	188	325

(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 ended 31 December 2017.

Credit Risk

3.3 Securitisation

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

Underlying Asset Type	For the 3 months to 31 March 2018	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	247	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial loans	-	-
Other	-	-
Total	247	-

Underlying Asset Type	For the 3 months to 31 December 2017	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	3,093	-
Credit cards and other personal loans	-	-
Auto and equipment finance	254	-
Commercial loans	491	-
Other	-	-
Total	3,838	-

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

Securitisation Facility Type	As at 31 March 2018		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	-	226	226
Warehouse facilities	4,355	2,537	6,892
Derivative facilities	97	24	121
Holdings of securities	7,640	-	7,640
Other	-	-	-
Total securitisation exposures	12,092	2,787	14,879

Securitisation Facility Type	As at 31 December 2017		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	-	205	205
Warehouse facilities	3,519	2,206	5,725
Derivative facilities	119	22	141
Holdings of securities	8,013	-	8,013
Other	-	-	-
Total securitisation exposures	11,651	2,433	14,084

4. Leverage Ratio

The Group's Leverage Ratio, defined as Tier 1 Capital as a percentage of total exposures, was 5.2% at 31 March 2018 on an APRA basis and 5.9% on an internationally comparable basis.

In December 2017, as part of the final calibration of the leverage ratio, the BCBS announced:

- Confirmation that the leverage ratio will have minimum regulatory requirement of 3%, effective from 1 January 2018; and
- Changes in the definition of exposures related to derivatives and off balance sheet items, effective from 1 January 2022.

In February 2018, APRA released additional refinements to the BCBS guidance including a minimum leverage ratio requirement of 4%. These changes are subject to consultation and are proposed to apply from 1 July 2019.

Summary Group Leverage Ratio	31 Mar 18	31 Dec 17	30 Sep 17	30 Jun 17
Tier 1 Capital (\$M)	53,750	54,465	52,592	52,684
Total Exposures (\$M) ⁽¹⁾	1,032,125	1,012,503	1,011,801	1,027,958
Leverage Ratio (APRA) (%)	5.2	5.4	5.2	5.1
Leverage Ratio (Internationally Comparable) (%) ⁽²⁾	5.9	6.1	5.9	5.8

(1) Total exposures is the sum of on Balance Sheet exposures, derivatives, Securities Financing Transactions (SFTs), and off Balance Sheet exposures, net of any Tier 1 regulatory deductions, as outlined in APS 110 "Capital Adequacy".

(2) The Tier 1 Capital included in the calculation of the internationally comparable leverage ratio aligns with the 13 July 2015 APRA study titled "International capital comparison study" and includes Basel III non-compliant Tier 1 instruments that are currently subject to transitional rules.

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	Basel asset class – includes claims on ADIs 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 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	Basel asset class – includes commercial credit risk where annual revenues exceed \$50 million.
Credit Valuation Adjustment (CVA) Risk	The risk of mark-to-market losses related to deterioration in the credit quality of a derivative counterparty.

Term	Definition
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 Investor Services, S&P Global Ratings or Fitch Ratings.
Extended Licensed Entity (ELE)	APRA may deem an entity of an ADI to be part of the ADI itself for the purposes of measuring the ADI's 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.
Impaired Assets	Facilities are classified as impaired where there is doubt as to whether the full amounts due, including interest and other payments due, will be achieved in a timely manner.
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 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 12 months. 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 licenced 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 and 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.
Leverage Ratio	Tier 1 Capital divided by Total Exposures, with this ratio expressed as a percentage.
Loss Given Default (LGD)	The fraction of EAD that is not expected to be recovered following default.
Other Assets	Basel asset class – primarily includes Cash, Investments in Related Entities, Fixed Assets and Margin Lending.
Other Retail	Basel asset class – primarily includes retail credit exposures not otherwise classed as a residential mortgage, SME retail or a qualifying revolving retail asset.
Past due	Facilities are past due when a contracted amount, including principal or interest, has not been met when due or it is otherwise outside contracted arrangements.
Probability of Default (PD)	The likelihood that a debtor fails to meet an obligation or contractual commitment.
Qualifying Revolving Retail (QRR)	Basel 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	Basel asset class – retail exposures secured by residential mortgage property.

Glossary

Term	Definition
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
Risk Weighted Assets (RWA)	The value of the Group's On and Off Balance Sheet assets 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 of 1.06.
Securitisation	Basel asset class – Group-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities.
SME Corporate	Basel asset class – 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	Basel asset class – Small and Medium Enterprise (SME) exposures up to \$1 million that are not secured by residential mortgage property.
SME Retail Secured by Residential Mortgage	Small and Medium Enterprise (SME) exposures up to \$1 million that are partly or fully secured by residential mortgage property.
Sovereign	Basel asset class – primarily includes claims on Australian and foreign governments, central banks (including Reserve Bank of Australia), international banking agencies and regional development banks.
Specialised Lending	Basel asset classes subject to the supervisory slotting approach and which include Income Producing Real Estate (IPRE), object finance, project finance and commodity finance.
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).
Stressed 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.
Total Exposures (as used in the Leverage Ratio)	The sum of On Balance Sheet items, derivatives, securities financing transactions (SFTs), and Off Balance Sheet items, net of any Tier 1 regulatory deductions that are already included in these items, as outlined in APS 110 "Capital Adequacy" (APS 110) Attachment D.
