Basel III Pillar 3

Capital Adequacy and Risk Disclosures as at 30 September 2023

Commonwealth Bank of Australia

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The release of this announcement was authorised by the Continuous Disclosure Committee.

Contents

1 Introduction

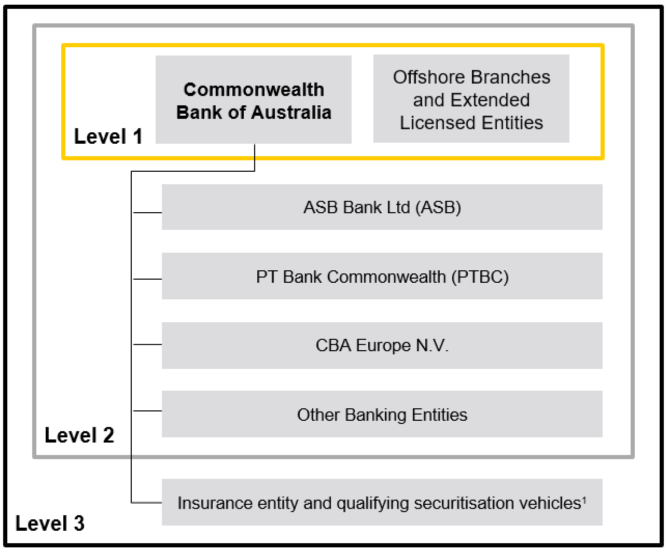
The Commonwealth Bank of Australia (CBA) is an Authorised Deposit-taking Institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA) under the authority of the Banking Act 1959.

This document is prepared for CBA and its subsidiaries (the Group) in accordance with a Board approved policy and quarterly reporting requirements set out in APRA Prudential Standard (APS) APS 330 *Public Disclosure* (APS 330). It presents information on the Group's capital adequacy and Risk Weighted Assets (RWA) calculations for credit risk including securitisation, traded market risk, Interest Rate Risk in the Banking Book (IRRBB) and operational risk.

This document also presents information on the Group's leverage and liquidity ratios in accordance with prescribed methodologies.

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 an insurance entity and certain entities through which securitisation of Group assets is conducted.

APS 330 reporting structure



1 Securitisation that meets APRA's operational requirements for regulatory capital relief under APS 120 *Securitisation* (APS 120).

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

This document is unaudited and has been prepared consistent with information that has been supplied to APRA.

The Group's Pillar 3 documents are available on the Group's corporate website: commbank.com.au/regulatorydisclosures.

Introduction (continued)

Capital Position

As at 30 September 2023, the Group's Basel III Common Equity Tier 1 (CET1), Tier 1 and Total Capital ratios were 11.8%, 14.1% and 19.7%, respectively.

The Group's CET1 Capital ratio increased 46 basis points in the quarter after allowing for the impact of the 2023 final dividend (-86 basis points). This increase was primarily driven by capital generated from earnings (+54 basis points), partly offset by a net increase in total RWA (-4 basis points) and other items (-4 basis points).

Further details on the movements in RWA are provided on pages 5-6.

The CET1 Capital ratio for Level 1 as at 30 September 2023 was 12.0%, 20 basis points above Level 2.

Summary Group Capital Adequacy Ratios (Level 2)	30 Sep 23 %	30 Jun 23 %
Common Equity Tier 1	**11.8**	12.2
Additional Tier 1	**2.3**	2.3
Tier 1	**14.1**	14.5
Tier 2	**5.6**	5.5
Total Capital	**19.7**	20.0

Group Regulatory Capital Position	30 Sep 23 $M	30 Jun 23 $M
Common Equity Tier 1 Capital	**55,497**	56,909
Additional Tier 1 Capital	**10,862**	10,862
Tier 1 Capital	**66,359**	67,771
Tier 2 Capital	**26,361**	26,009
Total Capital	**92,720**	93,780
Risk Weighted Assets	**470,470**	467,992

Capital Initiatives

The following significant capital initiatives were undertaken during the quarter ended 30 September 2023:

Common Equity Tier 1 Capital

- The Dividend Reinvestment Plan (DRP) in respect of the 2023 final dividend was satisfied in full by the on-market purchase of shares. The participation rate for the DRP was 18.1%.

Tier 2 Capital

- In September 2023, the Group issued an AUD85 million Basel III compliant subordinated note.

The following capital initiatives were undertaken by the Group subsequent to the reporting period ended 30 September 2023:

- The Group completed approximately $64 million of the $1 billion share buyback announced on 9 August 2023; and
- In October 2023, the Group issued two instruments, raising AUD550 million and AUD700 million, both being Basel III compliant subordinated notes.

Leverage Ratio

The Group's Leverage Ratio, defined as Tier 1 Capital as a percentage of total exposures, was 4.9% as at 30 September 2023.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) requires Australian ADIs to hold sufficient liquid assets to meet 30 day Net Cash Outflows (NCO) projected under an APRA prescribed stress scenario. The Group maintained an average LCR of 137% in the September 2023 quarter (131% in the June 2023 quarter).

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is the ratio of the amount of Available Stable Funding (ASF) to the amount of Required Stable Funding (RSF). Factors prescribed by APRA are used to determine the stable funding requirement of assets and the stability of alternative sources of funding. The Group's NSFR was 123% as at 30 September 2023 (124% as at 30 June 2023).

2 Risk Weighted Assets

RWA are calculated using the AIRB approach for the majority of the Group's credit risk exposures, and using the Foundation or Standardised approach as required under the Australian prudential standards. For CBA's New Zealand Subsidiary, ASB, RWA are calculated using the Reserve Bank of New Zealand's prudential rules subject to certain APRA-prescribed adjustments. The Group must use the External Ratings-based Approach where a securitisation exposure is externally rated by an External Credit Assessment Institution (ECAI) or for which an inferred rating is available. Where the Group cannot use the External Ratings-based Approach, the Group must use the Supervisory Formula Approach.

APS 330 Table 3a to 3e – Basel III Capital Requirements (RWA)

	Risk Weighted Assets		Change in RWA for September 2023 quarter	
	30 Sep 23	30 Jun 23		
Asset Category	**$M**	**$M**	**$M**	**%**
Credit risk				
Subject to AIRB approach [1]				
Corporate (incl. SME corporate) [2]	**83,222**	80,251	2,971	3.7
SME retail	**10,197**	10,189	8	0.1
Residential mortgage [3]	**146,834**	147,716	(882)	(0.6)
Qualifying revolving retail	**5,407**	5,584	(177)	(3.2)
Other retail	**8,396**	8,554	(158)	(1.8)
Total RWA subject to AIRB approach	**254,056**	252,294	1,762	0.7
Subject to FIRB approach [1]				
Corporate - large [2]	**24,472**	22,466	2,006	8.9
Sovereign	**2,223**	2,173	50	2.3
Financial institution	**11,509**	10,857	652	6.0
Total RWA subject to FIRB approach	**38,204**	35,496	2,708	7.6
Specialised lending	**3,445**	3,868	(423)	(10.9)
Subject to standardised approach				
Corporate (incl. SME corporate)	**461**	530	(69)	(13.0)
SME retail	**822**	937	(115)	(12.3)
Sovereign	**229**	261	(32)	(12.3)
Residential mortgage	**7,631**	7,046	585	8.3
Other retail	**571**	604	(33)	(5.5)
Other assets	**8,075**	8,303	(228)	(2.7)
Total RWA subject to standardised approach	**17,789**	17,681	108	0.6
Securitisation	**3,264**	3,316	(52)	(1.6)
Credit valuation adjustment	**2,627**	2,226	401	18.0
Central counterparties	**116**	101	15	14.9
RBNZ regulated entities [1]	**48,806**	47,887	919	1.9
Total RWA for credit risk exposures	**368,307**	362,869	5,438	1.5
Traded market risk	**10,227**	15,390	(5,163)	(33.5)
Interest rate risk in the banking book	**46,961**	46,578	383	0.8
Operational risk	**44,975**	43,155	1,820	4.2
Total risk weighted assets	**470,470**	467,992	2,478	0.5

1 Pursuant to APRA requirements, RWA amounts derived from the risk weighted functions of AIRB, FIRB and the advanced portfolio of RBNZ regulated entities have been multiplied by a scaling factor of 1.10.
2 Includes cumulative $6.4 billion overlays in relation to corporate PD models.
3 As a condition of APRA's approval of the Residential Mortgage LGD model, a $7.4 billion RWA overlay has been applied for regulatory capital purposes.

Risk Weighted Assets (continued)

Risk Weighted Assets

Total RWA increased by $2.5 billion or 0.5% on the prior quarter to $470.5 billion, driven by increases in credit risk RWA, operational risk RWA and IRRBB RWA, partly offset by lower traded market risk RWA.

Credit Risk RWA

Credit risk RWA increased $5.4 billion or 1.5% on the prior quarter to $368.3 billion, driven by:

- Non-retail and commercial portfolios including derivatives (increase of $5.7 billion) primarily driven by underlying volume growth and the recalibration of PD models[1]; and
- New Zealand portfolios (increase of $0.9 billion), primarily due to foreign currency movements; partly offset by
- Retail lending (decrease of $1.2 billion) reflecting lower residential mortgage balances.

Traded Market Risk RWA

Traded market risk RWA decreased by $5.2 billion or 34% on the prior quarter to $10.2 billion, driven by the implementation of a new market risk engine on 3 July 2023, which more accurately represents the market risk of trading positions.

Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA increased by $0.4 billion or 0.8% on the prior quarter to $47.0 billion. This was driven by changes in interest rate risk management positions offset by lower embedded losses due to lower swap rates.

Operational Risk RWA

As required by APS 115, operational risk RWA as at September 2023 have been determined based on the annual average value of the relevant components of the Group's net income over the years ended 30 June 2023, 2022 and 2021. Operational risk RWA as at June 2023 were determined based on the annual average value of the relevant components of the Group's net income over the financial years ended 30 June 2022, 2021 and 2020. The increase in operational risk RWA by $1.8 billion or 4.2% on the prior quarter to $45.0 billion was primarily driven by a higher average net interest income over the years ended 30 June 2023, 2022 and 2021 as a result of rising interest rate environment and lending growth.

1 The recalibration of non-retail PD models has been implemented through an overlay, held until the implementation of new models.

3 Credit Risk

3.1 Credit Risk Exposures

The following tables detail credit risk exposures subject to AIRB, FIRB and standardised approaches.

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

	30 September 2023				
		Off Balance Sheet			
Portfolio Type	On Balance Sheet $M	Non-market related $M	Market related $M	Total $M	Average exposure for September 2023 quarter [1] $M
Subject to AIRB approach					
Corporate (incl. SME corporate)	138,298	17,128	934	**156,360**	155,663
SME retail	12,910	6,078	4	**18,992**	18,899
Residential mortgage	558,543	72,196	–	**630,739**	633,248
Qualifying revolving retail	8,193	15,274	–	**23,467**	23,499
Other retail	6,260	1,286	–	**7,546**	7,581
Total AIRB approach	724,204	111,962	938	**837,104**	838,890
Subject to FIRB approach					
Corporate - large	27,118	13,037	4,992	**45,147**	43,248
Sovereign	168,899	658	17,354	**186,911**	192,309
Financial institution	25,152	7,510	13,876	**46,538**	44,585
Total FIRB approach	221,169	21,205	36,222	**278,596**	280,142
Specialised lending	3,445	772	88	**4,305**	4,473
Subject to standardised approach					
Corporate (incl. SME corporate)	251	232	8	**491**	525
SME retail	711	368	15	**1,094**	1,171
Sovereign	449	1	–	**450**	485
Residential mortgage	15,950	1,480	–	**17,430**	17,022
Other retail	462	108	–	**570**	587
Other assets [2]	12,245	994	198	**13,437**	13,402
Central counterparties	–	–	2,626	**2,626**	2,621
Total standardised approach	30,068	3,183	2,847	**36,098**	35,813
RBNZ regulated entities	116,380	12,915	2,708	**132,003**	131,484
Total credit exposures [3]	1,095,266	150,037	42,803	**1,288,106**	1,290,802

1 The simple average of balances as at 30 September 2023 and 30 June 2023.
2 Includes immaterial contributions from other standardised asset classes, including Domestic public sector entities, Commercial property, Land acquisition, development and construction, and Bank.
3 Total credit risk exposures (calculated as EAD) do not include equities or securitisation exposures. Off Balance Sheet market related exposures include $15.8 billion of exposures in relation to Securities Financing Transactions (SFTs).

Credit Risk (continued)

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

	30 June 2023			
		Off Balance Sheet		
Portfolio Type	**On Balance Sheet $M**	**Non-market related $M**	**Market related $M**	**Total $M**
Subject to AIRB approach				
Corporate (incl. SME corporate)	136,568	17,366	1,032	**154,966**
SME retail	12,911	5,891	4	**18,806**
Residential mortgage	563,683	72,074	–	**635,757**
Qualifying revolving retail	8,116	15,415	–	**23,531**
Other retail	6,180	1,436	–	**7,616**
Total AIRB approach	727,458	112,182	1,036	**840,676**
Subject to FIRB approach				
Corporate - large	23,869	13,313	4,167	**41,349**
Sovereign	174,913	562	22,232	**197,707**
Financial institution	22,244	7,294	13,094	**42,632**
Total FIRB approach	221,026	21,169	39,493	**281,688**
Specialised lending	3,514	1,023	104	**4,641**
Subject to standardised approach				
Corporate (incl. SME corporate)	332	224	3	**559**
SME retail	859	375	14	**1,248**
Sovereign	519	1	–	**520**
Residential mortgage	14,925	1,689	–	**16,614**
Other retail	504	100	–	**604**
Other assets [1]	12,167	1,200	–	**13,367**
Central counterparties	–	–	2,616	**2,616**
Total standardised approach	29,306	3,589	2,633	**35,528**
RBNZ regulated entities	115,373	12,880	2,713	**130,966**
Total credit exposures [2]	1,096,677	150,843	45,979	**1,293,499**

1 Includes immaterial contributions from other standardised asset classes, including Domestic public sector entities, Commercial property, Land acquisition, development and construction, and Bank.

2 Total credit risk exposures (calculated as EAD) do not include equities or securitisation exposures. Off Balance Sheet market related exposures include $20.7 billion of exposures in relation to Securities Financing Transactions (SFTs).

3.2 Non-performing Exposures and Provisions

The Group assesses its provisioning for impairment in accordance with AASB 9 *Financial Instruments* (AASB 9) and recognises both individually assessed provisions and collectively assessed provisions.

All provisions recognised in accordance with accounting standards that have been assessed on an individual basis are classified as specific provisions. Collective provisions raised under accounting standards as Stage 1 and Stage 2 are classified as general provisions; and those raised under Stage 3 are classified as specific provisions. All collective provisions for Stage 2 (together with Stage 1) loans represent a purely forward-looking amount for future losses that are presently unidentified.

Reconciliation of Australian Accounting Standards, APS 220 *Credit Risk Management* based credit provisions and APS 330 Table 4c – Provisions held against performing exposures

	30 September 2023		
	General provision $M	Specific provision [1] $M	Total provisions $M
Collective provision [2]	4,607	655	**5,262**
Individual provisions [2]	–	807	**807**
Total regulatory provisions	4,607	1,462	**6,069**

1 Specific provision balance includes accounting collective provisions on non-performing exposures.
2 Provisions according to Australian Accounting Standards.

	30 June 2023		
	General provision $M	Specific provision [1] $M	Total provisions $M
Collective provision [2]	4,598	598	**5,196**
Individual provisions [2]	–	754	**754**
Total regulatory provisions	4,598	1,352	**5,950**

1 Specific provision balance includes accounting collective provisions on non-performing exposures.
2 Provisions according to Australian Accounting Standards.

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

APS 330 Table 4b – Non-performing, specific provisions and write-offs charged by portfolio

	30 September 2023		Quarter ended 30 September 2023	
Portfolio [1]	Non performing exposures $M	Specific provision balance [2] $M	Net charges for specific provisions $M	Actual losses [3] $M
Corporate including SME and specialised lending and central counterparties	2,730	900	91	23
Sovereign	–	–	–	–
Financial institution	1	–	–	–
Residential mortgage	5,092	423	28	3
Credit cards	86	67	32	24
Other retail	98	72	50	55
Total	**8,007**	**1,462**	**201**	**105**

1 Portfolio categories disclosed based on a combination of asset class and industry.
2 Specific provision balance includes accounting collective provisions on non-performing exposures.
3 Actual losses equal write-offs from individual provisions and write-offs direct from collective provisions less recoveries of amounts previously written off for the quarter ended 30 September 2023.

	30 June 2023		Quarter ended 30 June 2023	
Portfolio [1]	Non performing exposures $M	Specific provision balance [2] $M	Net charges for specific provisions [3] $M	Actual losses [4]
Corporate including SME and specialised lending and central counterparties	2,488	813	57	32
Sovereign	–	–	–	–
Financial institution	2	–	–	–
Residential mortgage	5,040	405	(131)	8
Credit cards	75	58	71	28
Other retail	103	76	133	54
Total	**7,708**	**1,352**	**130**	**122**

1 Portfolio categories disclosed based on a combination of asset class and industry.
2 Specific provision balance includes accounting collective provisions on non-performing exposures.
3 The numbers have been restated to conform to presentation in the current period.
4 Actual losses equal write-offs from individual provisions and write-offs direct from collective provisions less recoveries of amounts previously written off for the quarter ended 30 June 2023.

Credit Risk (continued)

3.3 Securitisation

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

	Quarter ended 30 September 2023	
	Total exposures securitised	Recognised gain or loss on sale
Underlying Asset	**$M**	**$M**
Residential mortgage	49	–
Credit cards and other personal loans	3	–
Auto and equipment finance	–	–
Commercial loans	–	–
Other	–	–
Total	**52**	**–**

	Quarter ended 30 June 2023	
	Total exposures securitised	Recognised gain or loss on sale
Underlying Asset	**$M**	**$M**
Residential mortgage	101	–
Credit cards and other personal loans	–	–
Auto and equipment finance	–	–
Commercial loans	–	–
Other	–	–
Total	**101**	**–**

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

	As at 30 September 2023		
	On Balance Sheet	Off Balance Sheet	Total exposures
Securitisation Facility Type	**$M**	**$M**	**$M**
Liquidity support facilities	–	181	**181**
Warehouse facilities	11,300	5,431	**16,731**
Derivative facilities	–	187	**187**
Holdings of securities	2,700	–	**2,700**
Other	–	11	**11**
Total securitisation exposures	14,000	5,810	**19,810**

	As at 30 June 2023		
	On Balance Sheet	Off Balance Sheet	Total exposures
Securitisation Facility Type	**$M**	**$M**	**$M**
Liquidity support facilities	–	179	**179**
Warehouse facilities	11,041	5,519	**16,560**
Derivative facilities	–	188	**188**
Holdings of securities	3,114	–	**3,114**
Other	–	12	**12**
Total securitisation exposures	14,155	5,898	**20,053**

4 Leverage Ratio

The Group's Leverage Ratio, defined as Tier 1 Capital as a percentage of total exposures, was 4.9% as at 30 September 2023. The decline in the Leverage Ratio for the quarter is primarily driven by the impact of the 2023 final dividend and higher exposures.

Under APRA's revised capital framework effective 1 January 2023, the minimum Leverage Ratio requirement for IRB banks, such as CBA, is 3.5%.

Summary Group Leverage Ratio	30 Sep 23 [1]	30 Jun 23 [1]	31 Mar 23 [1]	31 Dec 22 [2]	30 Sep 22 [2]
Tier 1 Capital ($M)	**66,359**	67,771	66,005	66,864	66,472
Total Exposures ($M) [3]	**1,347,663**	1,334,426	1,351,297	1,318,783	1,314,458
Leverage Ratio (%)	**4.9**	5.1	4.9	5.1	5.1

1 Prepared in accordance with APRA's revised capital framework effective from 1 January 2023.
2 Prepared in accordance with APRA's capital framework effective up until 31 December 2022.
3 Total Exposures is the sum of on Balance Sheet exposures, derivatives, SFTs, and off Balance Sheet exposures, net of any Tier 1 regulatory deductions, as outlined in APS 110 *Capital Adequacy*.

5 Liquidity Risk

Liquidity Coverage Ratio

The Group calculates its LCR position on a daily basis, ensuring a buffer is maintained over the minimum regulatory requirement of 100% and the Board's risk appetite. Over the September 2023 quarter, excess liquid assets averaged $52.4 billion and the average LCR increased from 131% to 137%. The increase in average LCR was due to balance sheet positioning around the repayment of the first tranche of the RBA Term Funding Facility. On a spot basis, the LCR was between 124% and 145% over the quarter.

The Group's mix of liquid assets consists of HQLA, such as cash, deposits with central banks, Australian semi-government and Commonwealth government securities. Liquid assets also include securities classified as liquid assets by the RBNZ. Liquid assets are distributed across the Group to support regulatory and internal requirements and are consistent with the distribution of liquidity needs by currency. Average liquid assets increased over the quarter due to balance sheet positioning.

NCO are modelled under an APRA prescribed 30 day severe liquidity stress scenario. The Group manages modelled NCO by maintaining a large base of low LCR outflow customer deposits and actively managing its wholesale funding maturity profile as part of its overall liquidity management strategy. Average NCO decreased over the quarter due to a reduction in deposit NCO, partly due to the shift in deposits from at-call to term.

Table 20 – LCR disclosure template

		30 September 2023		30 June 2023	
		Total unweighted value (average) [1] $M	Total weighted value (average) [1] $M	Total unweighted value (average) [1] $M	Total weighted value (average) [1] $M
Liquid assets, of which:					
1	High-quality liquid assets (HQLA)		195,339		188,634
2	Alternative liquid assets (ALA)		–		–
3	Reserve Bank of New Zealand (RBNZ) securities		402		785
Cash outflows					
4	Retail deposits and deposits from small business customers, of which:	**439,794**	**35,678**	**437,324**	**37,416**
5	Stable deposits	264,617	13,231	253,997	12,700
6	Less stable deposits	175,177	22,447	183,327	24,716
7	Unsecured wholesale funding, of which:	**183,853**	**79,239**	**188,654**	**82,444**
8	Operational deposits (all counterparties) and deposits in networks for cooperative banks	88,760	21,786	90,542	22,219
9	Non-operational deposits (all counterparties)	87,198	49,558	87,123	49,236
10	Unsecured debt	7,895	7,895	10,989	10,989
11	Secured wholesale funding		**10,244**		**6,839**
12	Additional requirements, of which:	**173,749**	**26,223**	**173,249**	**26,186**
13	Outflows related to derivatives exposures and other collateral requirements	7,857	7,857	7,557	7,557
14	Outflows related to loss of funding on debt products	–	–	–	–
15	Credit and liquidity facilities	165,892	18,366	165,692	18,629
16	Other contractual funding obligations	**–**	**–**	**–**	**–**
17	Other contingent funding obligations	**92,472**	**11,917**	**85,303**	**10,373**
18	**Total cash outflows**		**163,301**		**163,258**
Cash inflows					
19	Secured lending	30,535	3,080	20,417	2,328
20	Inflows from fully performing exposures	14,835	10,399	14,180	9,520
21	Other cash inflows	6,441	6,441	6,753	6,753
22	**Total cash inflows**	**51,811**	**19,920**	**41,350**	**18,601**
23	**Total liquid assets**		195,741		189,419
24	**Total net cash outflows**		143,381		144,657
25	**Liquidity Coverage Ratio (%)**		137		131
Number of data points used (Business Days)			64		60

1 The averages presented are calculated as simple averages of daily observations over the previous quarter.

Glossary

Term	Definition
Additional Tier 1 Capital (AT1)	Additional Tier 1 Capital is a concept defined by APRA and consists of high quality capital that essentially provides a permanent and unrestricted commitment of funds, is freely available to absorb losses, ranks behind the claims of depositors and other senior creditors in the event of a wind-up, and provides for fully discretionary capital distributions.
Advanced Internal Ratings-based (AIRB) Approach	This approach is used to measure credit risk in accordance with the Group's Basel III accreditation. From 1 January 2023, this allows the Group to use internal estimates of PD and LGD (excluding senior unsecured and subordinated corporate exposures), with supervisory estimates to be used for EAD for the purposes of calculating regulatory capital. Prior to 31 December 2022, PD, LGD and EAD internal estimates could be used for the purposes of calculating regulatory capital.
Alternative Liquid Assets (ALA)	Assets that qualify for inclusion in the numerator of the LCR in jurisdictions where there is insufficient supply of HQLA. No ALA are recognised in the LCR following the reduction of the CLF to zero on 1 January 2023.
APRA's Revised Capital Framework	Refers to APRA's revision to the ADI Capital Framework implemented from 1 January 2023.
ASB	ASB Bank Limited – a subsidiary of the Commonwealth Bank of Australia that is regulated by the RBNZ.
Australian Accounting Standards	The Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB).
Australian Prudential Regulation Authority (APRA)	The Australian Prudential Regulation Authority is an independent statutory authority that supervises institutions across banking, insurance and superannuation, and is accountable to the Australian parliament. The regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia.
Authorised Deposit-taking Institution (ADI)	ADIs are corporations that are authorised under the Banking Act 1959 to carry on banking business in Australia.
Banking Book	The banking book is a term for assets on a bank's Balance Sheet that are expected to be held to maturity, usually consisting of customer loans to, and deposits from retail and corporate customers. The banking book can also include those derivatives that are used to hedge exposures arising from the banking book activity, including interest rate risk.
Basel III	Refers to the Basel Committee on Banking Supervision's framework for more resilient banks and banking systems issued in December 2010 (revised in June 2011), Capital requirements for bank exposures to central counterparties (July 2012), and the subsequent Basel III reforms finalised in December 2017.
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.
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 reported in the Group's Financial Statements in accordance with Australian Accounting Standards (AASB 9 *Financial Instruments*).
Commercial Property	Basel asset class – a property exposure that is not a residential property or a land acquisition, development and construction exposure.
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.
Corporate	Basel asset class – from 1 January 2023, this includes commercial credit risk where annual revenues are greater than or equal to $75 million but less than $750 million. Prior to this date annual revenues could be greater than or equal to $50 million or more.

Glossary (continued)

Term	Definition
Corporate - Large	Basel asset class – applicable from 1 January 2023, and applies to commercial credit risk where annual revenues are more than $750 million.
Credit Valuation Adjustment (CVA) Risk	The risk of mark-to-market losses related to deterioration in the credit quality of a derivative counterparty.
Domestic Public Sector Entity	Basel asset class – exposures that do not meet the definition of Sovereign exposures, but have a level of control or ownership by any level of the Australian Government or the RBA, including those which do not have specific revenue-raising powers.
Exposure at Default (EAD)	The extent to which the Group may be exposed upon default of an obligor.
Extended Licenced Entity (ELE)	An Extended Licensed Entity is comprised of an ADI and each subsidiary of an ADI as specified in any approval granted by APRA in accordance with Prudential Standard APS 222 *Associations with Related Entities.*
External Credit Assessment Institution (ECAI)	For example: Moody's Investor Services, S&P Global Ratings or Fitch Ratings.
Financial Institution	Basel asset class – primarily includes exposures which relate to: banking, the management of financial assets, lending, factoring, leasing, provision of credit enhancements, securitisation, investments, financial custody, central counterparty services, and proprietary trading.
Foundation Internal Ratings-based (FIRB) Approach	This approach is applicable from 1 January 2023, and is used to measure credit risk in accordance with the Group's Basel III accreditation that allows the Group to use internal estimates of PD and rely on supervisory estimates for LGD and EAD for the purposes of calculating regulatory capital.
General Provisions	Collective Provisions classified as Stage 1 and Stage 2 in accordance with Australian Accounting Standards (AASB 9 *Financial Instruments*). All Stage 2 provisions are held on a purely forward-looking basis for future losses presently unidentified; hence all Stage 2 provisions (together with Stage 1) are classified as General Provisions.
Group	Commonwealth Bank of Australia and its subsidiaries.
High Quality Liquid Assets (HQLA)	Assets are considered to be high quality liquid assets if they can be easily and immediately converted into cash at little or no loss of value.
Individual provisions	Provisions made against individual facilities 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 9 *Financial Instruments*). Also known as individually assessed provisions or IAP.
Interest Rate Risk in the Banking Book (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 by 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 Net Interest Income earned over 12 months. This calculation is driven by APRA regulations with further detail outlined in the Group's 30 June 2023 Basel III Pillar 3 report.
Land Acquisition Development or Construction (ADC)	Basel asset class – exposures secured by land acquired for development and construction purposes, or development and construction of any residential or commercial property.
Level 1	The Parent Bank (Commonwealth Bank of Australia), offshore branches (the Bank) and APRA approved Extended Licensed Entities.
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 an insurance entity and certain 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 entity and qualifying securitisation vehicles.

Glossary (continued)

Term	Definition
Leverage Ratio	Tier 1 Capital divided by total exposures, expressed as a percentage.
Liquidity Coverage Ratio (LCR)	The LCR is a quantitative liquidity measure that is part of the Basel III reforms. It was implemented by APRA in Australia on 1 January 2015. It requires Australian ADIs to hold sufficient liquid assets to meet 30 day net cash outflows projected under an APRA-prescribed stress scenario.
Loss Given Default (LGD)	An estimate of the expected severity of loss for a credit exposure following a default event. LGD represents the fraction of EAD that is not expected to be recovered following default.
Net Cash Outflows (NCO)	Net cash outflows in the LCR are calculated by applying prescribed run-off factors on liabilities and various off Balance Sheet exposures that can generate a cash outflow in the next 30 days.
Net Stable Funding Ratio (NSFR)	The NSFR more closely aligns the behaviour term of assets and liabilities. It is the ratio of the amount of available stable funding (ASF) to the amount of required stable funding (RSF). ASF is the portion of an ADI's capital and liabilities expected to be a reliable source of funds over a one year time horizon. RSF is a function of the liquidity characteristics and residual maturities of an ADI's assets and off Balance Sheet activities.
Non-performing	An exposure that is in default.
Operational Risk under the Standardised Measurement Approach	From 1 January 2023, the methodology used to measure operational risk, utilising an APRA prescribed formulaic approach which is largely dependent on profit or loss from ordinary banking activities.
Other Assets	Basel asset class – primarily includes Cash Items, Investments in Related Entities, Fixed Assets, Lease 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 when it is otherwise outside contracted arrangements.
Probability of Default (PD)	The PD reflects a borrower's ability to generate sufficient cash flows in the future to meet the terms of all of its credit obligations to the Group.
Prudential Capital Requirement (PCR)	The regulatory minimum CET1, Tier 1 and Total Capital ratios that the Group is required to maintain at all times.
Qualifying Revolving Retail (QRR)	Basel asset class – represents revolving exposures less than $0.1 million to individuals, unsecured and unconditionally cancellable by the Group. Only Australian retail credit cards qualify for this asset class.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
RBNZ regulated entities	All references to RBNZ regulated entities refer to RBNZ regulated subsidiaries and include ASB exposures for which RWA are calculated using the RBNZ's prudential rules subject to certain APRA-prescribed adjustments.
Residential Mortgage	Basel asset class – retail exposures secured by residential mortgage property.
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.
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 RWA amounts for credit risk under the IRB Retail, AIRB and FIRB approaches of 1.10. This is also applied to advanced exposures within RBNZ regulated entities.

Glossary (continued)

Term	Definition
Securities Financing Transactions (SFT)	APRA defines securities financing transactions as transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on the market valuation of securities and the transactions are typically subject to margin agreements.
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 – from 1 January 2023, Small and Medium Enterprise (SME) commercial credit risk where annual revenues are less than $75 million. Prior to this date, this asset class was applicable to SME commercial credit risk where annual revenues were less than $50 million.
SME Retail	Basel asset class – from 1 January 2023, Small and Medium Enterprise (SME) commercial credit risk where annual revenues are less than $75 million and exposures are less than $1.5 million (previously $1.0 million).
Sovereign	Basel asset class – primarily includes claims on Australian and foreign governments, central banks (including the RBA), international banking agencies and regional development banks.
Specialised Lending	Basel asset classes subject to the supervisory slotting approach which include: object finance, project finance and commodity finance. Prior to 1 January 2023, Income Producing Real Estate exposures were also subject to the supervisory slotting approach.
Specific Provisions	All provisions, both collectively and individually assessed, classified as Stage 3 in accordance with Australian Accounting Standards (AASB 9 *Financial Instruments*).
Stage 1	On origination, an impairment provision equivalent to 12 months expected credit losses (ECL) is recognised, reflecting the credit losses expected to arise from defaults occurring over the next 12 months.
Stage 2	Financial assets that have experienced a significant increase in credit risk (SICR) since origination are transferred to Stage 2 and an impairment provision equivalent to lifetime ECL is recognised. Lifetime ECL is the credit losses expected to arise from defaults occurring over the remaining life of financial assets. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer considered significant the exposure is reclassified to Stage 1 and the impairment provision reverts to 12 months ECL.
Stage 3	Non-performing (defaulted) financial assets are transferred to Stage 3 and an impairment provision equivalent to lifetime ECL is recognised.
Standardised Approach	An alternate approach to the assessment of credit, operational and traded market risk whereby an ADI uses external ratings agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine RWA.
Stressed Value-at-Risk (SVaR)	Stressed Value-at-Risk uses the same methodology as 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 Capital	Comprises CET1, Additional Tier 1 Capital and Tier 2 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.
Trading Book	Exposures, including derivative products and other off Balance Sheet instruments that are held either with a trading intent or to hedge other elements of the trading book.
Value-at-Risk (VaR)	Value-at-Risk is a measure of potential loss using historically observed market volatility and correlation between different markets.