

Basel III Pillar 3

Capital Adequacy and
Risk Disclosures as at
30 September 2022

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Introduction

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.

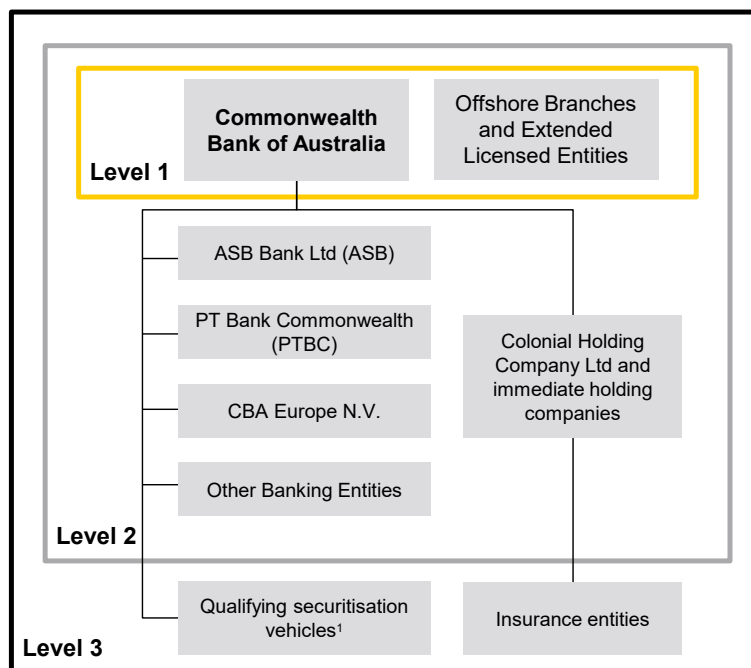
This document is prepared for CBA and its subsidiaries (the Group) in accordance with a Board approved policy and quarterly reporting requirements set out in APRA Prudential Standard (APS) APS 330 *Public Disclosure* (APS 330). It presents information on the Group's capital adequacy and Risk Weighted 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 the insurance businesses and certain entities through which securitisation of Group assets is conducted.

During the quarter ended 30 September 2022, the Group completed the sale of its Australian general insurance business, CommInsure General Insurance.

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 Advanced Measurement Approach (AMA) 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, however, it 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 2022, the Group's Basel III Common Equity Tier 1 (CET1), Tier 1 and Total Capital ratios as measured on an APRA basis were 11.1%, 13.2% and 17.5% respectively.

The Group's CET1 ratio increased by 31 basis points in the quarter after allowing for the impact of the 2022 final dividend (-71 basis points). Key drivers of the change included capital generated from earnings (+49 basis points), removal of the remaining \$500 million of APRA's operational risk capital add-on (+15 basis points) and completion of the divestment of CommInsure General Insurance (+9 basis points). These were partially offset by an increase in RWA (-24 basis points), further progress on the previously announced \$2 billion on-market share buy-back (-9 basis points) and other regulatory adjustments (-9 basis points). As at the end of September, \$901 million of the \$2 billion buy-back had been completed, with the remainder expected to be completed by the end of the 2022 calendar year, subject to market conditions, available trading windows and other considerations. Further details on the movements in RWA are provided on pages 4-5.

The Group's Basel III CET1 ratio was 18.2% on an internationally comparable basis as at 30 September 2022.

The CET1 ratio for Level 1 at 30 September 2022 was 11.4%, 30 basis points above Level 2.

	30 Sep 22	30 Jun 22
	%	%
Summary Group Capital Adequacy Ratios (Level 2)		
Common Equity Tier 1	11.1	11.5
Additional Tier 1	2.1	2.1
Tier 1	13.2	13.6
Tier 2	4.3	4.0
Total Capital (APRA)	17.5	17.6
Common Equity Tier 1 (Internationally Comparable)¹	18.2	18.6

¹ Analysis aligns with the 13 July 2015 APRA study titled "International capital comparison study".

Capital Initiatives

In addition to the share buy-back, the following significant capital initiatives were undertaken during the quarter ended 30 September 2022:

Common Equity Tier 1 Capital

- The Dividend Reinvestment Plan (DRP) in respect of the 2022 final dividend was satisfied in full by the on-market purchase of shares. The participation rate for the DRP was 16.75%.

Tier 2 Capital

- In September 2022, the Group issued a HKD400 million subordinated note and an AUD300 million subordinated note, both Basel III compliant Tier 2 instruments.

The following capital initiatives were undertaken by the Group subsequent to the reporting period ended 30 September 2022:

Additional Tier 1 Capital

The issuance of AUD1,777 million of CommBank PERLS XV Capital Notes in November 2022, partly refinancing the upcoming redemption of CommBank PERLS VII Capital Notes. PERLS XV Capital Notes qualify as Basel III compliant Additional Tier 1 Capital of CBA.

Tier 2 Capital

The issuance of the following Basel III compliant subordinated notes:

- JPY20 billion in October 2022; and
- Two subordinated notes totalling AUD2,000 million in November 2022.

Implementation of revised regulatory capital framework

From 1 January 2023, APRA will implement its revisions to the ADI capital framework. The objectives of these revisions are to increase the risk sensitivity within the capital framework, to enhance the ability of ADIs to respond flexibly to future stress events, and to improve the comparability of the Australian framework with international standards.

The Group is well placed to accommodate these changes and expects to operate with a CET1 ratio of greater than 11% (compared to the revised APRA minimum of 10.25%) except in circumstances of unexpected capital volatility.

Leverage Ratio

The Group's Leverage Ratio, defined as Tier 1 Capital as a percentage of total exposures, was 5.1% at 30 September 2022 on an APRA basis and 5.7% on an internationally comparable basis.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) requires Australian ADIs to hold sufficient liquid assets to meet 30 day Net Cash Outflows (NCOs) projected under an APRA prescribed stress scenario. The Group maintained an average LCR of 134% in the September 2022 quarter.

On 1 September 2022, the Group's Committed Liquidity Facility (CLF) was reduced by \$7.5 billion to \$7.5 billion. This is part of APRA's sector-wide phased reduction in CLF usage to zero by the end of 2022.

Risk Weighted Assets

2 Risk Weighted Assets

Risk weighted assets (RWA) are calculated using the AIRB approach for the majority of the Group's credit risk exposures. 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)

Asset Category	Risk Weighted Assets		Change in RWA for	
	30 Sep 22	30 Jun 22	September 2022 quarter	
	\$M	\$M	\$M	%
Credit Risk				
Subject to AIRB approach ¹				
Corporate	73,123	69,621	3,502	5.0
SME corporate	29,633	29,671	(38)	(0.1)
SME retail	5,860	5,797	63	1.1
SME retail secured by residential mortgage	2,675	2,725	(50)	(1.8)
Sovereign	2,291	2,249	42	1.9
Bank	4,240	4,194	46	1.1
Residential mortgage	173,659	171,819	1,840	1.1
Qualifying revolving retail	4,944	5,022	(78)	(1.6)
Other retail	8,819	8,815	4	0.0
Total RWA subject to AIRB approach	305,244	299,913	5,331	1.8
Specialised lending	67,488	67,078	410	0.6
Subject to standardised approach				
Corporate	276	506	(230)	(45.5)
SME corporate	372	573	(201)	(35.1)
SME retail	2,098	2,169	(71)	(3.3)
Sovereign	893	322	571	177.3
Bank	66	50	16	32.0
Residential mortgage	6,453	6,429	24	0.4
Other retail	1,116	1,078	38	3.5
Other assets	7,891	8,276	(385)	(4.7)
Total RWA subject to standardised approach	19,165	19,403	(238)	(1.2)
Securitisation	3,558	3,439	119	3.5
Credit valuation adjustment	3,620	3,136	484	15.4
Central counterparties	642	678	(36)	(5.3)
Total RWA for credit risk exposures	399,717	393,647	6,070	1.5
Traded market risk	13,463	10,683	2,780	26.0
Interest rate risk in the banking book	49,431	47,640	1,791	3.8
Operational risk	39,612	45,922	(6,310)	(13.7)
Total risk weighted assets	502,223	497,892	4,331	0.9

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 (continued)

Risk Weighted Assets

Total RWA increased by \$4.3 billion or 0.9% on the prior quarter to \$502.2 billion driven by increases in credit risk RWA, traded market risk RWA and IRRBB RWA, partly offset by lower operational risk RWA.

Credit Risk RWA

Credit risk RWA increased by \$6.1 billion on the prior quarter to \$399.7 billion, primarily driven by:

- Volume growth (increase of \$4.4 billion) across residential mortgages, commercial portfolios and derivatives;
- Credit quality movement (increase of \$0.4 billion) driven by increasing residential mortgage and specialised lending risk weights; partly offset by an improvement across other non-retail portfolios;
- Foreign currency movements (decrease of \$0.2 billion); and
- Data and methodology (increase of \$1.5 billion) including changes in credit risk estimates.

Traded Market Risk RWA

Traded market risk RWA increased by \$2.8 billion or 26% on the prior quarter to \$13.5 billion. This increase was driven by increased client activity.

Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA increased by \$1.8 billion or 4% on the prior quarter to \$49.4 billion. This was driven by an increase in interest rates.

Operational Risk RWA

Operational risk RWA decreased by \$6.3 billion or 13.7% on the prior quarter to \$39.6 billion.

The RWA decrease was primarily driven by the removal of the APRA add-on as per the APRA announcement on 30 September 2022.

The Group regularly reviews and updates its operational risk RWA to reflect material changes in its operational risk profile in accordance with the Operational Risk Management Framework and governance processes.

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	30 September 2022				Average exposure for September 2022 quarter ¹	Change in exposure for September 2022 quarter ²	
	On Balance Sheet	Off Balance Sheet		Total			
		Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M	\$M	%
Subject to AIRB approach							
Corporate	82,061	46,260	12,922	141,243	138,521	5,443	4.0
SME corporate	49,269	10,783	691	60,743	60,601	285	0.5
SME retail	7,212	3,558	5	10,775	10,752	47	0.4
SME retail secured by residential mortgage	3,452	1,457	–	4,909	4,923	(28)	(0.6)
Sovereign	208,486	1,133	7,676	217,295	216,973	643	0.3
Bank	13,771	437	7,792	22,000	21,192	1,617	7.9
Residential mortgage	608,928	81,737	–	690,665	688,293	4,743	0.7
Qualifying revolving retail	7,846	15,514	–	23,360	23,377	(33)	(0.1)
Other retail	6,288	2,516	–	8,804	8,808	(8)	(0.1)
Total AIRB approach	987,313	163,395	29,086	1,179,794	1,173,440	12,709	1.1
Specialised lending	65,116	11,134	363	76,613	76,775	(324)	(0.4)
Subject to standardised approach							
Corporate	195	68	12	275	391	(232)	(45.8)
SME corporate	255	115	–	370	472	(203)	(35.4)
SME retail	1,519	566	6	2,091	2,126	(72)	(3.3)
Sovereign	1,183	1	–	1,184	913	543	84.7
Bank	264	9	–	273	248	50	22.4
Residential mortgage	13,501	2,091	–	15,592	15,447	290	1.9
Other retail	930	177	–	1,107	1,088	39	3.7
Other assets	12,987	–	–	12,987	14,225	(2,476)	(16.0)
Central counterparties	–	–	11,377	11,377	11,170	414	3.8
Total standardised approach	30,834	3,027	11,395	45,256	46,080	(1,647)	(3.5)
Total Credit exposures ³	1,083,263	177,556	40,844	1,301,663	1,296,295	10,738	0.8

¹ The simple average of balances as at 30 September 2022 and 30 June 2022.

² The difference between exposures as at 30 September 2022 and 30 June 2022.

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

Credit Risk (continued)

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

Portfolio Type	30 June 2022				Average exposure for June 2022 quarter ¹	Change in exposure for June 2022 quarter ²	
	On Balance Sheet	Off Balance Sheet	Non-market related	Market related		Total	\$M
	\$M	\$M	\$M	\$M	\$M	\$M	%
Subject to AIRB approach							
Corporate	79,887	45,713	10,200	135,800	133,901	3,797	2.9
SME corporate	49,488	10,337	633	60,458	60,155	606	1.0
SME retail	7,258	3,466	4	10,728	10,744	(31)	(0.3)
SME retail secured by residential mortgage	3,494	1,443	–	4,937	4,968	(61)	(1.2)
Sovereign	210,016	1,116	5,520	216,652	206,584	20,135	10.2
Bank	12,413	438	7,532	20,383	19,866	1,035	5.3
Residential mortgage	604,509	81,413	–	685,922	684,509	2,824	0.4
Qualifying revolving retail	7,808	15,585	–	23,393	23,387	13	0.1
Other retail	6,252	2,560	–	8,812	9,129	(633)	(6.7)
Total AIRB approach	981,125	162,071	23,889	1,167,085	1,153,243	27,685	2.4
Specialised lending	64,041	12,409	487	76,937	76,047	1,779	2.4
Subject to standardised approach							
Corporate	346	147	14	507	422	170	50.4
SME corporate	393	177	3	573	547	53	10.2
SME retail	1,580	577	6	2,163	2,171	(17)	(0.8)
Sovereign	640	1	–	641	654	(26)	(3.9)
Bank	211	12	–	223	234	(22)	(9.0)
Residential mortgage	13,394	1,908	–	15,302	15,259	86	0.6
Other retail	914	154	–	1,068	1,045	46	4.5
Other assets	15,463	–	–	15,463	17,515	(4,103)	(21.0)
Central counterparties	–	–	10,963	10,963	10,795	336	3.2
Total standardised approach	32,941	2,976	10,986	46,903	48,642	(3,477)	(6.9)
Total credit exposures³	1,078,107	177,456	35,362	1,290,925	1,277,932	25,987	2.1

¹ The simple average of balances as at 30 June 2022 and 31 March 2022.

² The difference between exposures as at 30 June 2022 and 31 March 2022.

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

Credit Risk (continued)

3.2 Past Due and Impaired Exposures, Provisions and Reserves

From 1 January 2022 the Group adopted APRA's revised APS 220 *Credit Risk Management*. The revised standard no longer includes requirements in relation to impaired assets, specific provisions or the General Reserve for Credit Losses (GRCL). The Group will continue to disclose these items until such time as the requirements of APS 330 are changed to retire the former standard's disclosure requirements relating to impaired assets, specific provisions and the GRCL.

All provisions recognised in accordance with accounting standards that have been assessed on an individual basis are classified as specific provisions. Most of the collective provisions raised under accounting standards are included in the GRCL; however, certain collective provisions not eligible for inclusion in the GRCL are classified as specific provisions. This includes, for example, collective provisions on retail products that are in default. The Group's GRCL methodology results in an amount lower than the provision recognised for accounting purposes, resulting in no additional GRCL requirement.

Reconciliation of Australian Accounting Standards, former APS 220 *Credit Quality* based credit provisions and APS 330 Table 4c – General reserve for credit losses

	30 September 2022		
	General reserve for credit losses \$M	Specific provision ¹ \$M	Total provisions \$M
Collective provision ²	4,172	526	4,698
Individual provisions ²	–	679	679
Total regulatory provisions	4,172	1,205	5,377

1 Specific provision balance includes certain accounting collective provisions on some defaulted loans.

2 Provisions according to the Australian Accounting Standards.

	30 June 2022		
	General reserve for credit losses \$M	Specific provision ¹ \$M	Total provisions \$M
Collective provision ²	4,033	578	4,611
Individual provisions ²	–	736	736
Total regulatory provisions	4,033	1,314	5,347

1 Specific provision balance includes certain accounting collective provisions on some defaulted loans.

2 Provisions according to the Australian Accounting Standards.

Credit Risk (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 30 September 2022			Quarter ended 30 September 2022	
	Impaired assets	Past due loans ≥ 90 days ¹	Specific provision balance ²	Net charges for individual provisions	Actual losses ³
	\$M	\$M	\$M	\$M	\$M
Corporate including SME, specialised lending and central counterparties	1,198	563	550	81	149
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Residential mortgage	1,705	2,343	530	–	7
Credit cards	56	–	56	–	18
Other retail	81	–	69	1	30
Total	3,040	2,906	1,205	82	204

1 Represents loans ≥ 90 days past due but not impaired.

2 Specific provision balance includes certain accounting collective provisions on some defaulted loans.

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 2022.

Portfolio	As at 30 June 2022			Quarter ended 30 June 2022	
	Impaired assets	Past due loans ≥ 90 days ¹	Specific provision balance ²	Net charges for individual provisions	Actual losses ³
	\$M	\$M	\$M	\$M	\$M
Corporate including SME, specialised lending and central counterparties	1,080	591	625	82	67
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Residential mortgage	1,713	2,562	544	(5)	11
Credit cards	66	–	66	–	19
Other retail	92	–	79	(2)	28
Total	2,951	3,153	1,314	75	125

1 Represents loans ≥ 90 days past due but not impaired.

2 Specific provision balance includes certain accounting collective provisions on some defaulted loans.

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 June 2022.

Credit Risk (continued)

3.3 Securitisation

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

Underlying Asset	Quarter ended 30 September 2022	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	705	–
Credit cards and other personal loans	–	–
Auto and equipment finance	–	–
Commercial loans	–	–
Other	–	–
Total	705	–

Underlying Asset	Quarter ended 30 June 2022	
	Total exposures securitised	Recognised gain or loss on sale
	\$M	\$M
Residential mortgage	90	–
Credit cards and other personal loans	135	–
Auto and equipment finance	–	–
Commercial loans	–	–
Other	–	–
Total	225	–

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

Securitisation Facility Type	As at 30 September 2022		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	–	194	194
Warehouse facilities	11,142	5,646	16,788
Derivative facilities	–	180	180
Holdings of securities	3,840	–	3,840
Other	–	14	14
Total securitisation exposures	14,982	6,034	21,016

Securitisation Facility Type	As at 30 June 2022		
	On Balance Sheet	Off Balance Sheet	Total exposures
	\$M	\$M	\$M
Liquidity support facilities	–	217	217
Warehouse facilities	11,168	4,305	15,473
Derivative facilities	–	225	225
Holdings of securities	4,043	–	4,043
Other	–	15	15
Total securitisation exposures	15,211	4,762	19,973

Leverage Ratio

4 Leverage Ratio

The Group's Leverage Ratio, defined as Tier 1 Capital as a percentage of total exposures, was 5.1% at 30 September 2022 on an APRA basis and 5.7% on an internationally comparable basis.

In November 2021, APRA released final prudential standards, which included changes to the definition of exposures related to derivatives and off Balance Sheet items and a minimum leverage ratio requirement of 3.5% for IRB banks, applicable from 1 January 2023.

Summary Group Leverage Ratio	30 Sep 22	30 Jun 22	31 Mar 22	31 Dec 21	30 Sep 21
Tier 1 Capital (\$M)	66,472	67,558	64,764	66,027	69,594
Total Exposures (\$M) ¹	1,314,458	1,295,368	1,247,225	1,240,349	1,216,213
Leverage Ratio (APRA) (%)	5.1	5.2	5.2	5.3	5.7
Leverage Ratio (Internationally Comparable) (%) ²	5.7	5.9	6.0	6.2	6.6

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 were subject to transitional rules. These non-compliant instruments were phased out in full from inclusion in Regulatory Capital effective 1 January 2022.

Liquidity Risk

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 2022 quarter, excess liquid assets averaged \$51.3 billion and the average LCR increased from 130% to 134%.

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 repo-eligible securities with the RBA under the CLF and 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.

NCOs are modelled under an APRA prescribed 30 day severe liquidity stress scenario. The Group manages modelled NCOs 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 NCOs increased over the quarter due to growth in non-operational deposits.

APS 330 Table 20 – LCR disclosure template

	30 Sep 22		30 Jun 22	
	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)		189,487		171,799
2 Alternative liquid assets (ALA)		12,576		17,222
3 Reserve Bank of New Zealand (RBNZ) securities		2,358		2,394
Cash outflows				
4 Retail deposits and deposits from small business customers, of which:	444,215	40,010	445,434	39,938
5 Stable deposits	244,689	12,234	243,102	12,155
6 Less stable deposits	199,526	27,776	202,332	27,783
7 Unsecured wholesale funding, of which:	195,739	86,525	190,045	80,290
8 Operational deposits (all counterparties) and deposits in networks for cooperative banks	93,922	23,055	95,721	23,505
9 Non-operational deposits (all counterparties)	90,526	52,179	84,712	47,173
10 Unsecured debt	11,291	11,291	9,612	9,612
11 Secured wholesale funding		4,561		6,653
12 Additional requirements, of which:	178,256	27,993	178,858	27,020
13 Outflows related to derivatives exposures and other collateral requirements	7,130	7,130	6,147	6,147
14 Outflows related to loss of funding on debt products	–	–	–	–
15 Credit and liquidity facilities	171,126	20,863	172,711	20,873
16 Other contractual funding obligations	–	–	–	–
17 Other contingent funding obligations	77,281	10,939	71,103	8,828
18 Total cash outflows		170,028		162,729
Cash inflows				
19 Secured lending	18,388	1,429	16,135	1,303
20 Inflows from fully performing exposures	13,175	9,350	11,832	7,945
21 Other cash inflows	6,162	6,162	5,684	5,684
22 Total cash inflows	37,725	16,941	33,651	14,932
23 Total liquid assets		204,421		191,415
24 Total net cash outflows		153,087		147,797
25 Liquidity Coverage Ratio (%)		134		130
Number of data points used (Business Days)		62		56

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 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.
Alternative Liquid Assets (ALA)	Assets that qualify for inclusion in the numerator of the LCR in jurisdictions where there is insufficient supply of HQLA.
ASB	ASB Bank Limited – a subsidiary of the Commonwealth Bank of Australia that is directly 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 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.
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 <i>Financial Instruments</i>).
Committed Liquidity Facility (CLF)	The Reserve Bank of Australia (RBA) provides the CLF to participating ADIs under the LCR, as a shortfall in Commonwealth government and semi-government securities exists in Australia. ADIs can draw under the CLF in a liquidity crisis against qualifying securities pledged to the RBA. In September 2021, APRA announced a sector-wide phased reduction in usage of the CLF to zero by the end of 2022.
Common Equity Tier 1 Capital (CET1)	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 - includes commercial credit risk where annual revenues are \$50 million or more.

Glossary (continued)

Term	Definition
Credit Valuation Adjustment (CVA) Risk	The risk of mark-to-market losses related to deterioration in the credit quality of a derivative counterparty.
Exposure at Default (EAD)	The extent to which a bank 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 <i>Associations with Related Entities</i> .
External Credit Assessment Institution (ECAI)	For example: Moody's Investor Services, S&P Global Ratings or Fitch Ratings.
General Reserve for Credit Losses (GRCL)	From 1 January 2022 the Group adopted the revised APS 220 <i>Credit Risk Management</i> standard which no longer includes requirements in relation to the GRCL. The Group will continue to disclose the GRCL until APS 330 is amended to retire this disclosure referencing the former APS 220 <i>Credit Quality</i> standard's requirements, which required 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 GRCL. An excess of required GRCL over the Group's collective provisions is recognised as a deduction from CET1 under the former standard.
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.
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 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 <i>Financial Instruments</i>). 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 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 Net Interest Income earned over 12 months. This calculation is driven by APRA regulations with further detail outlined in the Group's 30 June 2022 Basel III Pillar 3 report.
Level 1	The Parent Bank (Commonwealth Bank of Australia) and 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 the insurance and funds management businesses 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 and funds management businesses (the Group).
Leverage Ratio	Tier 1 Capital divided by total exposures, with this ratio expressed as a percentage.
Liquidity Coverage Ratio (LCR)	The liquidity coverage ratio 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. Loss Given Default represents the fraction of EAD that is not expected to be recovered following default.

Glossary (continued)

Term	Definition
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.
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 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 Ratio (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 to individuals less than \$0.1m, unsecured and unconditionally cancellable by the Group. Only Australian retail credit cards qualify for this AIRB asset class.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
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 AIRB approach of 1.06.
Securities Financing Transactions (SFT)	APRA defines securities financing transactions as transactions such as repurchase agreements, reverse repurchase agreements, and 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 – 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	Basel asset class – 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 the RBA), 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.

Glossary (continued)

Term	Definition
Specific Provisions	From 1 January 2022 the Group adopted the revised APS 220 <i>Credit Risk Management</i> standard which no longer includes requirements in relation to Specific Provisions. The Group will continue to disclose Specific Provisions until APS 330 is amended to retire this disclosure referencing the former APS 220 <i>Credit Quality</i> standard's requirements, which required 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 GRCL (which are primarily collective provisions on some defaulted assets).
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.
Term Funding Facility (TFF)	A facility provided by the RBA to certain ADIs to support lending to Australian businesses.
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 <i>Capital Adequacy</i> (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.
