

Commonwealth
Bank

Basel III Pillar 3

Capital Adequacy and Risk

Disclosures as at 31 March 2022

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

Commonwealth Bank of Australia | Media Release 079/2022 | ACN 123 123 124 | Ground Floor Tower 1, 201 Sussex Street, Sydney
NSW 2000 | 12 May 2022

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Introduction

1 Introduction

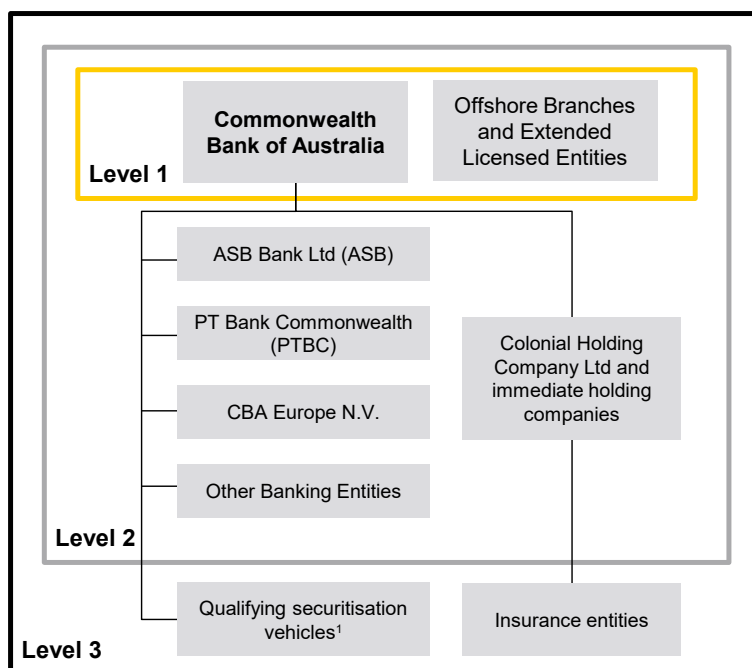
The Commonwealth Bank of Australia (CBA) is an Authorised Deposit-taking Institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA) under the authority of the Banking Act 1959.

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, as illustrated below.

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 31 March 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 17.1% respectively.

The Group's CET1 ratio decreased by 9 basis points in the quarter after allowing for the impact of the 2022 interim dividend (-61 basis points). This was primarily driven by higher RWA (-49 basis points) and other regulatory adjustments (-6 basis points), partially offset by capital generated from earnings (+46 basis points). Further details on the movements in RWA are provided on pages 4-5.

The Group's Basel III CET1 ratio was 18.0% on an internationally comparable basis as at 31 March 2022.

The CET1 ratio for Level 1 at 31 March 2022 was 11.5%, 40 basis points above Level 2. The revised APS 111 *Capital Adequacy: Measurement of Capital* effective from 1 January 2022 resulted in an uplift to the Group's Level 1 CET1 ratio by 20 basis points. There was no impact to the Group's Level 2 CET1 capital ratio.

	31 Mar 22	31 Dec 21
	%	%
Summary Group Capital Adequacy Ratios (Level 2)		
Common Equity Tier 1	11.1	11.8
Additional Tier 1	2.1	2.2
Tier 1	13.2	14.0
Tier 2	3.9	4.0
Total Capital (APRA)	17.1	18.0
Common Equity Tier 1 (Internationally Comparable)¹	18.0	18.4

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

Capital Initiatives

The following significant capital initiatives were undertaken during the quarter ended 31 March 2022:

Common Equity Tier 1 Capital

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

Additional Tier 1 Capital

In March 2022, the Group issued AUD1,750 million CommBank PERLS XIV Capital Notes and concurrently redeemed AUD1,640 million CommBank PERLS IX Capital Notes, both Basel III compliant Additional Tier 1 Capital instruments.

Tier 2 Capital

In March 2022, the Group issued a USD1,250 million subordinated note and redeemed a JPY13.3 billion subordinated note and a HKD608 million subordinated note which were all Basel III compliant Tier 2 instruments.

Subsequent to the current reporting period, in April 2022, the Group issued two subordinated notes totalling AUD1,100 million and redeemed a EUR590 million subordinated note which were all Basel III compliant Tier 2 instruments.

Leverage Ratio

The Group's Leverage Ratio, defined as Tier 1 Capital as a percentage of total exposures, was 5.2% at 31 March 2022 on an APRA basis and 6.0% 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 131% in the March 2022 quarter.

On 1 January 2022, the Group's Committed Liquidity Facility (CLF) was reduced by \$7.5 billion to \$22.5 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 March 2022 quarter	
	31 Mar 22	31 Dec 21	\$M	%
Credit Risk				
Subject to AIRB approach ¹				
Corporate	69,472	68,406	1,066	1.6
SME corporate	30,011	30,141	(130)	(0.4)
SME retail	5,744	5,730	14	0.2
SME retail secured by residential mortgage	2,759	2,789	(30)	(1.1)
Sovereign	2,230	2,463	(233)	(9.5)
Bank	4,096	4,359	(263)	(6.0)
Residential mortgage	170,139	167,999	2,140	1.3
Qualifying revolving retail	5,117	5,031	86	1.7
Other retail	10,655	10,804	(149)	(1.4)
Total RWA subject to AIRB approach	300,223	297,722	2,501	0.8
Specialised lending	65,239	65,825	(586)	(0.9)
Subject to standardised approach				
Corporate	337	1,289	(952)	(73.9)
SME corporate	521	641	(120)	(18.7)
SME retail	2,188	2,291	(103)	(4.5)
Sovereign	334	348	(14)	(4.0)
Bank	61	48	13	27.1
Residential mortgage	6,435	6,380	55	0.9
Other retail	1,032	971	61	6.3
Other assets	7,874	8,028	(154)	(1.9)
Total RWA subject to standardised approach	18,782	19,996	(1,214)	(6.1)
Securitisation	3,539	3,486	53	1.5
Credit valuation adjustment	2,858	3,110	(252)	(8.1)
Central counterparties	684	548	136	24.8
Total RWA for credit risk exposures	391,325	390,687	638	0.2
Traded market risk	13,116	10,803	2,313	21.4
Interest rate risk in the banking book	40,062	24,356	15,706	64.5
Operational risk	46,061	46,081	(20)	(0.0)
Total risk weighted assets	490,564	471,927	18,637	3.9

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 \$18.6 billion or 3.9% on the prior quarter to \$490.6 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 \$0.6 billion or 0.2% on the prior quarter to \$391.3 billion. Key drivers include:

- Volume growth (increase of \$2.3 billion) across residential mortgages and corporate portfolios; partly offset by a reduction in specialised lending, derivatives, bank and sovereign exposures, unsecured retail portfolios and exposures subject to standardised treatment;
- Credit quality movement (increase of \$0.4 billion), driven by an increase in non-defaulted residential mortgage risk weights; partly offset by non-retail portfolios;
- Foreign currency movements (decrease of \$1.4 billion); and
- Data and methodology, credit risk estimates and other changes (decrease of \$0.7 billion).

Traded Market Risk RWA

Traded market risk RWA increased by \$2.3 billion or 21.4% on the prior quarter to \$13.1 billion. This was impacted by the rising interest rate environment and the Risks-Not-In-VaR (RNIV) overlay.

Interest Rate Risk in the Banking Book (IRRBB) RWA

IRRBB RWA increased by \$15.7 billion or 64.5% on the prior quarter to \$40.1 billion. This was driven by changes in interest rate risk management positions and increased embedded losses due to higher interest rates in Australia and New Zealand.

In order to avoid significant earnings volatility through a rate cycle, the Group's equity is invested over a three year investment term. Due to increased market rate volatility, in particular the significant increase in two and three year market swap rates in recent months, the amount of IRRBB capital required by APRA has increased, mainly reflecting the spot valuation differences to equity invested over a one year term.

Operational Risk RWA

Operational risk RWA decreased by \$20 million or 0.04% on the prior quarter to \$46.1 billion.

The operational risk RWA includes a \$6.25 billion add-on required by APRA.

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	31 March 2022				Average exposure for March 2022 quarter ¹	Change in exposure for March 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 ³	79,097	44,747	8,159	132,003	131,191	1,625	1.2
SME corporate	47,964	11,329	559	59,852	59,551	603	1.0
SME retail	7,139	3,613	7	10,759	10,759	1	–
SME retail secured by residential mortgage	3,483	1,515	–	4,998	5,045	(94)	(1.8)
Sovereign ³	192,005	1,961	2,551	196,517	198,192	(3,350)	(1.7)
Bank	11,919	430	6,999	19,348	19,685	(676)	(3.4)
Residential mortgage	598,070	85,028	–	683,098	679,758	6,678	1.0
Qualifying revolving retail	7,660	15,720	–	23,380	23,467	(173)	(0.7)
Other retail	6,109	3,336	–	9,445	9,498	(106)	(1.1)
Total AIRB approach	953,446	167,679	18,275	1,139,400	1,137,146	4,508	0.4
Specialised lending³	62,982	11,463	713	75,158	75,615	(914)	(1.2)
Subject to standardised approach							
Corporate ³	193	131	13	337	813	(952)	(73.9)
SME corporate	358	157	5	520	580	(120)	(18.8)
SME retail	1,596	573	11	2,180	2,232	(103)	(4.5)
Sovereign ³	666	1	–	667	3,159	(4,984)	(88.2)
Bank	245	–	–	245	237	14	6.1
Residential mortgage	13,280	1,936	–	15,216	15,097	239	1.6
Other retail	888	134	–	1,022	991	61	6.3
Other assets	19,566	–	–	19,566	19,657	(182)	(0.9)
Central counterparties	–	–	10,627	10,627	10,239	777	7.9
Total standardised approach	36,792	2,932	10,656	50,380	53,005	(5,250)	(9.4)
Total Credit exposures⁴	1,053,220	182,074	29,644	1,264,938	1,265,766	(1,656)	(0.1)

1 The simple average of balances as at 31 March 2022 and 31 December 2021.

2 The difference between exposures as at 31 March 2022 and 31 December 2021.

3 APRA accredited the use of the AIRB approach for CBA Europe N.V. from March 2022.

4 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	31 December 2021				Average exposure for December 2021 quarter ¹	Change in exposure for December 2021 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	74,275	47,576	8,527	130,378	129,543	1,671	1.3
SME corporate	47,000	11,513	736	59,249	58,685	1,128	1.9
SME retail	7,087	3,667	4	10,758	10,746	25	0.2
SME retail secured by residential mortgage	3,509	1,583	–	5,092	5,129	(74)	(1.4)
Sovereign	195,792	1,278	2,797	199,867	200,141	(547)	(0.3)
Bank	13,264	419	6,341	20,024	21,303	(2,560)	(11.3)
Residential mortgage	590,651	85,769	–	676,420	669,798	13,243	2.0
Qualifying revolving retail	7,843	15,710	–	23,553	23,574	(42)	(0.2)
Other retail	6,180	3,371	–	9,551	9,636	(169)	(1.7)
Total AIRB approach	945,601	170,886	18,405	1,134,892	1,128,555	12,675	1.1
Specialised lending	62,328	12,539	1,205	76,072	75,394	1,356	1.8
Subject to standardised approach							
Corporate	997	289	3	1,289	1,362	(146)	(10.2)
SME corporate	457	183	–	640	660	(40)	(5.9)
SME retail	1,663	613	7	2,283	2,385	(203)	(8.2)
Sovereign	5,650	1	–	5,651	3,311	4,680	482.0
Bank	231	–	–	231	245	(30)	(11.5)
Residential mortgage	13,062	1,915	–	14,977	14,973	9	0.1
Other retail	847	114	–	961	943	35	3.8
Other assets	19,748	–	–	19,748	19,936	(375)	(1.9)
Central counterparties	–	–	9,850	9,850	10,375	(1,049)	(9.6)
Total standardised approach	42,655	3,115	9,860	55,630	54,190	2,881	5.5
Total credit exposures³	1,050,584	186,540	29,470	1,266,594	1,258,139	16,912	1.4

1 The simple average of balances as at 31 December 2021 and 30 September 2021.

2 The difference between exposures as at 31 December 2021 and 30 September 2021.

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 has 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

	31 March 2022		
	General	Specific	Total
	reserve for credit losses	provision ¹	provisions
	\$M	\$M	\$M
Collective provision ²	4,485	486	4,971
Individual provisions ²	–	720	720
Total regulatory provisions	4,485	1,206	5,691

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

2 Provisions according to the Australian Accounting Standards.

	31 December 2021		
	General	Specific	Total
	reserve for credit losses ¹	provision ¹	provisions
	\$M	\$M	\$M
Collective provision ²	4,567	495	5,062
Individual provisions ²	–	792	792
Total regulatory provisions	4,567	1,287	5,854

1 Provisions classified according to former APS 220 *Credit Quality*.

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 31 March 2022		Quarter ended 31 March 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	1,159	758	603	(9)	53
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Residential mortgage	1,823	2,630	439	(7)	5
Credit cards	73	–	73	–	17
Other retail	93	–	91	4	32
Total	3,148	3,388	1,206	(12)	107

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 31 March 2022.

Portfolio	As at 31 December 2021		Quarter ended 31 December 2021		
	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	1,421	741	666	70	119
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Residential mortgage	1,902	2,603	477	(8)	12
Credit cards	66	–	58	–	20
Other retail	93	–	86	1	37
Total	3,482	3,344	1,287	63	188

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 31 December 2021.

Credit Risk (continued)

3.3 Securitisation

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

Underlying Asset	Quarter ended 31 March 2022	
	Total exposures securitised \$M	Recognised gain or loss on sale \$M
Residential mortgage	70	–
Credit cards and other personal loans	32	–
Auto and equipment finance	–	–
Commercial loans	–	–
Other	–	–
Total	102	–

Underlying Asset	Quarter ended 31 December 2021	
	Total exposures securitised \$M	Recognised gain or loss on sale \$M
Residential mortgage	1,448	–
Credit cards and other personal loans	105	–
Auto and equipment finance	388	–
Commercial loans	58	–
Other	–	–
Total	1,999	–

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

Securitisation Facility Type	As at 31 March 2022		
	On Balance Sheet \$M	Off Balance Sheet \$M	Total exposures \$M
	Liquidity support facilities	–	242
Warehouse facilities	9,763	5,604	15,367
Derivative facilities	–	330	330
Holdings of securities	4,494	–	4,494
Other	–	15	15
Total securitisation exposures	14,257	6,191	20,448

Securitisation Facility Type	As at 31 December 2021		
	On Balance Sheet \$M	Off Balance Sheet \$M	Total exposures \$M
	Liquidity support facilities	–	242
Warehouse facilities	8,279	6,103	14,382
Derivative facilities	–	389	389
Holdings of securities	4,876	–	4,876
Other	–	15	15
Total securitisation exposures	13,155	6,749	19,904

Leverage Ratio

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 2022 on an APRA basis and 6.0% 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	31 Mar 22	31 Dec 21	30 Sep 21	30 Jun 21	31 Mar 21
Tier 1 Capital (\$M)	64,764	66,027	69,594	70,874	67,511
Total Exposures (\$M) ¹	1,247,225	1,240,349	1,216,213	1,178,061	1,118,109
Leverage Ratio (APRA) (%)	5.2	5.3	5.7	6.0	6.0
Leverage Ratio (Internationally Comparable) (%) ²	6.0	6.2	6.6	6.9	6.8

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".

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 March 2022 quarter, excess liquid assets averaged \$45 billion and the average LCR decreased from 134% to 131%.

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. Average liquid assets decreased over the quarter due to a \$7.5 billion reduction in the Group's CLF to \$22.5 billion from 1 January 2022.

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 decreased over the quarter due to a shift from non-operational to operational deposits over the quarter.

APS 330 Table 20 – LCR disclosure template

	31 Mar 22		31 Dec 21	
	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)		166,635		166,821
2 Alternative liquid assets (ALA)		21,461		29,929
3 Reserve Bank of New Zealand (RBNZ) securities		3,900		3,000
Cash outflows				
4 Retail deposits and deposits from small business customers, of which:	434,793	38,517	424,385	37,288
5 Stable deposits	238,596	11,930	235,250	11,763
6 Less stable deposits	196,197	26,587	189,135	25,525
7 Unsecured wholesale funding, of which:	195,702	82,889	197,598	86,170
8 Operational deposits (all counterparties) and deposits in networks for cooperative banks	101,061	24,839	96,548	23,712
9 Non-operational deposits (all counterparties)	82,791	46,200	88,239	49,647
10 Unsecured debt	11,850	11,850	12,811	12,811
11 Secured wholesale funding		4,415		3,702
12 Additional requirements, of which:	177,250	26,051	180,778	26,987
13 Outflows related to derivatives exposures and other collateral requirements	5,047	5,047	5,908	5,908
14 Outflows related to loss of funding on debt products	–	–	–	–
15 Credit and liquidity facilities	172,203	21,004	174,870	21,079
16 Other contractual funding obligations	2	–	3	–
17 Other contingent funding obligations	70,803	9,590	69,278	8,959
18 Total cash outflows		161,462		163,106
Cash inflows				
19 Secured lending	12,481	1,667	6,233	831
20 Inflows from fully performing exposures	10,205	6,509	10,605	7,033
21 Other cash inflows	6,702	6,702	5,597	5,597
22 Total cash inflows	29,388	14,878	22,435	13,461
23 Total liquid assets		191,996		199,750
24 Total net cash outflows		146,584		149,645
25 Liquidity Coverage Ratio (%)		131		134
Number of data points used (Business Days)		58		61

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	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 on 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 received 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 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 2021 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 likelihood that a debtor fails to meet an obligation or contractual commitment.
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, 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.