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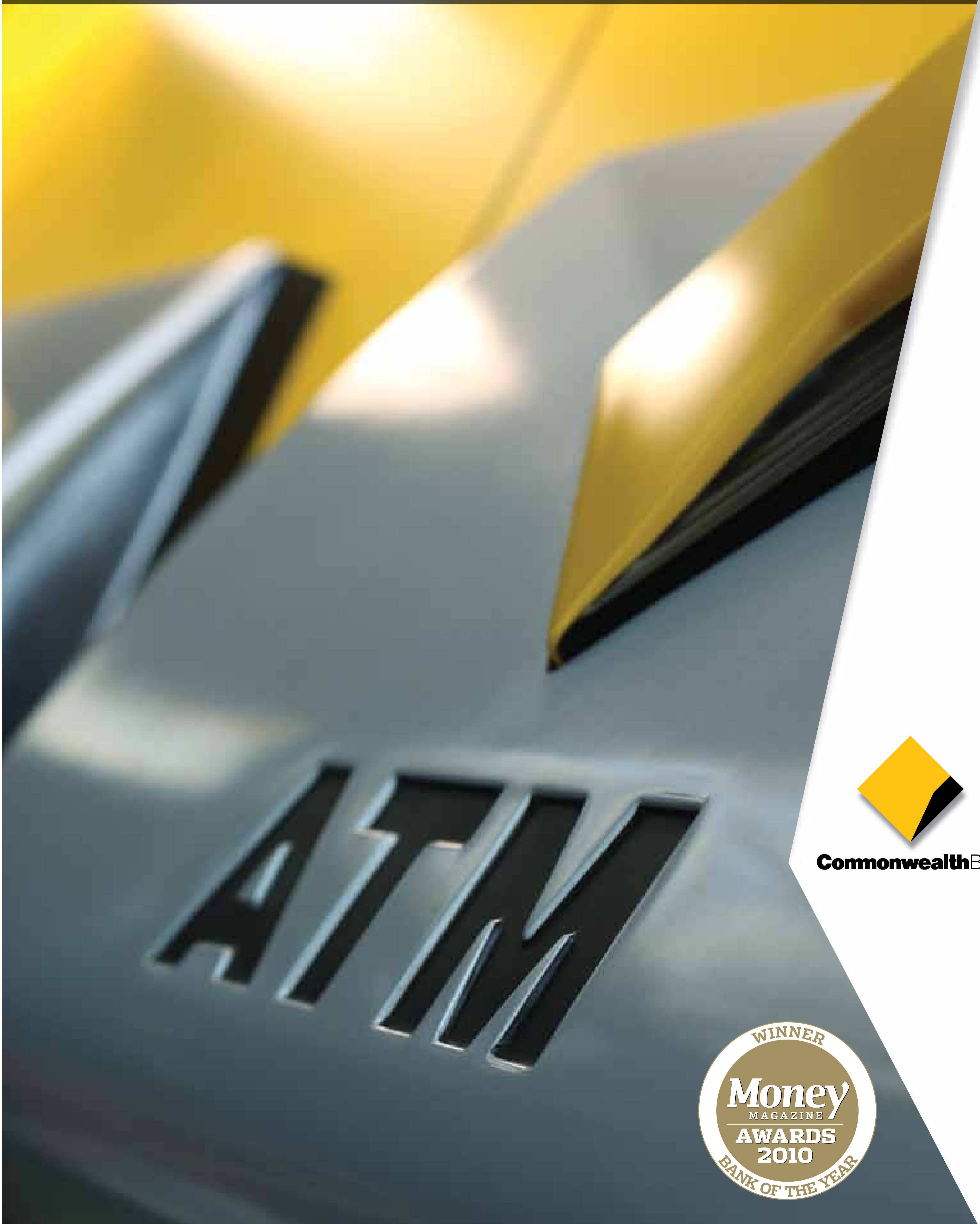
Basel II Pillar 3

Capital Adequacy and Risk Disclosures

QUARTERLY UPDATE AS AT 31 MARCH 2011



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Basel II Pillar 3 – Capital Adequacy and Risk Disclosures

Quarterly update as at 31 March 2011

1. Scope of Application

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

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

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

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

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

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

Detailed qualitative and quantitative disclosure of the Group's capital adequacy and risk disclosures for the year ended 30 June 2010 are available on the Group's corporate website www.commbank.com.au.

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

2. Group Capital Ratios

The Group's Common Equity, Tier One and Total Capital ratios as at 31 March 2011 were 7.54%, 9.90% and 11.68% respectively.

The increase in the capital ratios during the March 2011 quarter was mainly attributable to the continued generation of organic capital combined with a reduction in IRRBB RWA.

Comparable Common Equity, Tier One and Total Capital ratios as at 31 March 2011 under the UK Financial Services Authority method of calculating regulatory capital were 10.4%, 13.2% and 14.7% respectively.

Capital Initiatives

The following significant capital initiatives have been undertaken since 31 December 2010.

The allocation of $513 million ordinary shares in order to satisfy the Dividend Reinvestment Plan in respect of the interim dividend for 2010/2011, representing a participation rate of 25%.

The redemption of US$65 million in Exchangeable Floating Rate notes, classified as Innovative Tier One Capital, in February 2011.

There were no material Tier Two Capital initiatives undertaken during the quarter.

APS 330 Table 16e – Capital ratios

Summary Group Capital Adequacy Ratios (Level 2)	31/03/11 %	31/12/10 %
Common Equity	**7.54**	7.35
Tier One	**9.90**	9.71
Tier Two	**1.78**	1.79
Total Capital	**11.68**	11.50

3. Risk Weighted Assets

The following table details the Group's RWA by risk and portfolio type.

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

	31/03/11	31/12/10	Change in RWA	
Asset Category	**$M**	**$M**	**$M**	**%**
Credit Risk				
Subject to advanced IRB approach				
Corporate	**40,599**	40,129	470	1
SME corporate	**21,434**	22,071	(637)	(3)
SME retail	**4,691**	4,896	(205)	(4)
Sovereign	**2,852**	2,557	295	12
Bank	**7,525**	6,686	839	13
Residential mortgage	**55,029**	56,412	(1,383)	(2)
Qualifying revolving retail	**6,471**	6,761	(290)	(4)
Other retail	**7,103**	6,398	705	11
Impact of the regulatory scaling factor (1)	**8,742**	8,755	(13)	-
Total RWA subject to advanced IRB approach	**154,446**	154,665	(219)	-
Specialised lending	**36,005**	34,339	1,666	5
Subject to standardised approach				
Corporate	**8,057**	8,040	17	-
SME corporate	**7,162**	7,597	(435)	(6)
SME retail	**4,368**	4,377	(9)	-
Sovereign	**119**	99	20	20
Bank	**1,359**	1,583	(224)	(14)
Residential mortgage	**22,812**	22,605	207	1
Other retail	**2,494**	2,510	(16)	(1)
Other assets	**4,906**	4,619	287	6
Total RWA subject to standardised approach	**51,277**	51,430	(153)	-
Securitisation	**1,934**	1,894	40	2
Equity exposures	**2,130**	2,280	(150)	(7)
Total RWA for credit risk exposures	**245,792**	244,608	1,184	-
Traded market risk	**3,304**	3,873	(569)	(15)
Interest rate risk in the banking book	**12,268**	17,033	(4,765)	(28)
Operational risk	**20,489**	20,049	440	2
Total risk weighted assets	**281,853**	285,563	(3,710)	(1)

(1) APRA requires RWA that are derived from the IRB risk-weighted functions to be multiplied by a scaling factor of 1.06 (refer glossary).

Total RWA decreased by $3.7 billion or 1.3% on the prior quarter to $281.9 billion, driven mainly by a reduction in IRRBB RWA.

Credit Risk RWA

Credit Risk RWA increased over the quarter by $1.2 billion or 0.5% to $245.8 billion. The increase was driven by a change in the mix of the portfolio with a net increase in exposure as a result of the Group holding more liquid assets and increasing facilities to specialised lending.

This increase was partly offset by:

- The implementation of revised Credit Risk Factors after APRA accepted a new modelling approach for the domestic retail portfolio and new methodology to determine exposure at default for domestic Qualifying Revolving Retail facilities; and
- The RBNZ approved implementation of revised downturn Loss Given Default estimates for the ASB non-retail portfolios.
- Appreciation of the Australian dollar during the quarter;

Traded Market Risk, IRRBB and Operational Risk RWA

Traded Market Risk RWA decreased by $0.6 billion over the quarter due to reduced volatility affecting capital measurements following the global financial crisis.

IRRBB RWA decreased by $4.8 billion or 28% to $12.3 billion. This was driven mostly by the Group increasing hedging activities to reduce the anticipated impact of interest rate changes to the Group as compared to December 2010.

Operational Risk RWA increased slightly (2%) over the quarter, reflecting modest growth in business activities.

4. Credit Risk Exposure

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

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

	31 March 2011						
		Off balance sheet			Average		
	On balance sheet	Non-market related	Market related	Total	exposure for March 2011 quarter [2]	Change in exposure for March quarter [3]	
Portfolio Type	$M	$M	$M	$M	$M	$M	%
Subject to advanced IRB approach							
Corporate	37,293	24,928	5,547	**67,768**	67,488	560	0. 8
SME corporate	32,111	5,673	363	**38,147**	38,354	(414)	(1. 1)
SME retail	7,179	1,745	9	**8,933**	9,020	(174)	(1. 9)
Sovereign	27,769	1,492	2,106	**31,367**	31,040	654	2. 1
Bank	23,532	2,038	10,119	**35,689**	33,059	5,261	17. 3
Residential mortgage	284,622	51,861	-	**336,483**	336,565	(164)	-
Qualifying revolving retail [4]	8,766	9,392	-	**18,158**	15,706	4,905	37. 0
Other retail	5,231	1,190	-	**6,421**	6,226	391	6. 5
Total advanced IRB approach	426,503	98,319	18,144	**542,966**	537,457	11,019	2. 1
Specialised lending	32,026	8,090	916	**41,032**	40,253	1,558	3. 9
Subject to standardised approach							
Corporate	7,454	735	28	**8,217**	8,191	52	0. 6
SME corporate	6,349	991	26	**7,366**	7,590	(447)	(5. 7)
SME retail	3,815	1,392	-	**5,207**	5,243	(72)	(1. 4)
Sovereign	1,806	1	-	**1,807**	1,099	1,417	large
Bank	6,650	75	28	**6,753**	7,256	(1,006)	(13. 0)
Residential mortgage	49,393	707	12	**50,112**	49,680	865	1. 8
Other retail	2,441	88	-	**2,529**	2,542	(25)	(1. 0)
Other assets	13,997	-	-	**13,997**	13,734	526	3. 9
Total standardised approach	91,905	3,989	94	**95,988**	95,333	1,310	1. 4
Total credit exposures [1]	550,434	110,398	19,154	**679,986**	673,043	13,887	2. 1

(1) Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
(2) The simple average of balances as at 31 March 2011 and 31 December 2010.
(3) Change, as at 31 March 2011, of exposures compared to balances at 31 December 2010.
(4) Qualifying Revolving Retail – growth in March quarter following implementation of a new methodology to determine exposure at default for domestic facilities.

4. Credit Risk Exposure (continued)

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

	31 December 2010						
		Off balance sheet					
Portfolio Type	On balance sheet $M	Non-market related $M	Market related $M	Total $M	Average exposure for December 2010 quarter [2] $M	Change in exposure for December quarter [3] $M	%
Subject to advanced IRB approach							
Corporate	37,321	24,389	5,498	67,208	66,583	1,250	1. 9
SME corporate	32,475	5,667	419	38,561	38,689	(256)	(0. 7)
SME retail	7,340	1,757	10	9,107	9,087	40	0. 4
Sovereign	27,059	1,388	2,266	30,713	31,650	(1,874)	(5. 8)
Bank	16,855	2,537	11,036	30,428	30,043	771	2. 6
Residential mortgage	283,579	53,068	-	336,647	335,144	3,006	0. 9
Qualifying revolving retail	8,732	4,521	-	13,253	13,029	448	3. 5
Other retail	5,067	963	-	6,030	5,961	138	2. 3
Total advanced IRB approach	418,428	94,290	19,229	531,947	530,186	3,523	0. 7
Specialised lending	31,020	7,488	966	39,474	39,052	844	2. 2
Subject to standardised approach							
Corporate	7,386	753	26	8,165	8,405	(479)	(5. 5)
SME corporate	6,775	1,012	26	7,813	7,922	(218)	(2. 7)
SME retail	3,844	1,435	-	5,279	5,274	11	0. 2
Sovereign	389	1	-	390	588	(396)	(50. 4)
Bank	7,659	68	32	7,759	7,452	614	8. 6
Residential mortgage	48,480	755	12	49,247	48,796	902	1. 9
Other retail	2,460	94	-	2,554	2,533	42	1. 7
Other assets	13,471	-	-	13,471	14,333	(1,724)	(11. 3)
Total standardised approach	90,464	4,118	96	94,678	95,303	(1,248)	(1. 3)
Total credit exposures [1]	539,912	105,896	20,291	666,099	664,541	3,119	0. 5

(1) Total Credit Risk Exposures (calculated as EAD) do not include equities or securitisation exposures.
(2) The simple average of balances as at 31 December 2010 and at 30 September 2010.
(3) Change, as at 31 December 2010, of exposures compared to balances at 30 September 2010.

5. Past Due and Impaired Exposures, Provisions and Reserves

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

	31 March 2011		
	General reserve for credit losses (2) $M	Specific provision (2) $M	Total provisions $M
Collective provision (1)	3,262	120	**3,382**
Individual provisions (1)	-	2,229	**2,229**
Total provisions	3,262	2,349	**5,611**
Additional GRCL requirement (3)	166	-	**166**
Total regulatory provisions	3,428	2,349	**5,777**

(1) Provisions according to AIFRS.

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

(3) The Group has recognised an after tax deduction from Tier One Capital of $116 million in order to maintain the required minimum GRCL.

	31 December 2010		
	General reserve for credit losses (2) $M	Specific provision (2) $M	Total provisions $M
Collective provision (1)	3,211	116	3,327
Individual provisions (1)	-	2,169	2,169
Total provisions	3,211	2,285	5,496
Additional GRCL requirement (3)	151	-	151
Total regulatory provisions	3,362	2,285	5,647

(1) Provisions as reported in financial statements according to AIFRS.

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

(3) The Group recognised an after tax deduction from Tier One Capital of $106 million in order to maintain the required minimum GRCL.

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

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

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

	As at 31 March 2011			Quarter ended 31 March 2011	
Portfolio	Impaired assets $M	Past due loans ≥ 90 days $M	Specific provision balance (1) $M	Net charges for individual provisions $M	Actual losses (2) $M
Corporate including SME and specialised lending	3,933	576	1,949	153	133
Sovereign	-	-	-	-	-
Bank	89	-	82	-	-
Residential mortgage	817	2,855	203	17	25
Qualifying revolving retail	-	103	54	-	62
Other retail	14	120	61	(1)	48
Total	4,853	3,654	2,349	169	268

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

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the quarter ended 31 March 2011.

	As at 31 December 2010			Quarter ended 31 December 2010	
Portfolio	Impaired assets $M	Past due loans ≥ 90 days $M	Specific provision balance (1) $M	Net charges for individual provisions $M	Actual losses (2) $M
Corporate including SME and specialised lending	4,234	471	1,895	224	403
Sovereign	-	-	-	-	-
Bank	89	-	80	11	-
Residential mortgage	846	2,562	205	40	24
Qualifying revolving retail	-	92	50	-	63
Other retail	15	99	55	-	77
Total	5,184	3,224	2,285	275	567

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

(2) Actual losses equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the quarter ended 31 December 2010.

6. Glossary

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

6. Glossary (continued)

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

For further information contact:

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