

Basel II Pillar 3 - Capital Adequacy and Risk Disclosures

Quarterly Update as at 31 December 2009

Background

The Bank of Western Australia Ltd (the Bank) 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 and is a 100% owned subsidiary of the Commonwealth Bank of Australia (“CBA”).

Until 31 December 2008 the Bank operated under the Basel I methodology. The Bank effective from 1 January 2009 adopted the standardised Basel II methodology. This update of the Bank’s capital adequacy and risk disclosures has been prepared primarily in accordance with APRA Prudential Standard APS 330 which requires the Bank to report its Basel II assessment of capital adequacy on a Level 2 basis.

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

1. Group Capital Ratios

APS 330 Table 16e – Capital Ratios	31 Dec 2009	30 Sep 2009
	%	%
Tier One	9.02	8.14
Tier Two	3.78	3.83
Total Capital	12.80	11.97

The Bank maintains a strong capital position. The Tier One and Total Capital ratios as at 31 December 2009 were 9.02% and 12.80% respectively.

2. Risk Weighted Assets

APS 330 Table 16a to 16d – Capital adequacy	31 Dec 2009	30 Sep 2009
	\$M	\$M
Risk weighted assets		
Credit Risk		
Subject to Standardised approach		
Corporate	14,483	14,831
Sovereign	2	1
Bank	1,265	1,383
Residential Mortgage	21,667	20,423
Other retail	4,319	4,274
Other	421	689
Total risk weighted assets subject to Standardised approach	42,157	41,601
Securitisation	49	54
Equity exposures	14	14
Total risk weighted assets for credit risk exposures	42,220	41,669
Market risk	242	263
Operational risk	2,913	2,783
Total risk weighted assets	45,375	44,715

3. Credit Risk Exposure

APS 330 Table 17a – Total credit exposures excluding equities and securitisation

	31 Dec 2009				
	On Balance Sheet	Off Balance Sheet		Total Exposures	Average Exposures ²
		Non-Market related	Market related		
Total Exposure ¹	\$M	\$M	\$M	\$M	\$M
Standardised approach					
Corporate	12,897	1,156	76	14,129	14,284
Sovereign	354	1	-	355	305
Bank	5,917	177	283	6,377	6,641
Residential mortgage	44,311	592	20	44,923	43,577
Other retail	4,160	131	6	4,297	4,267
Other assets	726	-	-	726	932
Total exposures Standardised approach	68,365	2,057	385	70,807	70,005
30 Sep 2009					
	On Balance Sheet	Off Balance Sheet		Total Exposures	Average Exposures ²
		Non-Market related	Market related		
Total Exposure ¹	\$M	\$M	\$M	\$M	\$M
Standardised approach					
Corporate	13,121	1,224	94	14,439	14,471
Sovereign	253	2	-	255	128
Bank	6,413	175	316	6,904	6,717
Residential mortgage	41,633	575	23	42,231	41,295
Other retail	4,114	115	7	4,236	4,247
Other assets	1,137	-	-	1,137	1,225
Total exposures Standardised approach	66,671	2,091	440	69,202	68,083

⁽¹⁾ Total credit risk exposures do not include equities or securitisation exposures.

⁽²⁾ The simple average of opening and closing balances for the quarter.

4. Past Due and Impaired Exposures, Provisions and Reserves

APS 220 "Credit Quality" requires Bankwest report specific provisions and a General Reserve for Credit Losses (GRCL). All provisions for impairment assessed on an individual basis in accordance with AIFRS are classified as specific provisions. Collective provisions raised under AIFRS are classified into either specific provisions or GRCL. This adjustment is being made for 31 December 2009 disclosure.

Reconciliation of A-IFRS and APS220 based credit provisions

	31 Dec 2009		
	General Reserve for Credit Losses	Specific Provision	Total Provisions ¹
	\$M	\$M	\$M
Collective provisions	743	17	760
Individual provisions	-	733	733
Total provisions	743	750	1,493
General reserve for credit losses	143	-	
Total regulatory provisions ²	886	750	

⁽¹⁾ Provisions as reported in financial accounts according to A-IFRS.

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

Table APS 330 Table 17b – Impaired, past due, individual provisions and actual losses

	31 Dec 2009				
Exposure type	Impaired loans	Past due loans \geq 90 days	Specific provision balance	Charges for individual provision	Actual losses ¹
	\$M	\$M	\$M	\$M	\$M
Corporate	1,632	193	691	156	175
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Home Loan	99	236	36	3	1
Other retail	8	17	23	(9)	8
Other	2	1	-	-	-
Total	1,741	447	750	150	184

	30 Sep 2009				
Exposure type	Impaired loans	Past due loans \geq 90 days	Specific provision balance	Charges for individual provision	Actual losses ¹
	\$M	\$M	\$M	\$M	\$M
Corporate	1,509	191	690	116	9
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Home Loan	93	250	32	2	1
Other Retail ²	23	5	22	15	14
Other ²	2	-	-	-	-
Total	1,627	446	744	133	24

⁽¹⁾ Actual losses equal write-offs from individual provisions and collective provisions less recoveries of amounts previously written off for the periods ending 31 December 2009 and 30 September 2009.

⁽²⁾ There was a reclassification between the Other and Other Retail categories following the release of the September 2009 Pillar 3 disclosure.

APS 330 Table 17c – Collective and Other Provisions

General Reserve for Credit Losses comprises:

	31 Dec 2009	30 Sep 2009
	\$M	\$M
General reserve for credit losses	143	143
Collective provisions	760	830
Collective provision transferred to specific provision	(17)	-
Total General Reserve for Credit Losses	886	973

Classification of exposures

Basel asset class	Definition
Bank	Bank includes claims on central banks, international banking agencies, regional development banks, ADI and overseas banks.
Corporate	Corporate includes claims on Australian and international counterparties.
Other	Other Assets includes items such as Cash, Fixed Assets, other sundry debtors and prepayments.
Residential mortgage	Residential Mortgages include all exposures secured on residential real estate.
Securitisation	Securitisation includes Bank-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities.
Sovereign	Sovereign includes claims on the Reserve Bank of Australia and on Australian and foreign governments.
Other Retail	Other Retail includes claims on private sector counterparties not secured by residential real estate.

Glossary

Term	Definition
ADI	Authorised Deposit-taking Institution includes banks, building societies and credit unions which are authorised by the APRA to take deposits from customers.
APRA	Australian Prudential Regulatory Authority. The regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies in Australia.
Basel II	Refers to the Basel Committee on Banking Supervision revised framework for International Convergence of Capital Measurement and Capital Standards issued in June 2006.
Collective Provisions	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 Impairment.
General Reserve for Credit Losses	APS 220 requires Bankwest 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. The majority of Bankwest's collective provisions are included in the General Reserve for Credit Losses.
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 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 Impairment.
Level 1	The lowest level at which the Bank reports its capital adequacy to APRA.

Term	Definition
Level 2	The middle level at which the group reports its capital adequacy to APRA being the consolidated banking group comprising the ADI, its immediate locally incorporated non-operating holding company, if any, and all their subsidiary entities other than non-consolidated subsidiaries. This is the basis on which this report has been produced.
RWA	Risk Weighted 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).