

Basel II Pillar 3 - Capital Adequacy and Risk Disclosures

Quarterly Update as at 30 June 2010

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”).

The Bank’s capital adequacy and risk disclosure has been prepared 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 (Level 2)	30 Jun 2010	31 Mar 2010
	%	%
Tier One	8.59	8.95
Tier Two	3.80	3.79
Total Capital	12.39	12.74

The Bank maintains a strong capital position. The Tier One and Total Capital ratios as at 30 June 2010 were 8.59% and 12.39% respectively. Tier One reduced during the quarter due to higher loan impairment expense, partially offset by organic capital generation.

2. Capital Structure

	30 Jun 2010 \$M
Tier 1 capital	
Paid up and ordinary share capital	4,107
Retained earnings, including current year earnings	22
Gross Tier 1 capital	4,129
Deductions from Tier 1 capital, including goodwill and investments	190
Net Tier 1 capital	3,939
Tier 2 capital	
Upper Tier 2 capital ¹	714
Lower Tier 2 capital	1,025
Net Tier 2 capital	1,739
Total capital base	5,678

⁽¹⁾ The amount of General Reserve for Credit Losses able to be included as Upper Tier 2 capital is limited to a maximum of 1.25% of total risk weighted assets. The amount included within Upper Tier 2 capital in the above table is \$573m as at 30 June 2010.

3. Risk Weighted Assets

APS 330 Table 16a to 16d – Capital adequacy

30 Jun 2010 31 Mar 2010

Risk weighted assets	\$M	\$M
Credit risk		
Subject to standardised approach		
Corporate	13,577	14,062
Sovereign	2	3
Bank	1,223	1,400
Residential mortgage	22,409	21,750
Other retail	4,451	4,381
Other	456	420
Total RWA subject to standardised approach	42,118	42,016
Securitisation	50	58
Equity exposures	12	12
Total RWA for credit risk exposures	42,180	42,086
Market risk	208	208
Operational risk	3,418	2,913
Total risk weighted assets	45,806	45,207

4. Credit Risk Exposure

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

30 Jun 2010

	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	12,230	1,080	80	13,390	13,584
Sovereign	1,001	1	-	1,002	680
Bank	6,139	45	463	6,647	6,851
Residential mortgage	46,901	481	20	47,402	46,742
Other retail	4,325	109	5	4,439	4,401
Other assets	816	-	-	816	846
Total credit exposure	71,412	1,716	568	73,696	73,104

31 Mar 2010

	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	12,548	1,163	67	13,778	13,954
Sovereign	357	1	-	358	357
Bank	6,698	60	297	7,055	6,716
Residential mortgage	45,553	512	16	46,081	45,502
Other retail	4,249	109	5	4,363	4,330
Other assets	876	-	-	876	801
Total credit exposure	70,281	1,845	385	72,511	71,660

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

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

5. Past Due and Impaired Exposures, Provisions and Reserves

APS 220 "Credit Quality" requires Bankwest to 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.

Reconciliation of AIFRS and APS 220 based credit provisions

30 Jun 2010

	General Reserve for Credit Losses ² \$M	Specific Provision ² \$M	Total Provisions \$M
Collective provision ¹	1,119	14	1,133
Individual provisions ¹	-	956	956
Total provisions	1,119	970	2,089
Additional GRCL requirement ³	138	-	138
Total regulatory provisions	1,257	970	2,227

31 Mar 2010

	General Reserve for Credit Losses ² \$M	Specific Provision ² \$M	Total Provisions \$M
Collective provision ¹	834	21	855
Individual provisions ¹	-	954	954
Total provisions	834	975	1,809
Additional GRCL requirement	143	-	143
Total regulatory provisions	977	975	1,952

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

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

⁽³⁾ The Bank has recognised an after tax deduction from Tier 1 capital of \$97m in order to maintain the required minimum GRCL.

Table APS 330 Table 17b – Impaired, past due, specific provisions and actual losses by portfolio type

30 Jun 2010

Exposure type	Impaired loans	Past due loans \geq 90 days	Specific provision balance	Charges for individual provisions	Actual losses ¹
	\$M	\$M	\$M	\$M	\$M
Corporate including SME	1,938	185	909	178	188
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Home loan	112	297	45	9	2
Other retail	4	17	16	(2)	32
Total	2,054	499	970	185	222

31 Mar 2010

Exposure type	Impaired loans	Past due loans \geq 90 days	Specific provision balance	Charges for individual provisions	Actual losses ¹
	\$M	\$M	\$M	\$M	\$M
Corporate including SME	1,933	154	913	222	43
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Home loan	97	264	36	4	6
Other retail	4	18	26	6	(6)
Total	2,034	436	975	232	43

⁽¹⁾ Actual losses equal write-offs from individual provisions and collective provisions less recoveries of amounts previously written off for the periods ending 30 June 2010 and 31 March 2010.

APS 330 Table 17c – Collective and Other Provisions

General Reserve for Credit Losses comprises:

30 Jun 2010 31 Mar 2010
\$M \$M

Collective provision	1,133	855
Collective provision transferred to specific provisions	(14)	(21)
Additional GRCL requirement	138	143
General reserve for credit losses	1,257 ¹	977

⁽¹⁾ The Bank recognised an after tax deduction from Tier 1 capital of \$97m at 30 June 2010 in order to maintain the required minimum GRCL.

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.
AIFRS	Australian equivalent to International Financial Reporting Standards.
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 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 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. Any excess of required General Reserve for Credit Losses over the Group's collective provisions is recognised as a deduction from Tier 1 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 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.
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).