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Basel II Pillar 3

## Capital Adequacy and Risk Disclosures

Quarterly Update as at 31 March 2011

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# Bank of Western Australia Ltd

ACN 050 494 454

## Basel II Pillar 3 – Capital Adequacy and Risk Disclosures

Quarterly update as at 31 March 2011

### Scope of Application

The Bank of Western Australia Ltd (the Bank) is an Authorised Deposit-taking Institution subject to regulation by the Australian Prudential Regulation Authority under the authority of the Banking Act 1959 and is a 100% owned subsidiary of the Commonwealth Bank of Australia.

The Bank's capital adequacy and risk disclosure has been prepared in accordance with APRA Prudential Standard APS 330 'Capital Adequacy: Public Disclosures of Prudential Information' which requires the Bank to report its quarterly 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

	As At	
	31/03/11	31/12/10
	%	%
Tier One	9.78	9.26
Tier Two	3.85	3.80
<b>Total Capital</b>	<b>13.63</b>	<b>13.06</b>

The Bank maintains a strong capital position. The Tier 1 and Total Capital ratios as at 31 March 2011 were 9.78% and 13.63% respectively.

## 2. Risk Weighted Assets

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

Asset Category	As At		Change in RWA	
	31/03/11	31/12/10	\$M	%
	\$M	\$M		
<b>Credit risk</b>				
<b>Subject to standardised approach</b>				
Corporate	12,194	12,794	(600)	(4.7)
Sovereign	3	3	-	-
Bank	1,224	1,732	(508)	(29.3)
Residential mortgage	22,269	22,059	210	1.0
Other retail	4,285	4,336	(51)	(1.2)
Other assets	417	490	(73)	(14.9)
<b>Total RWA subject to standardised approach</b>	<b>40,392</b>	<b>41,414</b>	<b>(1,022)</b>	<b>(2.5)</b>
<b>Securitisation</b>	<b>46</b>	<b>48</b>	<b>(2)</b>	<b>(4.2)</b>
<b>Equity exposures</b>	<b>13</b>	<b>13</b>	<b>-</b>	<b>-</b>
<b>Total RWA for credit exposures</b>	<b>40,451</b>	<b>41,475</b>	<b>(1,024)</b>	<b>(2.5)</b>
Traded market risk	157	171	(14)	(8.2)
Operational risk	3,642	3,641	1	-
<b>Total risk weighted assets</b>	<b>44,250</b>	<b>45,287</b>	<b>(1,037)</b>	<b>(2.3)</b>

### 3. Credit Risk Exposure

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

Portfolio Type	31 March 2011				Average exposure for March quarter <sup>(2)</sup>	Change in exposure for March quarter <sup>(3)</sup>	
	Off balance sheet			Total		\$M	%
	On balance sheet	Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M		
<b>Subject to standardised approach</b>							
Corporate	11,136	889	49	12,074	12,360	(571)	(4. 5)
Sovereign	1,689	1	-	1,690	992	1,397	large
Bank	6,157	45	212	6,414	7,658	(2,487)	(27. 9)
Residential mortgage	48,550	467	12	49,029	48,613	833	1. 7
Other retail	4,151	117	3	4,271	4,300	(57)	(1. 3)
Other assets	739	-	-	739	731	16	2. 2
<b>Total credit exposures <sup>(1)</sup></b>	<b>72,422</b>	<b>1,519</b>	<b>276</b>	<b>74,217</b>	<b>74,654</b>	<b>(869)</b>	<b>(1. 2)</b>

(1) Total Credit Risk Exposures 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.

Portfolio Type	31 December 2010				Average exposure for December quarter <sup>(2)</sup>	Change in exposure for December quarter <sup>(3)</sup>	
	Off balance sheet			Total		\$M	%
	On balance sheet	Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M		
<b>Subject to standardised approach</b>							
Corporate	11,477	1,119	49	12,645	12,961	(632)	(4. 8)
Sovereign	292	1	-	293	447	(307)	(51. 2)
Bank	8,661	45	195	8,901	8,491	820	10. 1
Residential mortgage	47,674	510	12	48,196	47,832	729	1. 5
Other retail	4,214	111	3	4,328	4,354	(51)	(1. 2)
Other assets	723	-	-	723	748	(49)	(6. 3)
<b>Total credit exposures <sup>(1)</sup></b>	<b>73,041</b>	<b>1,786</b>	<b>259</b>	<b>75,086</b>	<b>74,833</b>	<b>510</b>	<b>0. 7</b>

(1) Total Credit Risk Exposures do not include equities or securitisation exposures.

(2) The simple average of closing balances as at 31 December 2010 and 30 September 2010.

(3) Change, as at 31 December 2010, of exposures compared to balances at 30 September 2010.

#### Credit Risk Exposures

As a result of working hard to reduce exposures to lesser quality assets, on balance sheet exposures in certain sectors continue to decrease.

#### 4. 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 APS220 based credit provisions, and APS 330 Table 17c - General reserve for credit losses

	<b>31 March 2011</b>		
	<b>General</b>	<b>Specific</b>	<b>Total</b>
	<b>reserve for</b>	<b>provision</b>	<b>provisions</b>
	<b>credit losses</b> <sup>(2)</sup>	<b>(2)</b>	
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Collective provision <sup>(1)</sup>	1,015	16	1,031
Individual provisions <sup>(1)</sup>	-	961	961
<b>Total provisions</b>	<b>1,015</b>	<b>977</b>	<b>1,992</b>
Additional GRCL requirement <sup>(3)</sup>	115	-	115
<b>Total regulatory provisions</b> <sup>(2)</sup>	<b>1,130</b>	<b>977</b>	<b>2,107</b>

(1) Provisions 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 \$80 million at 31 March 2011 in order to maintain the required minimum GRCL.

	<b>31 December 2010</b>		
	<b>General</b>	<b>Specific</b>	<b>Total</b>
	<b>reserve for</b>	<b>provision</b>	<b>provisions</b>
	<b>credit losses</b> <sup>(2)</sup>	<b>(2)</b>	
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Collective provision <sup>(1)</sup>	1,069	20	1,089
Individual provisions <sup>(1)</sup>	-	922	922
<b>Total provisions</b>	<b>1,069</b>	<b>942</b>	<b>2,011</b>
Additional GRCL requirement <sup>(3)</sup>	119	-	119
<b>Total regulatory provisions</b> <sup>(2)</sup>	<b>1,188</b>	<b>942</b>	<b>2,130</b>

(1) Provisions as reported in financial statements 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 \$83 million at 31 December 2010 in order to maintain the required minimum GRCL.

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

Portfolio	As at 31 March 2011			Quarter ended 31 March 2011	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance <sup>(1)</sup>	Net charges for individual provisions	Actual losses <sup>(2)</sup>
Corporate including SME	1,532	309	920	71	59
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential Mortgage	93	302	42	2	4
Other retail	3	18	15	(1)	10
<b>Total</b>	<b>1,628</b>	<b>629</b>	<b>977</b>	<b>72</b>	<b>73</b>

(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 ending 31 March 2011.

Portfolio	As at 31 December 2010			Quarter ended 31 December 2010	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance <sup>(1)</sup>	Net charges for individual provisions	Actual losses <sup>(2)</sup>
Corporate including SME	1,650	256	879	105	216
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential Mortgage	92	275	50	3	1
Other retail	2	16	13	2	24
<b>Total</b>	<b>1,744</b>	<b>547</b>	<b>942</b>	<b>110</b>	<b>241</b>

(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 ending 30 December 2010.

## 5. Glossary

<b>Term</b>	<b>Definition</b>
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.
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.
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.
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 Bank's Financial Statements in accordance with AIFRS (AASB 139 "Financial Instruments: Recognition and Measurement").
Corporate	APS asset class - includes claims on Australian and international counterparties.
General Reserve for Credit Losses	APS 220 requires the Bank 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 Bank's collective provisions are included in the General Reserve for Credit Losses. An excess of required General Reserve for Credit Losses over the Bank'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 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 Bank's Financial Statements in accordance with AIFRS (AASB 139 "Financial Instruments: Recognition and Measurement"). Also known as individually assessed provisions or IAP.
Level 1	The lowest level at which the Bank reports its capital adequacy to APRA.
Level 2	The level at which the Bank 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.

## 5. Glossary (continued)

<b>Term</b>	<b>Definition</b>
Other Assets	APS asset class - includes Cash, Fixed Assets, Other Sundry Debtors and Prepayments.
Other Retail	APS asset class - includes claims on private sector counterparties not secured by residential real estate.
Residential Mortgage	APS asset class - includes all exposures secured on residential real estate.
RWA	Risk Weighted Assets – the value of the Bank'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.
Securitisation	APS asset class - includes Bank-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities.
Sovereign	APS asset class - includes claims on the Reserve Bank of Australia and on Australian and foreign governments.
Specific Provision	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 Bankwest and reflects the permanent and unrestricted commitment of funds that are freely available to absorb losses. It comprises: <ul style="list-style-type: none"><li>• Fundamental Capital (share capital, retained earnings and reserves)</li><li>• Residual Capital (innovative and non innovative) and</li><li>• Prescribed Regulatory deductions</li></ul>
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.

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