



Basel II Pillar 3

## Capital Adequacy and Risk Disclosures

Quarterly Update as at 31 December 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 December 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 ("APRA") 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	
	31/12/11	30/09/11
	%	%
Tier One	9.12	9.19
Tier Two	3.74	3.79
<b>Total Capital</b>	<b>12.86</b>	<b>12.98</b>

The Bank maintains a strong capital position. The Tier One and Total Capital ratios as at 31 December 2011 were 9.12% and 12.86% respectively (30 September 2011: 9.19% and 12.98%).

## 2. Capital Structure

### APS 330 Table 2b to 2d – Group regulatory capital position

	As At
	31/12/11
	\$M
<b>Tier One Capital</b>	
Paid up and ordinary share capital	4,107
Retained earnings and current period profits	419
<b>Total Fundamental Tier One Capital</b>	<b>4,526</b>
<b>Deductions from Tier One Capital</b>	<b>(275)</b>
<b>Total Tier One Capital</b>	<b>4,251</b>
<b>Tier Two Capital</b>	<b>-</b>
Upper Tier Two Capital <sup>(1)</sup>	718
Lower Tier Two Capital	1,025
<b>Total Tier Two Capital</b>	<b>1,743</b>
<b>Total Capital</b>	<b>5,994</b>

(1) The amount of General Reserve for Credit Losses ("GRCL") able to be included as Upper Tier Two Capital is limited to a maximum of 1.25% of total risk weighted assets. As at 31 December 2011, this amounted to \$583 million.

### 3. Risk Weighted Assets

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

Asset Category	As At		Change in RWA	
	31/12/11 \$M	30/09/11 \$M	\$M	%
<b>Credit risk</b>				
<b>Subject to standardised approach</b>				
Corporate	12,886	12,395	491	4.0
Sovereign	8	3	5	166.7
Bank	1,329	1,323	6	0.5
Residential mortgage	23,608	23,429	179	0.8
Other retail	4,260	4,255	5	0.1
Other assets	492	546	(54)	(9.9)
<b>Total RWA subject to standardised approach</b>	<b>42,583</b>	<b>41,951</b>	<b>632</b>	<b>1.5</b>
<b>Securitisation</b>	<b>34</b>	<b>34</b>	<b>-</b>	<b>-</b>
<b>Equity exposures</b>	<b>7</b>	<b>7</b>	<b>-</b>	<b>-</b>
<b>Total RWA for credit exposures</b>	<b>42,624</b>	<b>41,992</b>	<b>632</b>	<b>1.5</b>
Traded market risk	6	17	(11)	(64.7)
Operational risk	3,988	3,822	166	4.3
<b>Total risk weighted assets</b>	<b>46,618</b>	<b>45,831</b>	<b>787</b>	<b>1.7</b>



## 4. Credit Risk Exposure

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

PortfolioType	31 December 2011				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				
Subject to standardised approach							
Corporate	11,321	1,240	96	12,657	12,368	578	4. 8
Sovereign	1,907	3	-	1,910	1,913	(6)	(0. 3)
Bank	6,527	45	465	7,037	7,014	46	0. 7
Residential mortgage	52,143	525	21	52,689	52,320	739	1. 4
Other retail	4,089	129	6	4,224	4,218	12	0. 3
Other assets	889	-	-	889	1,050	(321)	(26. 5)
Total credit exposures <sup>(1)</sup>	76,876	1,942	588	79,406	78,883	1,048	1. 3

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

(2) The simple average of balances as at 31 December 2011 and 30 September 2011.

(3) Change, as at 31 December 2011, of exposures compared to balances at 30 September 2011.

Portfolio Type	30 September 2011				Average exposure for September quarter <sup>(2)</sup>	Change in exposure for September quarter <sup>(3)</sup>	
	Off balance sheet			Total			
	On balance sheet	Non-market related	Market related				
	\$M	\$M	\$M				
Subject to standardised approach							
Corporate	10,805	1,185	89	12,079	12,106	(53)	(0. 4)
Sovereign	1,915	1	-	1,916	1,880	73	4. 0
Bank	6,236	45	710	6,991	6,881	220	3. 2
Residential mortgage	51,376	553	21	51,950	51,254	1,392	2. 8
Other retail	4,079	128	5	4,212	4,251	(77)	(1. 8)
Other assets	1,210	-	-	1,210	1,008	405	50. 3
Total credit exposures <sup>(1)</sup>	75,621	1,912	825	78,358	77,380	1,960	2. 6

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

(2) The simple average of closing balances as at 30 September 2011 and 30 June 2011.

(3) Change, as at 30 September 2011, of exposures compared to balances at 30 June 2011.

## 5. Past Due and Impaired Exposures, Provisions and Reserves

APRA Prudential Standard APS 220 "Credit Quality" requires the Bank to report specific provisions and a General Reserve for Credit Losses ("GRCL"). All provisions for impairment assessed on an individual basis in accordance with Australian Accounting Standards ("AASB") are classified as specific provisions. Collective provisions raised under AASB are classified into either specific provisions or GRCL.

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

31 December 2011			
	General reserve for credit losses <sup>(2)</sup>	Specific provision <sup>(2)</sup>	Total provisions
	\$M	\$M	\$M
Collective provision <sup>(1)</sup>	769	12	781
Individual provisions <sup>(1)</sup>	-	999	999
<b>Total provisions</b>	769	1,011	1,780
Additional GRCL requirement <sup>(3)</sup>	98	-	98
<b>Total regulatory provisions <sup>(2)</sup></b>	867	1,011	1,878

(1) Provisions according to AASB.

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

(3) The Bank has recognised an after tax deduction from Tier One Capital of \$69 million at 31 December 2011 in order to maintain the required minimum GRCL.

30 September 2011			
	General reserve for credit losses <sup>(2)</sup>	Specific provision <sup>(2)</sup>	Total provisions
	\$M	\$M	\$M
Collective provision <sup>(1)</sup>	823	13	836
Individual provisions <sup>(1)</sup>	-	977	977
<b>Total provisions</b>	823	990	1,813
Additional GRCL requirement <sup>(3)</sup>	98	-	98
<b>Total regulatory provisions <sup>(2)</sup></b>	921	990	1,911

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

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

(3) The Bank has recognised an after tax deduction from Tier One Capital of \$69 million at 30 September 2011 in order to maintain the required minimum GRCL.

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

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

Portfolio	As at 31 December 2011			Quarter ended 31 December 2011	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance <sup>(1)</sup>	Net charges for individual provisions	Actual losses <sup>(2)</sup>
	\$M	\$M	\$M	\$M	\$M
Corporate including SME	1,666	183	947	79	102
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential Mortgage	104	271	50	5	2
Other retail	4	17	14	2	11
<b>Total</b>	<b>1,774</b>	<b>471</b>	<b>1,011</b>	<b>86</b>	<b>115</b>

(1) Specific Provision Balance includes certain AASB 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 December 2011.

Portfolio	As at 30 September 2011			Quarter ended 30 September 2011	
	Impaired assets	Past due loans ≥ 90 days	Specific provision balance <sup>(1)</sup>	Net charges for individual provisions	Actual losses <sup>(2)</sup>
	\$M	\$M	\$M	\$M	\$M
Corporate including SME	1,622	232	930	37	76
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential Mortgage	98	286	47	3	1
Other retail	3	17	13	-	12
<b>Total</b>	<b>1,723</b>	<b>535</b>	<b>990</b>	<b>40</b>	<b>89</b>

(1) Specific Provision Balance includes certain AASB 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 September 2011.

## 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.
AASB	Australian Accounting 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 Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement").
Corporate	APS asset class – includes commercial credit risk where annual revenues exceed \$50 million, SME Corporate and SME Retail.
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 Australian Accounting Standards (AASB 139 "Financial Instruments: Recognition and Measurement"). Also known as individually assessed provisions or IAP.
Level 1	Represents the ADI and each subsidiary of the ADI that has been approved as an extended licence entity by APRA.
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.
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.
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.
Securitisation	APS asset class - includes Group-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 Australian Accounting Standards 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).

## 6. Glossary (continued)

Term	Definition
Tier One Capital	<p>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:</p> <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	<p>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.</p>