



Basel II Pillar 3

## Capital Adequacy and Risk Disclosures

Quarterly Update as at 30 September 2010

**Happy Banking**  
an initiative from Bankwest

**bankwest**



# Bank of Western Australia Ltd

ACN 050 494 454

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

Quarterly update as at 30 September 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

	As at	
	30/09/10	30/06/10
	%	%
Tier 1	8.91	8.59
Tier 2	3.79	3.80
<b>Total Capital</b>	<b>12.70</b>	<b>12.39</b>

The Bank maintains a strong capital position. The Tier 1 and Total Capital ratios as at 30 September 2010 were 8.9% and 12.7% respectively.

## 2. Risk Weighted Assets

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

Asset Category	As at		Change in RWA	
	30/09/10	30/06/10	\$M	%
	\$M	\$M		
<b>Credit risk</b>				
<b>Subject to standardised approach</b>				
Corporate	13,476	13,577	(101)	(0.7)
Sovereign	4	2	2	large
Bank	1,528	1,223	305	24.9
Residential mortgage	22,092	22,409	(317)	(1.4)
Other retail	4,392	4,451	(59)	(1.3)
Other assets	477	456	21	4.6
<b>Total RWA subject to standardised approach</b>	<b>41,969</b>	<b>42,118</b>	<b>(149)</b>	<b>(0.4)</b>
<b>Securitisation</b>	<b>46</b>	<b>50</b>	<b>(4)</b>	<b>(8.0)</b>
<b>Equity exposures</b>	<b>12</b>	<b>12</b>	<b>-</b>	<b>-</b>
<b>Total RWA for credit exposures</b>	<b>42,027</b>	<b>42,180</b>	<b>(153)</b>	<b>(0.4)</b>
<b>Market risk</b>	<b>182</b>	<b>208</b>	<b>(26)</b>	<b>(12.5)</b>
<b>Operational risk</b>	<b>3,418</b>	<b>3,418</b>	<b>-</b>	<b>-</b>
<b>Total RWA</b>	<b>45,627</b>	<b>45,806</b>	<b>(179)</b>	<b>(0.4)</b>

### 3. Credit Risk Exposure

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

Portfolio Type	30 September 2010				Average Exposure for September Quarter <sup>(2)</sup>	Change in Exposure for September Quarter <sup>(3)</sup>	
	Off Balance Sheet			Total		September Quarter <sup>(2)</sup>	September Quarter <sup>(3)</sup>
	On Balance Sheet	Non-Related Market	Market Related				
	\$M	\$M	\$M	\$M	\$M	%	
<b>Standardised approach</b>							
Corporate	12,173	1,040	64	13,277	13,334	(113)	(0.8)
Sovereign	598	2	-	600	801	(402)	(40.1)
Bank	7,802	45	234	8,081	7,364	1,434	21.6
Residential mortgage	46,922	530	15	47,467	47,435	65	0.1
Other retail	4,260	115	4	4,379	4,409	(60)	(1.4)
Other assets	772	-	-	772	794	(44)	(5.4)
<b>Total credit exposures <sup>(1)</sup></b>	<b>72,527</b>	<b>1,732</b>	<b>317</b>	<b>74,576</b>	<b>74,137</b>	<b>880</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 30 September 2010 and 30 June 2010.

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

Portfolio Type	30 June 2010				Average Exposure for June Quarter <sup>(2)</sup>	Change in Exposure for June Quarter <sup>(3)</sup>	
	Off Balance Sheet			Total		June Quarter <sup>(2)</sup>	June Quarter <sup>(3)</sup>
	On Balance Sheet	Non-Related Market	Market Related				
	\$M	\$M	\$M	\$M	\$M	%	
<b>Standardised approach</b>							
Corporate	12,230	1,080	80	13,390	13,584	(388)	(2.8)
Sovereign	1,001	1	-	1,002	680	644	large
Bank	6,139	45	463	6,647	6,851	(408)	(5.8)
Residential mortgage	46,901	481	20	47,402	46,742	1,321	2.9
Other retail	4,325	109	5	4,439	4,401	76	1.7
Other assets	816	-	-	816	846	(60)	(6.8)
<b>Total credit exposures <sup>(1)</sup></b>	<b>71,412</b>	<b>1,716</b>	<b>568</b>	<b>73,696</b>	<b>73,104</b>	<b>1,185</b>	<b>1.6</b>

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

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

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

#### 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>30 September 2010</b>		
	<b>General</b>		
	<b>Reserve for</b>	<b>Specific</b>	<b>Total</b>
	<b>Credit Losses</b> <sup>(2)</sup>	<b>Provision</b> <sup>(2)</sup>	<b>Provisions</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Collective provision <sup>(1)</sup>	1,139	14	1,153
Individual provisions <sup>(1)</sup>	-	971	971
<b>Total provisions</b>	<b>1,139</b>	<b>985</b>	<b>2,124</b>
Additional GRCL requirement <sup>(3)</sup>	117	-	117
<b>Total regulatory provisions</b> <sup>(2)</sup>	<b>1,256</b>	<b>985</b>	<b>2,241</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 \$82 million at 30 September 2010 in order to maintain the required minimum GRCL.

	<b>30 June 2010</b>		
	<b>General</b>		
	<b>Reserve for</b>	<b>Specific</b>	<b>Total</b>
	<b>Credit Losses</b> <sup>(2)</sup>	<b>Provision</b> <sup>(2)</sup>	<b>Provisions</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Collective provision <sup>(1)</sup>	1,119	14	1,133
Individual provisions <sup>(1)</sup>	-	956	956
<b>Total provisions</b>	<b>1,119</b>	<b>970</b>	<b>2,089</b>
Additional GRCL requirement <sup>(3)</sup>	138	-	138
<b>Total regulatory provisions</b> <sup>(2)</sup>	<b>1,257</b>	<b>970</b>	<b>2,227</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 \$97 million at 30 June 2010 in order to maintain the required minimum GRCL.

#### 4. 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 30 September 2010			Quarter Ended 30 September 2010	
	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		
Corporate including SME	1,871	240	926	23	41
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Home loan	98	282	45	1	-
Other retail	2	16	14	1	13
<b>Total</b>	<b>1,971</b>	<b>538</b>	<b>985</b>	<b>25</b>	<b>54</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 September 2010.

Portfolio	As at 30 June 2010			Quarter Ended 30 June 2010	
	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		
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
<b>Total</b>	<b>2,054</b>	<b>499</b>	<b>970</b>	<b>185</b>	<b>222</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 June 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).

---