Basel II Pillar 3

Capital Adequacy and Risk Disclosures

Quarterly Update as at 30 June 2012

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Bank of Western Australia Ltd ACN 050 494 454

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Basel II Pillar 3 – Capital Adequacy and Risk Disclosures

Quarterly update as at 30 June 2012

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 16f – Capital ratios

	As At	
	30/06/12	31/03/12
	%	%
Tier One	8. 48	8. 74
Tier Two	3. 56	3. 68
Total Capital	12. 04	12. 42

The Bank maintains a strong capital position. The Tier One and Total Capital ratios as at 30 June 2012 were 8.48% and 12.04% respectively (31 March 2012: 8.74% and 12.42%).

2. Capital Structure

APS 330 Table 15a to 15c – Group regulatory capital position

	As At
	30/06/12
	$M
Tier One Capital	
Paid up and ordinary share capital	4,107
Retained earnings and current period profits	184
Total Fundamental Tier One Capital	4,291
Deductions from Tier One Capital	(239)
Total Tier One Capital	4,052
Tier Two Capital	-
Upper Tier Two Capital (1)	676
Lower Tier Two Capital	1,025
Total Tier Two Capital	1,701
Total Capital	5,753

(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 30 Jun 2012, this amounted to $535 million.

3. Risk Weighted Assets

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

	As At		Change in RWA	
	30/06/12	31/03/12		
Asset Category	$M	$M	$M	%
Credit risk				
Subject to standardised approach				
Corporate	**12,858**	12,584	274	2. 2
Sovereign	**11**	11	-	-
Bank	**1,289**	1,352	(63)	(4. 7)
Residential mortgage	**24,636**	24,148	488	2. 0
Other retail	**4,197**	4,194	3	0. 1
Other assets	**598**	449	149	33. 2
Total RWA subject to standardised approach	**43,589**	42,738	851	2. 0
Securitisation	**31**	38	(7)	(18. 4)
Equity exposures	**7**	7	-	-
Total RWA for credit exposures	**43,627**	42,783	844	2. 0
Traded market risk	**25**	27	(2)	(7. 4)
Operational risk	**4,127**	3,987	140	3. 5
Total risk weighted assets	**47,779**	46,797	982	2. 1

4. Credit Risk Exposure

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

	30 June 2012						
		Off balance sheet					
PortfolioType	On balance sheet $M	Non-market related $M	Market related $M	Total $M	Average exposure for June quarter [2] $M	Change in exposure for June quarter [3] $M	%
Subject to standardised approach							
Corporate	11,326	1,192	129	**12,647**	12,514	267	2. 2
Sovereign	2,159	6	-	**2,165**	2,220	(109)	(4. 8)
Bank	6,315	4	581	**6,900**	7,042	(284)	(4. 0)
Residential mortgage	54,716	483	27	**55,226**	54,560	1,333	2. 5
Other retail	4,038	120	6	**4,164**	4,162	5	0. 1
Other assets	1,014	-	-	**1,014**	944	140	16. 0
Total credit exposures [1]	79,568	1,805	743	**82,116**	81,442	1,352	1. 7

(1) Total Credit Risk Exposures do not include equities or securitisation exposures.
(2) The simple average of balances as at 30 June 2012 and 31 March 2012.
(3) Change, as at 30 June 2012, of exposures compared to balances at 31 March 2012.

	31 March 2012						
		Off balance sheet					
Portfolio Type	On balance sheet $M	Non-market related $M	Market related $M	Total $M	Average exposure for March quarter [2] $M	Change in exposure for March quarter [3] $M	%
Subject to standardised approach							
Corporate	11,075	1,225	80	12,380	12,519	(277)	(2. 2)
Sovereign	2,269	5	-	2,274	2,092	364	19. 1
Bank	6,596	45	543	7,184	7,111	147	2. 1
Residential mortgage	53,391	484	18	53,893	53,291	1,204	2. 3
Other retail	4,026	128	5	4,159	4,192	(65)	(1. 5)
Other assets	874	-	-	874	882	(15)	(1. 7)
Total credit exposures [1]	78,231	1,887	646	80,764	80,087	1,358	1. 7

(1) Total Credit Risk Exposures do not include equities or securitisation exposures.
(2) The simple average of closing balances as at 31 March 2012 and 31 December 2011.
(3) Change, as at 31 March 2012, of exposures compared to balances at 31 December 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

	30 June 2012		
	General reserve for credit losses (2)	Specific provision (2)	Total provisions
	$M	$M	$M
Collective provision (1)	652	19	671
Individual provisions (1)	-	934	934
Total provisions	652	953	1,605
Additional GRCL requirement (3)	113	-	113
Total regulatory provisions (2)	765	953	1,718

(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 $79 million at 30 June 2012 in order to maintain the required minimum GRCL.

	31 March 2012		
	General reserve for credit losses (2)	Specific provision (2)	Total provisions
	$M	$M	$M
Collective provision (1)	717	13	730
Individual provisions (1)	-	983	983
Total provisions	717	996	1,713
Additional GRCL requirement (3)	98	-	98
Total regulatory provisions (2)	815	996	1,811

(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 31 March 2012 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

	As at 30 June 2012			Quarter ended 30 June 2012	
Portfolio	Impaired assets $M	Past due loans ≥ 90 days $M	Specific provision balance (1) $M	Net charges for individual provisions $M	Actual losses (2) $M
Corporate including SME	1,616	179	883	46	135
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential Mortgage	154	271	50	3	4
Other retail	15	14	20	2	13
Total	1,785	464	953	51	152

(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 June 2012.

	As at 31 March 2012			Quarter ended 31 March 2012	
Portfolio	Impaired assets $M	Past due loans ≥ 90 days $M	Specific provision balance (1) $M	Net charges for individual provisions $M	Actual losses (2) $M
Corporate including SME	1,639	175	934	81	142
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential Mortgage	108	275	49	2	2
Other retail	4	19	13	-	8
Total	1,751	469	996	83	152

(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 March 2012.

6. Securitisation

APS330 Table 18a - Total securitisation activity for the reporting period

Underlying asset type	For the 3 months to 30 June 2012 Total exposures securitised $M	Recognised gain or loss on sale $M
Residential mortgage	-	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial Loans	-	-
Other	-	-
Total	-	-

Underlying asset type	For the 3 months to 31 March 2012 Total exposures securitised $M	Recognised gain or loss on sale $M
Residential mortgage	-	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Commercial Loans	-	-
Other	-	-
Total	-	-

APS330 Table 18b - Summary of total securitisation exposures retained or purchased

	As at 30 June 2012		
Securitisation facility type	On Balance Sheet $M	Off Balance Sheet $M	Total Exposures $M
Liquidity support facilities	-	15	15
Warehouse facilities	-	-	-
Derivative facilities	-	6	6
Holdings of securities	-	-	-
Other	-	10	10
Total securitisation exposures	-	31	31

	As at 31 March 2012		
Securitisation facility type	On Balance Sheet $M	Off Balance Sheet $M	Total Exposures $M
Liquidity support facilities	-	15	15
Warehouse facilities	-	-	-
Derivative facilities	-	13	13
Holdings of securities	-	-	-
Other	-	10	10
Total securitisation exposures	-	38	38

7. 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.
Basel 2.5	Refers to the July 2009 Basel Committee on Banking Supervision's enhancements to the Basel II framework for securitisation and market risk.
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 it's 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.

7. Glossary (continued)

Term	Definition
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).
Tier One Capital	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: • Fundamental Capital (share capital, retained earnings and reserves); • Residual Capital (innovative and non innovative); and • Prescribed Regulatory deductions.
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.