

Basel II Pillar 3 - Capital Adequacy and Risk Disclosures

Quarterly Update as at 31 March 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").

Until 31 December 2008 the Bank operated under the Basel I methodology. The Bank effective from 1 January 2009 adopted the standardised Basel II methodology. This update of the Bank's capital adequacy and risk disclosures 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	31 Mar 2010	31 Dec 2009
	%	%
Tier One	8.95	9.02
Tier Two	3.79	3.78
Total Capital	12.74	12.80

The Bank maintains a strong capital position. The Tier One and Total Capital ratios as at 31 March 2010 were 8.95% and 12.74% respectively.

2. Risk Weighted Assets

APS 330 Table 16a to 16d – Capital adequacy	31 Mar 2010	31 Dec 2009
	\$M	\$M
Risk weighted assets		
Credit risk		
Subject to standardised approach		
Corporate	14,062	14,483
Sovereign	3	2
Bank	1,400	1,265
Residential mortgage	21,750	21,667
Other retail	4,381	4,319
Other	420	421
Total risk weighted assets subject to standardised approach	42,016	42,157
Securitisation	58	49
Equity exposures	12	14
Total risk weighted assets for credit risk exposures	42,086	42,220
Market risk	208	242
Operational risk	2,913	2,913
Total risk weighted assets	45,207	45,375

3. Credit Risk Exposure

APS 330 Table 17a – Total credit exposures excluding equities and securitisation

	31 Mar 2010				
	On Balance Sheet	Off Balance Sheet		Total Exposures	Average Exposures ²
	\$M	Non-Market Related \$M	Market Related \$M	\$M	\$M
Total Exposure¹					
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 exposures standardised approach	70,281	1,845	385	72,511	71,660

	31 Dec 2009				
	On Balance Sheet	Off Balance Sheet		Total Exposures	Average Exposures ²
	\$M	Non-Market Related \$M	Market Related \$M	\$M	\$M
Total Exposure¹					
Standardised approach					
Corporate	12,897	1,156	76	14,129	14,284
Sovereign	354	1	-	355	305
Bank	5,917	177	283	6,377	6,641
Residential mortgage	44,311	592	20	44,923	43,577
Other retail	4,160	131	6	4,297	4,267
Other assets	726	-	-	726	932
Total exposures standardised approach	68,365	2,057	385	70,807	70,005

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

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

4. Past Due and Impaired Exposures, Provisions and Reserves

APS 220 "Credit Quality" requires Bankwest 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

31 Mar 2010

	General Reserve for Credit Losses \$M	Specific Provision \$M	Total Provisions ¹ \$M
Collective provisions	834	21	855
Individual provisions	-	954	954
Total provisions	834	975	1,809
General reserve for credit losses	143	-	
Total regulatory provisions ²	977	975	

31 Dec 2009

	General Reserve for Credit Losses \$M	Specific Provision \$M	Total Provisions ¹ \$M
Collective provisions	743	17	760
Individual provisions	-	733	733
Total provisions	743	750	1,493
General reserve for credit losses	143	-	
Total regulatory provisions ²	886	750	

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

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

Table APS 330 Table 17b – Impaired, past due, individual provisions and actual losses

Exposure type	31 Mar 2010				
	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 ²	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

Exposure type	31 Dec 2009				
	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 ²	1,634	194	691	156	175
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Home loan	99	236	36	3	1
Other retail	8	17	23	(9)	8
Total	1,741	447	750	150	184

⁽¹⁾ Actual losses equal write-offs from individual provisions and collective provisions less recoveries of amounts previously written off for the periods ending 31 March 2010 and 31 December 2009.

⁽²⁾ Includes Asset Finance previously reported in December 2009 as Other. The December 2009 comparative has been restated to reflect this change.

APS 330 Table 17c – Collective and Other Provisions

General Reserve for Credit Losses comprises:	31 Mar 2010	31 Dec 2009
	\$M	\$M
General reserve for credit losses	143	143
Collective provisions	855	760
Collective provision transferred to specific provision	(21)	(17)
Total General Reserve for Credit Losses	977	886

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.
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 Provisions	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.
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).