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Basel II Pillar 3

## Capital Adequacy and Risk Disclosures

Quarterly Update as at 30 September 2012

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

Quarterly update as at 30 September 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.

Bankwest ADI licence consolidation with Commonwealth Bank was completed on 1st October 2012, accordingly this will be the last stand alone Bankwest Pillar III disclosure.

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	
	30/09/12	30/06/12
	%	%
Tier One	8.49	8.48
Tier Two	3.52	3.56
<b>Total Capital</b>	<b>12.01</b>	<b>12.04</b>

The Bank maintains a strong capital position. The Tier One and Total Capital ratios as at 30 September 2012 were 8.49% and 12.01% respectively (30 June 2012: 8.48% and 12.04%).

## 2. Risk Weighted Assets

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

Asset Category	As At		Change in RWA	
	30/09/12	30/06/12	\$M	%
	\$M	\$M		
<b>Credit risk</b>				
<b>Subject to standardised approach</b>				
Corporate	13,170	12,858	312	2.4
Sovereign	6	11	(5)	(45.5)
Bank	1,650	1,289	361	28.0
Residential mortgage <sup>(1)</sup>	24,646	24,642	4	0.0
Other retail	4,109	4,197	(88)	(2.1)
Other assets	379	598	(219)	(36.6)
<b>Total RWA subject to standardised approach</b>	<b>43,960</b>	<b>43,595</b>	<b>365</b>	<b>0.8</b>
<b>Securitisation</b>	<b>24</b>	<b>31</b>	<b>(7)</b>	<b>(22.6)</b>
<b>Equity exposures</b>	<b>7</b>	<b>7</b>	<b>-</b>	<b>-</b>
<b>Total RWA for credit exposures</b>	<b>43,991</b>	<b>43,633</b>	<b>358</b>	<b>0.8</b>
Traded market risk	26	25	1	4.0
Operational risk	4,126	4,127	(1)	(0.0)
<b>Total risk weighted assets</b>	<b>48,143</b>	<b>47,785</b>	<b>358</b>	<b>0.7</b>

(1) Comparative period information has been restated to conform to current period disclosures.

### 3. Credit Risk Exposure

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

Portfolio Type	30 September 2012				Average exposure for September quarter <sup>(2)</sup>	Change in exposure for September quarter <sup>(3)</sup>	
	On balance sheet	Off balance sheet		Total		\$M	%
		Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M		
<b>Subject to standardised approach</b>							
Corporate	11,512	1,249	140	12,901	12,774	254	2.0
Sovereign	1	6	-	7	1,086	(2,158)	(99.7)
Bank	7,675	8	504	8,187	7,544	1,287	18.7
Residential mortgage	55,219	386	28	55,633	55,430	407	0.7
Other retail	3,925	129	6	4,060	4,112	(104)	(2.5)
Other assets	835	-	-	835	925	(179)	(17.7)
<b>Total credit exposures <sup>(1)</sup></b>	<b>79,167</b>	<b>1,778</b>	<b>678</b>	<b>81,623</b>	<b>81,871</b>	<b>(493)</b>	<b>(0.6)</b>

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

(2) The simple average of balances as at 30 September 2012 and 30 June 2012.

(3) Change, as at 30 September 2012, of exposures compared to balances at 30 June 2012.

Portfolio Type	30 June 2012				Average exposure for June quarter <sup>(2)</sup>	Change in exposure for June quarter <sup>(3)</sup>	
	On balance sheet	Off balance sheet		Total		\$M	%
		Non-market related	Market related				
	\$M	\$M	\$M	\$M	\$M		
<b>Subject to standardised approach</b>							
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
<b>Total credit exposures <sup>(1)</sup></b>	<b>79,568</b>	<b>1,805</b>	<b>743</b>	<b>82,116</b>	<b>81,442</b>	<b>1,352</b>	<b>1.7</b>

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

(2) The simple average of closing 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.

#### 4. 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

	<b>30 September 2012</b>		
	<b>General</b>	<b>Specific</b>	<b>Total</b>
	<b>reserve for credit losses <sup>(2)</sup></b>	<b>provision <sup>(2)</sup></b>	<b>provisions</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Collective provision <sup>(1)</sup>	640	21	661
Individual provisions <sup>(1)</sup>	-	894	894
<b>Total provisions</b>	<b>640</b>	<b>915</b>	<b>1,555</b>
Additional GRCL requirement <sup>(3)</sup>	118	-	118
<b>Total regulatory provisions <sup>(2)</sup></b>	<b>758</b>	<b>915</b>	<b>1,673</b>

(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 \$82 million at 30 September 2012 in order to maintain the required minimum GRCL.

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

(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 \$79 million at 30 June 2012 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 2012			Quarter ended 30 September 2012	
	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 <sup>(3)</sup>	1,527	298	849	36	102
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential Mortgage	142	346	44	3	5
Other retail	14	14	22	(1)	24
<b>Total</b>	<b>1,683</b>	<b>658</b>	<b>915</b>	<b>38</b>	<b>131</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 2012.

(3) The movement in past due loans ≥ 90 days is primarily due to a change in process to align with CBA practice.

Portfolio	As at 30 June 2012			Quarter ended 30 June 2012	
	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	1,616	179	883	46	135
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential Mortgage <sup>(3)</sup>	154	373	50	3	4
Other retail	15	14	20	2	13
<b>Total</b>	<b>1,785</b>	<b>566</b>	<b>953</b>	<b>51</b>	<b>152</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 June 2012.

(3) Comparative period information has been restated to conform to current period disclosures.

## 5. Securitisation

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

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

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

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

Securitisation facility type	As at 30 September 2012		
	On Balance Sheet	Off Balance Sheet	Total Exposures
	\$M	\$M	\$M
Liquidity support facilities	-	12	12
Warehouse facilities	-	-	-
Derivative facilities	-	5	5
Holdings of securities	-	-	-
Other	-	7	7
<b>Total securitisation exposures</b>	-	24	24

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

## 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 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.

## 7. Glossary (continued)

<b>Term</b>	<b>Definition</b>
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: <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.