

## MUMBAI BRANCH

# PILLAR 3 REPORT

**SEPTEMBER 2013**

**INCORPORATING THE  
REQUIREMENTS OF THE RESERVE  
BANK OF INDIA**

**STRENGTH**

**RETURN**

**GROWTH**

**PRODUCTIVITY**

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In this report references to 'Westpac', 'Westpac Group', 'the Group', 'we', 'us' and 'our' are to Westpac Banking Corporation and its controlled entities (unless the context indicates otherwise). Any references to the Branch are to Mumbai Branch.

In this report, unless otherwise stated or the context otherwise requires, references to Rs are to Indian Rupees.

Any discrepancies between totals and sums of components in tables contained in this report are due to rounding.

### **Scope of Application**

The capital adequacy framework applies to Westpac Banking Corporation, Mumbai Branch (“the Branch”). It operates in India as a branch of Westpac, Sydney under the licence granted by Reserve Bank of India (RBI). The Branch has no subsidiary or joint venture to be consolidated in line with requirement of Accounting Standard (AS) 21 (consolidated financial statements) and AS 27 (financial reporting of interest in joint ventures). The Branch does not have any interest in insurance companies in India.

Disclosures made hereunder are in accordance with prudential guidelines on capital adequacy and market discipline i.e. New Capital Adequacy Framework (NCAF), Market Discipline (Pillar 3). The Branch operates as a scheduled commercial bank and is required to maintain capital ratios as prescribed by NCAF guidelines issued by RBI. The Bank is also required to comply with all applicable laws and regulations in India including guidelines issued by RBI and other relevant regulatory bodies. Since this is the first year of Branch’s operations, no comparative data has been provided.

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The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation, i.e., that are deducted and the name(s) of such subsidiaries. Nil

The aggregate amounts (e.g., current book value) of the bank’s total interests in insurance entities, which are risk weighted, as well as, their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction. Nil

### Branch risk management governance structure

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**India Leadership Team (ILT)**

ILT is the highest decision making Committee for the Branch in India. Its roles in the Branch include:

- managing the governance of the branch;
- monitoring the integrity of all its business; and
- overseeing the risk profile and regulatory requirements.

**Asia Risk Management Committee (ARMC)**

ARMC has oversight over Westpac's operations in Asia (including the Mumbai Branch). Its responsibilities are to:

- review and oversee credit, operational, compliance, market and reputation risk in accordance with frameworks and policies;
- review and oversee credit, operational, compliance, market and reputational risk profile;
- identify emerging; credit, operational, compliance and reputational risks and allocate responsibility for assessing impact and response as appropriate; and
- enable continuous improvement in risk management by providing a forum for testing risk tolerances and debating alternate approaches.

**India Risk Management Committee (IRMC)**

IRMC is the main risk governance Committee for the Mumbai Branch with authority to:

- review and oversee credit, market, operational and compliance risk;
- Identify emerging credit, market, operational and compliance risks and allocate responsibility for assessing impact and response as appropriate; and
- enable continuous improvement in risk management by providing a forum for testing risk tolerance and debating alternate approaches.

**India Asset & Liability Committee (ALCO)**

India ALCO's responsibilities in the Branch include:

- leads the optimisation of funding and liquidity risk-reward;
- oversees the liquidity risk management framework and key policies;
- oversees the funding and liquidity risk profile and balance sheet risk profile;
- review of market risk, trading risk and oversee pricing trends and balance sheet performance; and
- monitor and oversee action to regulatory change impacts.

**Roles and responsibilities**

The Group-wide approach to risk management is that ‘risk is everyone’s business’ and that responsibility and accountability for risk begins with the business units that originate the risk. The Branch applies the Westpac Group risk management approach as is outlined below unless otherwise stated.

**The 1st Line of Defence – Risk identification, risk management and self-assurance**

Divisional business units are responsible for identifying, evaluating and managing the risks that they originate within approved risk appetite and policies. They are required to establish and maintain appropriate risk management controls, resources and self-assurance processes.

**The 2nd Line of Defence – Establishment of risk management frameworks and policies and risk management oversight**

Our 2nd Line of Defence is a separate risk advisory, control and monitoring function which establishes frameworks, policies, limits and processes for the management, monitoring and reporting of risk. It also evaluates and opines on the adequacy and effectiveness of 1st Line controls and application of frameworks and policies and, where necessary, requires improvement and monitors the 1st Line's progress toward remediation of identified deficiencies.

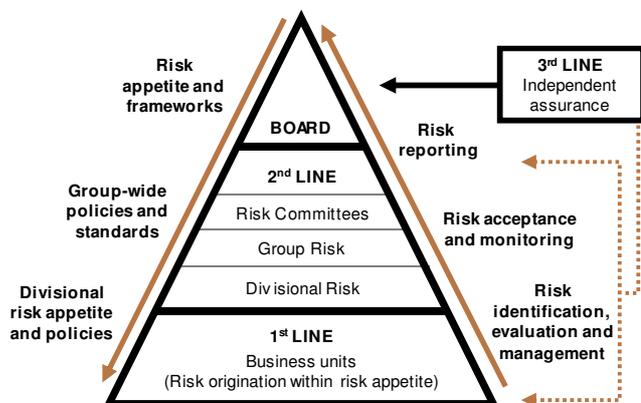
Our 2nd Line of Defence has three layers:

- our executive risk committees lead the optimisation of risk-reward by overseeing the development of risk appetite statements, risk management frameworks, policies and risk concentration controls, and monitoring Westpac’s risk profile for alignment with approved appetites and strategies;
- our Group Risk function is independent from the business divisions, reports to the Chief Risk Officer (CRO), and establishes and maintains the Group-wide risk management frameworks, policies and concentration limits that are approved by the Board Risk Management Committee. It also reports on Westpac’s risk profile to executive risk committees and the Board Risk Management Committee; and
- divisional risk areas are responsible for developing division-specific risk appetite statements, policies, controls, procedures, monitoring and reporting capability, which align to the Board’s Statement of Risk Appetite and the risk management frameworks approved by the Board Risk Management Committee. These risk areas are independent of the Divisions’ 1st Line business areas, with each divisional CRO having a direct reporting line to the CRO, as well as to their Division’s Group Executive.

**The 3rd Line of Defence – Independent assurance**

Our Group Assurance function independently evaluates the adequacy and effectiveness of the Group’s overall risk management framework and controls.

Our overall risk management approach is summarised in the following diagram:



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**CAPITAL OVERVIEW**

**Capital structure**

The capital of the Branch comprises interest-free funds from Head Office kept in a separate account in Indian books and statutory reserves. Deferred tax assets have been deducted to arrive at Tier 1 capital.

Tier 2 capital comprises a general provision on standard assets and a provision for country risk exposure. The Branch has not issued subordinated debt instruments or any other Tier 2 capital instruments. The table below shows the Branch's capital resources as at 30 September 2013.

<b>Rs'000</b>	<b>30 September 2013</b>
<b>Tier 1 capital</b>	
Interest free funds from Head Office	8,087,300
Statutory reserves	21,096
Innovative instruments	-
Other capital instruments	-
Amount deducted from Tier 1 capital	(5,890)
<b>Total Tier 1 capital</b>	<b>8,102,506</b>
<b>Tier 2 capital</b>	
General Provision for Standard Advances	9,245
Provision for country risk	5,326
<b>Total Tier 2 capital</b>	<b>14,571</b>
<b>Total Eligible Capital</b>	<b>8,117,077</b>

**Capital adequacy**

The Branch aims to hold sufficient capital to meet the minimum regulatory requirements on an ongoing basis. The Branch's capital management strategy is:

- To comply with the Basel II Regulatory Capital requirements set out by RBI in the NCAF; and
- To minimise the possibility of the Branch's capital falling below the minimum regulatory requirement by maintaining a capital buffer (in excess of the Basel II minimum requirements) sufficient to cover Pillar 2 risks and the capital impact of stress scenarios.

The Branch's capital management is mainly guided by its current capital position, current and future business needs, regulatory environment including Basel III and strategic business planning. The Branch continuously focuses on effective management of risk and corresponding capital to support the risk.

Presently, banks in India are required to have a parallel run of the revised framework. Banks are required to apply the prudential guidelines on capital adequacy (per both Basel I and Basel II) on an ongoing basis and compute their Capital to Risk Weighted Assets Ratio (CRAR). Under the parallel run banks are required to hold capital sufficient to meet the Basel II minimum capital requirements subject to a prudential floor of 80% of minimum capital requirement computed under the Basel I framework. The parallel run is set to discontinue after this reporting period.

As per NCAF, currently the Branch has adopted the Standardised Approach (SA) for credit risk, the Basic Indicator Approach (BIA) for operational risk and the Standardised Duration Approach (SDA) for market risk. Under the BIA, the Branch holds capital for operational risk equal to 15% of positive gross annual income for the previous year. As at 30 September 2013 the Branch's CRAR stood at 192.32% as per Basel II. The Branch is adequately capitalised.

**Capital adequacy ratios**

<b>%</b>	<b>30 September 2013</b>
Tier 1 capital	191.97
Tier 2 capital	0.35
<b>Total regulatory capital ratio</b>	<b>192.32</b>

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**CAPITAL OVERVIEW**

**Capital Requirements**

This table shows risk weighted assets and associated capital requirements for each risk type included in the regulatory assessment of the Branch's capital adequacy. The Branch's approach to managing these risks, and more detailed disclosures on the prudential assessment of capital requirements, are presented in the following sections of this report.

<b>30 September 2013</b>	Total Capital	Total Risk
<b>Rs'000</b>	Required	Weighted Assets
Credit Risk		
Portfolios subject to standardised approach	222,540	2,472,665
Securitisation exposures	-	-
Total	222,540	2,472,665
Market risk		
Interest rate risk	14,779	164,211
Foreign exchange risk (including gold)	45,000	500,000
Equity risk	-	-
Total	59,779	664,211
Operational risk	97,543	1,083,810
Total	379,862	4,220,686

Credit risk is the potential for financial loss where a customer or counterparty fails to meet their financial obligations to Westpac. Westpac maintains a credit risk management framework and a number of supporting policies, processes and controls governing the assessment, approval and management of customer and counterparty credit risk. These incorporate the assignment of risk grades, the quantification of loss estimates in the event of default, and the segmentation of credit exposures.

### **Structure and organisation**

The Chief Risk Officer (CRO) is responsible for the effectiveness of overall risk management throughout Westpac, including credit risk. Authorised officers have delegated authority to approve credit risk exposures, including customer risk grades, other credit parameters and their ongoing review. A portion of consumer lending is subject to automated scorecard-based approval. Our largest exposures are approved by our most experienced credit officers. Line business management is responsible for managing credit risks accepted in their business and for maximising risk-adjusted returns from their business credit portfolios, within the approved risk appetite, risk management framework and policies.

The IRMC has oversight of credit risk management within the Branch and includes the Branch CEO, representatives from the business and risk functions. It is responsible for the review and oversight of credit risk in line with the Westpac Group credit risk management framework and policies.

### **Credit risk management framework and policies**

Westpac maintains a credit risk management framework and supporting policies that are designed to clearly define roles and responsibilities, acceptable practices, limits and key controls.

At Group level the Credit Risk Management Framework describes the principles, methodologies, systems, roles and responsibilities, reports and controls that exist for managing credit risk in Westpac. The Credit Risk Rating System policy describes the credit risk rating system philosophy, design, key features and uses of rating outcomes.

Concentration risk policies cover individual counterparties, specific industries (e.g. property) and individual countries. In addition these are policies covering risk appetite statements, environmental, social and governance (ESG) credit risks and the delegation of credit approval authorities.

At the divisional level, credit manuals embed the Group's framework requirements for application in line businesses. These manuals include policies covering the origination, evaluation, approval, documentation, settlement and on-going management of credit risks, and sector policies to guide the extension of credit where industry-specific guidelines are considered necessary.

Credit approval limits govern the extension of credit and represent the formal delegation of credit approval authority to responsible individuals throughout the organisation.

**WESTPAC BANKING CORPORATION MUMBAI BRANCH**  
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**CREDIT RISK EXPOSURES**

**Summary credit risk disclosure**

<b>Rs'000</b>	<b>30 September 2013</b>
Fund Based <sup>1</sup>	8,432,743
Non Fund Based <sup>2</sup>	
Non-Market related Off Balance sheet items	-
Market Related	89,128
<b>Total</b>	<b>8,521,871</b>

**Portfolio by geography**

All the exposures provided under Summary credit risk disclosure (gross credit risk exposure) above are domestic.

**Portfolio by industry classification**

<b>30 September 2013</b>			
<b>Rs'000</b>	Fund based	Non-fund based	Total
Accommodation, cafes & restaurants			
Agriculture, forestry & fishing			
Construction			
Finance & insurance <sup>3</sup>	1,825,191	61,240	1,886,431
Government administration & defence	5,857,552	-	5,857,552
Manufacturing			
Mining			
Property & business services			
Services <sup>4</sup>	750,000	-	750,000
Trade <sup>5</sup>	-	27,888	27,888
Transport & storage			
Utilities <sup>6</sup>			
Retail lending			
Other			
<b>Total</b>	<b>8,432,743</b>	<b>89,128</b>	<b>8,521,871</b>

<sup>1</sup> Fund based exposure includes investments, claims on bank and other assets including fixed assets

<sup>2</sup> Non fund based exposure includes non-market related Off-Balance sheet items (Contingent Credits and Exposures).

<sup>3</sup> Classification aligned to Group industry classification, as at 30 September 2013 category included no exposure to insurance.

<sup>4</sup> Includes education, health & community services, cultural & recreational services and personal & other services.

<sup>5</sup> Includes wholesale trade and retail trade.

<sup>6</sup> Includes electricity, gas & water, and communication services.

### Portfolio by maturity breakdown

Rs'000	30 September 2013
1 day	5,520,895
2 to 7 days	375,765
8 to 14 days	-
15 to 28 days	125,057
29 days & upto 3 months	7,689
Over 3 months & upto 6 months	500,271
Over 6 months & upto 1 year	-
Over 1 year & upto 3 years	1,750,840
Over 3 years & upto 5 years	-
Over 5 years	152,226
Total	8,432,743

### Impaired and past due loans<sup>1</sup>

The following disclose the crystallisation of credit risk as impairment and loss. Analysis of exposures 90 days past due but well secured, impaired loans, related provisions and actual losses is broken down by concentrations reflecting Westpac's asset categories, industry and geography.

#### Gross Impaired and past due loans:

The Branch's gross NPA amounts are nil as on 30 September 2013.

#### Net Impaired and past due loans:

The Branch's net NPA amounts are nil as on 30 September 2013.

#### Impaired and past due loans ratios

As both the Branch's net and gross NPA amounts are nil the ratios are nil as well.

#### Movement in Impaired and past due loans

Since the NPA's for the Branch are Nil, there is no movement to report.

#### Non Performing Investments

The Branch's non performing investments as on 30 September 2013 is nil.

#### Movement of provisions for depreciation on investments

Since the depreciation on investments for the Branch is Nil, there is no movement to report.

### Credit Risk: Disclosures for portfolios subject to the standardised approach

As at September 2013 the Branch has not applied any ratings for the exposures under standardised approaches. All the exposures to scheduled commercial banks for the purpose of pillar 1 calculation are risk weighted at 20% since these exposures are made to counterparty banks having capital adequacy ratio of 9% and above.

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<sup>1</sup> Also known as Non-Performing Assets (NPA)

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**CREDIT RISK EXPOSURES**

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The Branch uses RBI guidelines with respect to usage of short term/long term issuer ratings set by the accredited rating agencies<sup>1</sup> for assigning risk weights, for non-resident corporate entities and foreign banks, ratings issued by the international rating agencies like S&P, Moody's and Fitch are used.

**Portfolio by risk weight**

<b>Rs'000</b>	<b>30 September 2013</b>
Below 100% risk weight	6,113,464
100% risk weight	2,408,408
Above 100% risk weight	-
Deductions <sup>2</sup>	(5,890)
<b>Total</b>	<b>8,515,982</b>

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<sup>1</sup> Fitch, Credit Analysis and Research (CARE), Credit rating and information services of India limited (CRISIL), Investment Information and Credit Rating Agency (ICRA), and Brickworks

<sup>2</sup> Deductions represents amount deducted from Capital Funds

### **Credit Risk Mitigation**

The Branch has not received any collateral for any of its exposure for the period ended 30 September 2013. Consequently no collateral netting from exposure is considered for capital adequacy computation.

The Branch is guided by NCAF guidelines for eligible financial collateral which includes cash (deposited with the Branch), gold, securities issued by Central and State governments, Kisan Vikas Patra, National Savings Certificate, life insurance policies, certain debt securities rated by a recognised credit rating agencies, mutual fund units, etc.

There are no mitigated exposures as at 30 September 2013.

### **Securitisation Exposures**

The Branch has not entered into any securitisation transactions for the half year ended 30 September 2013; hence no disclosures have been made.

## **Market Risk**

Westpac Group's exposure to market risk arises out of its Financial Markets and Treasury trading activities. The Branch's market risk exposure is quantified using the Standardise Duration Approach (SDA) for regulatory capital purposes.

### **Approach**

Trading activities within Westpac Group are controlled by a Board-approved market risk framework that incorporates a Board-approved value at risk (VaR) limit. VaR is the primary mechanism for measuring and controlling market risk. Market risk is managed using VaR and structural risk limits (including volume limits and basis point value limits) in conjunction with scenario analysis and stress testing. Market risk limits are allocated to business management based upon business strategies and experience, in addition to the consideration of market liquidity and concentration risk. All trades are fair valued daily, using independently sourced or reviewed rates. Rates that have limited independent sources are reviewed at least on a monthly basis.

Group Financial Markets' trading activity represents dealings that encompass book running and distribution activity. The types of market risk arising from these activities include interest rate, foreign exchange, commodity, equity price, credit spread and volatility risk.

Group Treasury's trading activity represents dealings that include the management of interest rate, foreign exchange and credit spread risks associated with the wholesale funding task, liquid asset portfolios and foreign exchange repatriations. Group Treasury also manage banking book risk which is discussed in the Interest Rate Risk in the Banking Book section.

### **VaR limits**

Market risk arising from trading book activities is primarily measured using VaR based on an historical simulation methodology. Westpac estimates VaR as the potential loss in earnings from adverse market movements and is calculated over a 1-day time horizon to a 99% confidence level using 1 year of historical data. VaR takes account of all material market variables that may cause a change in the value of the trading portfolio, including interest rates, foreign exchange rates, price changes, volatility, and the correlation between these variables.

The Head of Financial Markets Treasury Risk (FMTR) has authority to approve VaR limits for the trading activities of the Branch.

### **Backtesting**

Daily backtesting of VaR results is performed to ensure that model integrity is maintained. A review of both the potential profit and loss outcomes is also undertaken to monitor any skew created by the historical data.

### **Stress testing**

Daily stress testing against pre-determined scenarios is carried out to analyse potential losses beyond the 99% confidence level. IRMC is accountable for the escalation framework around stress testing.

### **Risk reporting**

Daily monitoring of current exposure and limit utilisation is conducted independently for the Group by the FMTR unit, which monitors market risk exposures against VaR and structural limits. Daily VaR position reports are produced by risk type, by product lines and by geographic region. These are supplemented by structural risk reporting, advice of profit and loss trigger levels and stress test escalation trigger points.

### **Risk mitigation**

Across the Group market risk positions are managed by the trading desks consistent with delegated trading and product authorities. Risks are consolidated into portfolios based on product and risk type. Risk management is carried out by qualified personnel with varying levels of seniority commensurate with the nature and scale of market risks under management.

The following controls allow monitoring by management:

- trading authorities and responsibilities are clearly delineated at all levels;
- a structured system of limits and reporting of exposures;
- all new products and significant product variations undergo a rigorous approval process to identify business risks prior to launch;
- models that are used to determine risk or profit and loss for Westpac's accounts are independently reviewed;
- duties are segregated so that employees involved in the origination, processing and valuation of transactions operate under separate reporting lines, minimising the opportunity for collusion; and
- legal counsel approves documentation for compliance with relevant laws and regulations.

In addition, audit independently reviews compliance with policies, procedures and limits.

**Market risk regulatory risk weighted assets**

<b>Rs '000</b>	<b>30 September 2013</b>
Interest rate risk	164,211
Foreign exchange risk	500,000
Equity position risk	-
Total	664,211

Operational risk is defined at Westpac as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal and regulatory risk but excludes strategic and reputation risk.

Westpac's operational risk is measured and managed in accordance with the policies and processes defined in its Operational Risk Management Framework. The Branch's operational risk capital calculated using Basic Indicator Approach (BIA).

#### **Westpac's Operational Risk Management Framework**

The Operational Risk Management Framework outlines a consistent approach to the:

- identification, measurement and management of operational risks that may impede the Group's ability to achieve its strategic objectives and vision;
- identification and escalation of operational risk and compliance incidents in order to minimise potential financial losses, reputational damage and shareholder, community, employee and regulatory impacts; and
- calculation and allocation of operational risk capital.

The key components of Westpac's operational risk management framework are listed below:

**Governance** - The governance structure provides clearly defined roles and responsibilities for overseeing and reviewing operational risk exposure and management.

**Risk and Control Management (RCM)** - RCM is a forward-looking tool used to manage Westpac's operational risk profile by identifying and assessing key operational risks and the adequacy of controls, with management action planning to reduce risks that are outside risk appetite.

**Key Indicators (KIs)** - The framework defines requirements and processes for KIs, which are objective measures used by management to monitor the operational risk and control environment.

**Incident Management** - The process of incident management involves identifying operational risk incidents, capturing them in the central operational risk system and escalating them to appropriate levels of management. Early identification and ownership supports the ability to minimise any immediate impacts of the incidents, address the root causes, and devise and monitor management actions required to strengthen the control environment.

**Data** - The framework includes principles and processes to ensure the integrity of operational risk data used to support management decision-making. The principles apply to the governance, input and capture, reconciliation and validation, correction, reporting and storage of operational risk data. Operational risk data is subject to independent validation on a regular basis.

**Scenario Analysis** - Scenario analysis is used to assess the impacts of potential adverse events originating from the internal and external operational environment, assess the adequacy of controls and management preparedness, and formulate action plans as necessary.

**Operational Risk of Change Programs** - The framework defines requirements for understanding and managing the operational risk implications of projects.

**Reporting** - regular reporting of operational risk information to governance bodies and senior management used to support timely and proactive management of operational risk and enable transparent and formal oversight of the risk and control environment.

**Control Assurance** - The framework defines the process and requirements for providing assurance over the effectiveness of the operational risk control environment, including the testing and assessment of the design and operating effectiveness of controls.

As at 30 September 2013, the Branch's operational risk capital is Rs 97,543,000.

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**INTEREST RATE RISK IN THE BANKING BOOK**

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Interest Rate Risk in the Banking Book (IRRBB) is the risk to interest income arising from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. All material regions, business lines and legal entities are included in Westpac's IRRBB framework.

**Approach**

The banking book activities that give rise to market risk include lending activities, balance sheet funding and capital management. Interest rate risk, currency risk and funding and liquidity risk are inherent in these activities. Group Treasury is responsible for managing market risk arising from Westpac's banking book activity.

**Risk reporting**

Daily monitoring of current exposure and limit utilisation is conducted independently by FMTR, which monitors market risk exposures against structural risk limits. Reports detailing structural positions are produced independently by the Finance team and distributed daily for use by dealers and management across all stakeholder groups.

The Branch uses the duration gap approach to measure the impact of Market Value of Equity (MVE) for upward and downward rate shocks. This measures the potential change in MVE of the Branch for a 200bps change in interest rates. The changes in MVE due to a 200bps change in interest as at 30 September 2013 is Rs 50,321,000.