Westpac
Australia's First Bank
Westpac Banking Corporation - Mumbai Branch
(Incorporated in Australia)

Auditors' report on the financial statements of Westpac Banking Corporation – Mumbai Branch under Section 30 of the Banking Regulation Act, 1949

Independent Auditors' Report

To
The Chief Executive Officer
Westpac Banking Corporation – Mumbai Branch

Report on the Financial Statements

1. We have audited the accompanying financial statements of **Westpac Banking Corporation – Mumbai Branch** ('the Bank'), which comprises of the Balance Sheet as at 31 March 2014, the Profit and Loss Account and the Cash Flow Statement for the year ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. The Bank's management is responsible for preparation of these financial statements that gives true and fair view of financial position, financial performance and cash flows of the Bank in accordance with accounting principles generally accepted in India, including the Accounting Standards notified under the Companies Act, 1956 ('the Act'), read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013 and with guidelines issued by the Reserve Bank of India ('RBI') in so far as they are applicable to the Bank and in conformity with Form A and B (revised) of the Third Schedule to the Banking Regulation Act, 1949 as applicable. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of the Bank in accordance with the Standards on Auditing ('the Standards') issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon, give the information required by the Banking Regulation Act, 1949 as well as Companies Act, 1956, in the manner so required for the banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India:

   a) In the case of the Balance Sheet, of the state of affairs of the Bank as at 31 March 2014;

   b) In the case of the Profit and Loss Account, of the profit of the Bank for the year ended on that date; and

   c) In the case of the Cash Flow Statement, of cash flows of the Bank for the year on that date.

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Report on Other Legal and Regulatory Matter

7. The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956.

8. As required by Section 227(3) of the Companies Act, 1956 and Section 30 of the Banking Regulation Act,1949, we report that:

   a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory; and

   b) The transactions of the Bank, which have come to our notice, have been within the powers of the Bank.

9. In our opinion, the Balance Sheet, the Profit and Loss Account and Cash Flow Statement comply with the Accounting Standards notified under the Companies Act, 1956 read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013.

10. We further report that:

   a) The Balance Sheet and the Profit and Loss Account dealt with by this report, are in agreement with the books of account;

   b) In our opinion, proper books of accounts as required by law have been kept by the Bank so far as appears from our examination of those books; and

   c) The requirement of Section 274 (1) (g) of the Companies Act, 1956 is not applicable considering the Bank is a branch of Westpac Banking Corporation incorporated in Australia.

For **Walker Chandiok & Co LLP**
(formerly Walker, Chandiok & Co)
Chartered Accountants
Firm Registration no: 001076N/N500013

Sd/-
per **Khushroo B. Panthaky**
Partner
Membership No. F – 42423

Mumbai
Date: 25 June 2014

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Westpac Banking Corporation - Mumbai Branch

(Incorporated in Australia)

BALANCE SHEET

(₹ in 000's)

	Schedules	As at March 31, 2014	As at March 31, 2013
CAPITAL AND LIABILITIES			
Capital	1	8,087,300	8,087,300
Reserves and surplus	2	300,301	84,383
Deposits	3	13,254,403	217
Borrowings	4	2,200,000	2,290
Other liabilities and provisions	5	2,011,584	59,856
Total		**25,853,588**	**8,234,046**
ASSETS			
Cash and balances with Reserve Bank of India	6	8,233	3,203
Balances with banks and money at call and short notice	7	4,819,208	3,631,504
Investments	8	17,592,332	4,466,038
Advances	9	1,750,000	–
Fixed assets	10	57,761	66,233
Other assets	11	1,626,054	67,068
Total		**25,853,588**	**8,234,046**
Contingent liabilities	12	83,572,536	4,657,340
Bills for collection			–
Significant accounting policies and notes to accounts	18		

Schedules referred to above form an integral part of the Balance Sheet.

PROFIT AND LOSS ACCOUNT

	Schedules	Year ended March 31, 2014	Period ended March 31, 2013
I. INCOME			
Interest earned	13	1,093,931	274,627
Other income	14	327,741	41,584
Total		**1,421,672**	**316,211**
II. EXPENDITURE			
Interest expended	15	567,710	96
Operating expenses	16	368,725	153,529
Provisions and contingencies	17	269,319	78,203
Total		**1,205,754**	**231,828**
III. PROFIT			
Net profit for the period		215,918	84,383
Profit brought forward		63,287	–
Total		**279,205**	**84,383**
IV. APPROPRIATIONS			
Transfers to/(from)			
Statutory reserve		53,979	21,096
Investment fluctuation reserve		–	–
Capital asset reserve		–	–
Remittable surplus retained in India for CRAR purposes		–	–
Profit remitted to Head Office		–	–
Balance carried over to Balance Sheet		225,226	63,287
Total		**279,205**	**84,383**
Significant Accounting Policies and Notes to Accounts	18		

Schedules referred to above form an integral part of the Profit and Loss Account.

As per our report of even date.

For **Walker Chandiok & Co LLP**
(formerly Walker, Chandiok & Co)
Chartered Accountants
Firm Registration No : 001076N/N500013

Sd-
Khushroo B. Panthaky
Partner
Membership No : F-42423

Place : Mumbai
Date : June 25, 2014

For and on behalf of
Westpac Banking Corporation – Mumbai Branch

Sd-
Vikram Nimkar
Chief Executive Officer

Sd-
Rajeev Bhargava
Chief Operating Officer

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Cash Flow Statement

(₹ in 000's)

		Year ended March 31, 2014	Period ended March 31, 2013
Cash flows from operating activities			
Net profit before tax		432,752	161,555
Adjustments for:			
Add: Depreciation on fixed assets		24,321	6,799
Add: Provision on standard assets		44,253	447
Add: Provision for country risk		8,232	584
Add: Provision for gratuity		(254,196)	2,622
Add: Lease equalisation reserve		10,931	12,000
Add: Other provisions		8,009	6,687
Operating profit before working capital changes		**274,302**	**190,694**
Adjustments for:			
(Increase)/decrease in investments		(13,126,294)	(4,466,038)
(Increase)/decrease in advances		(1,750,000)	-
Increase/(decrease) in borrowings		2,197,710	2,290
Increase/(decrease) in deposits		13,254,187	217
(Increase)/decrease in other assets		(1,563,821)	(58,040)
Increase/(decrease) in other liabilities and provisions		2,174,981	32,909
Net Cash flow from operating activities before income tax		**1,461,065**	**(4,297,968)**
Less: Income taxes paid		(250,825)	(81,593)
Net cash from operating activities	**(A)**	**1,210,240**	**(4,379,561)**
Cash flows from investing activities			
Purchase of fixed assets		(17,506)	(73,032)
Net cash from/(used in) investing activities	**(B)**	**(17,506)**	**(73,032)**
Cash flows from financing activities			
Capital received from Head Office		–	8,087,300
Net cash from financing activities	**(C)**	**–**	**8,087,300**
Net increase in cash and cash equivalents	**(A + B + C)**	**1,192,734**	**3,634,707**
Cash and cash equivalents as at the beginning of the year		**3,634,707**	**–**
Cash and cash equivalents for the year end		**4,827,441**	**3,634,707**
Cash and cash equivalents include the following:			
Cash and balances with Reserve Bank of India as per schedule 6		8,233	3,203
Balances with bank and money at call and short notice as per schedule 7		4,819,208	3,631,504
Total		**4,827,441**	**3,634,707**

The above cash flow statement has been prepared under Indirect method set out in Accounting Standard 3 notified under the Companies Act, 1956 ('the Act'), read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013

As per our report of even date.

For **Walker Chandiok & Co LLP**
(formerly Walker, Chandiok & Co)
Chartered Accountants
Firm Registration No : 001076N/N500013

Sd-
Khushroo B. Panthaky
Partner
Membership No : F-42423

For and on behalf of
Westpac Banking Corporation – Mumbai Branch

Sd-
Vikram Nimkar
Chief Executive Officer

Sd-
Rajeev Bhargava
Chief Operating Officer

Place : Mumbai
Date : June 25, 2014

Westpac

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(Incorporated in Australia)

Schedules annexed to and forming part of the Balance Sheet

(₹ in 000's)

	As at March 31, 2014	As at March 31, 2013
Schedule 1 : Capital		
Opening balance	8,087,300	–
Additions during the year	–	8,087,300
Total	**8,087,300**	**8,087,300**
(Of the above, securities/(previous year cash) kept with the Reserve Bank of India under section 11(2)(b) of the Banking Regulation Act, 1949)	25,000	2,000
Schedule 2 : Reserves & surplus		
I. Statutory beserve:		
Opening balance	21,096	–
Additions during the year	53,979	21,096
Closing balance	75,075	21,096
II. Investment fluctuation reserve :		
Opening balance	–	–
Additions during the year	–	–
Deductions during the year	–	–
Closing balance	–	–
III. Capital asset reserve :		
Opening balance	–	–
Additions during the year	–	–
Closing balance	–	–
IV. General reserve :		
Opening balance	–	–
Additions during the year	–	–
Closing balance	–	–
V. Remittable surplus retained in India for Capital to Risk-weighted Asset Ratio (CRAR) requirements:		
Opening balance	–	–
Additions during the year	–	–
Closing balance	–	–
VI. Balance in Profit and Loss Account		
Opening balance	63,287	–
Additions during the year	161,939	63,287
Closing balance	225,226	63,287
Total	**300,301**	**84,383**
Schedule 3 : Deposits		
A. I Demand Deposits	8,957	–
i) From banks	–	
ii) From others	8,957	–
II Saving Bank Deposits	3,346	217
III Term Deposits	13,242,100	–
i) From banks	–	–
ii) From others	13,242,100	–
Total (I+II+III)	**13,254,403**	**217**
B. i) Deposits of branches in India	13,254,403	217
ii) Deposits of branches outside India	–	–
Total	**13,254,403**	**217**

	As at March 31, 2014	As at March 31, 2013
Schedule 4 : Borrowings		
I. Borrowings in India		
i) Reserve Bank of India	2,200,000	–
ii) Other Banks	–	1,572
iii) Other institutions and agencies	–	–
Total	**2,200,000**	**1,572**
II. Borrowings outside India		
i) From Banks	–	718
ii) From Others	–	
Total	**–**	**718**
Total (I + II)	**2,200,000**	**2,290**
Secured borrowings included in I and II above	2,200,000	–
Schedule 5 : Other liabilities and provisions		
I. Bills payable	–	–
II. Interest accrued	151,807	0
III. Others	1,815,077	59,409
IV. Provision towards standard assets	44,700	447
Total	**2,011,584**	**59,856**
Schedule 6 : Cash and balances with Reserve Bank of India		
I. Cash in hand	212	11
II. Balances with Reserve Bank of India		
i) In current account	8,021	3,192
ii) In other accounts	–	–
Total (I + II)	**8,233**	**3,203**
Schedule 7 : Balances with Banks and money at call and short notice		
I. In India		
i) Balances with Banks		
(a) In current account	791	–
(b) In other deposit accounts	–	–
ii) Money at call and short notice		
(a) With Bank	3,894,475	2,816,900
(b) With other institution	–	–
Total	**3,895,266**	**2,816,900**
II. Outside India		
i) In current accounts	923,942	404
ii) In other deposit accounts	–	–
iii) Money at call and short notice	–	814,200
Total	**923,942**	**814,604**
Total (I + II)	**4,819,208**	**3,631,504**

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Schedules annexed to and forming part of the Balance Sheet

(₹ in 000's)

	As at March 31, 2014	As at March 31, 2013
Schedule 8 : Investments		
Investments in India in		
i) Government securities#	17,592,332	4,466,038
ii) Other approved securities	–	–
iii) Shares	–	–
iv) Debentures and Bonds	–	–
v) Others	–	–
Total	**17,592,332**	**4,466,038**
Gross Value of Investments in India	17,592,332	4,466,038
Less: Provision for depreciation	–	–
	17,592,332	**4,466,038**

\# Investments includes securities held under section 11 (2) (b) face value ₹ 25,000 (in 000's) (Previous year Nil), securities held as collateral with Clearing Corporation of India Limited face value ₹ 150,000 (in 000's) (Previous year Nil) and collateral with Reserve Bank of India for Marginal Standing Facility face value ₹ 2,288,000 (in 000's) (Previous year Nil).

	As at March 31, 2014	As at March 31, 2013
Schedule 9 : Advances		
CI . i) Bills purchased and discounted	–	–
ii) Cash credits, overdrafts and loans repayable on demand	–	–
iii) Term loans	1,750,000	–
Total	**1,750,000**	–
II i) Secured by tangible assets (including advances against book debt)	–	–
ii) Covered by Bank/ government guarantees	–	–
iii) Unsecured	1,750,000	–
Total	**1,750,000**	–
III Advances in India		
i) Priority sectors	–	–
ii) Public sector	–	–
iii) Banks	–	–
iv) Others	1,750,000	–
Total	**1,750,000**	–
C.II. Advances outside India		
i) Due from Banks	–	–
ii) Due from others	–	–
(a) Bills purchased and discounted	–	–
(b) Syndicated loans	–	–
(c) Others	–	–
Total	–	–
Grand Total (C.I and C.II)	**1,750,000**	–

	As at March 31, 2014	As at March 31, 2013
Schedule 10 : Fixed Assets		
I. Premises		
At cost at the beginning of the period		
Additions during the period	–	–
Deductions during the period	–	–
Depreciation to date	–	–
Total	–	–
II. Other fixed assets (including furniture and fixtures)		
At cost at the beginning of the year	71,376	–
Additions during the year	17,330	71,376
	88,706	71,376
Deductions during the year	–	–
Depreciation to date	(31,120)	(6,799)
Total	**57,586**	**64,577**
III. Capital work-in-progress (including capital advances)	175	1,656
	175	**1,656**
Total (I+II+III)	**57,761**	**66,233**
Schedule 11 : Other assets		
I. Interest accrued	223,349	295
II. Advance tax/tax deducted at source (net of provision for taxation)	–	–
III. Deferred tax asset (net)	4,194	9,028
IV. Others	1,398,511	57,745
Total	**1,626,054**	**67,068**
Schedule 12 : Contingent liabilities		
I. Claims against the bank not acknowledged as debts	–	–
II. Liability for partly paid investments	–	–
III. Liability on account of outstanding derivative and forward exchange contracts	83,564,853	4,641,195
IV. Guarantees given on behalf of constituents		
(i) In India	–	–
(ii) Outside India	–	–
V. Acceptances, endorsements and other obligations	–	–
VI. Other items for which the Bank is contingently liable	7,683	16,145
Total	**83,572,536**	**4,657,340**

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Schedules annexed to and forming part of the Profit and Loss Account

(₹ in 000's)

	Year ended March 31, 2014	Period ended March 31, 2013
Schedule 13 : Interest earned		
I. Interest/discount on advances/ bills	181,806	–
II. Income on investments	748,207	150,861
III. Interest on balances with Reserve Bank of India and other inter-bank funds	20,057	123,734
IV. Others	143,861	32
Total	**1,093,931**	**274,627**
Schedule 14 : Other income		
I. Commission, exchange and brokerage	–	–
II. Profit/(Loss) on sale of investments (net)	–	–
III. Profit/(Loss) on revaluation of investments	–	–
IV. Profit/(Loss) on sale of land, buildings and other assets (net)	–	–
V. Profit/(Loss) on exchange transactions (net)	248,065	24,688
VI. Miscellaneous income	79,676	16,896
Total	**327,741**	**41,584**
Schedule 15 : Interest expended		
I. Interest on deposits	171,723	4
II. Interest on Reserve Bank of India/inter-bank borrowings	60,290	92
III. Others	335,697	–
Total	**567,710**	**96**

	Year ended March 31, 2014	Period ended March 31, 2013
Schedule 16 : Operating expenses		
I. Payments to and provisions for employees	182,770	83,353
II. Rent, taxes and lighting	39,990	31,413
III. Printing and stationery	340	467
IV. Advertisement and publicity	1,384	1,517
V. Depreciation on Bank's property	24,321	6,799
VI. Local advisory board fees, allowances and expenses	–	–
VII. Auditor's fees and expenses	1,156	743
VIII. Law charges	1,455	2,180
IX. Postages, telegrams, telephones, etc.	3,370	730
X. Repairs and maintenance	16,052	4,012
XI. Insurance	639	1,624
XII. Other expenditure	97,248	20,691
Total	**368,725**	**153,529**
Schedule 17 : Provisions and contingencies		
I. Provision for standard asset	44,253	447
II Provision for country risk	8,232	584
III Provision for current income tax	212,000	86,200
IV Deferred Tax expense	4,834	(9,028)
Total	**269,319**	**78,203**

SCHEDULE 18: Significant Accounting Policies and Notes to Accounts for the year ended March 31, 2014

A. Background

The financial statements for the year ended March 31, 2014 presented pertains to Westpac Banking Corporation – Mumbai Branch ('the Bank'), which is a branch of Westpac Banking Corporation ('WBC') incorporated and registered in Australia.

The Bank received the banking license from the Reserve Bank of India ('RBI') to set up a branch in Mumbai on May 18, 2012. The Bank has only one branch in India as on March 31, 2014.

Disclosures made hereunder are in accordance with RBI Master Circular DBOD.BP.BC No.7/21.04.018/2013-14 Disclosure in Financial Statements - Notes to Accounts dated July 01, 2013.

B. Basis of preparation

The financial statements have been prepared under the historical cost convention and accrual basis of accounting unless otherwise stated, and in accordance with the Generally Accepted Accounting Principles('GAAP') in India, statutory requirements prescribed under the Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time, Accounting Standards ('AS') notified under the Companies Act, 1956 ('the Act'), read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013 to the extent applicable and practices prevailing within the banking industry in India.

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Schedule to the financial statements for the year ended March 31, 2014

C. Use of estimate

The preparation of the financial statements is in conformity with GAAP, requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities as at the date of the financial statements and the reported income and expenses during the reporting year. Management believes that the estimates used in the preparation of financial statements are prudent and reasonable. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

D. Significant Accounting Policies

1) Revenue recognition

Revenue is recognised to the extent it is possible that the economic benefits will flow to the Bank and the revenue can be reliably measured in so far as it is consistent with the statutory provisions and the guidelines issued by the Reserve Bank of India. Interest income is recognised on an accrual basis, except for interest on Non-Performing advances and Investments, which will be recognised on realisation basis as per prudential norms on Income Recognition and Asset Classification ('IRAC') and provisioning pertaining to advances laid down by RBI.

2) Foreign exchange transactions

Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into Indian rupees at the rates of exchange notified by Foreign Exchange Dealers' Association of India ('FEDAI'). The resultant profits or loss on such revaluation are included in the Profit and Loss Account.

Income and expenditure items are translated at the exchange rates prevailing on the date of transaction.

The premium or discount arising at the inception of a forward exchange contracts not meant for trading or speculation is amortised as expense or income over the life of the contract. Exchange differences arising on such a contract are recognised in the statement of profit and loss account in the reporting period in which the exchange rates changes.

Outstanding spot and forward exchange contracts and foreign currency swaps meant for trading or speculation are revalued based on the period and exchange rates notified by FEDAI. The forward exchange contracts are present valued using appropriate discount rates and the resultant gains or losses are recognised in profit and loss account.

Contingent liabilities and outstanding contracts denominated in foreign currencies are disclosed at the year end closing rate of exchange as notified by FEDAI and the resultant profit or losses are accounted for in the books of account.

3) Fixed asset

Fixed assets are accounted at historical cost less accumulated depreciation as adjusted for impairment loss, if any. Cost includes cost of purchase and any cost attributable for bringing the asset to its working condition for its intended use. Subsequent expenditure incurred on assets put to use is capitalized only when it increases the future benefit/functioning capability from/of such assets.

4) Depreciation

Depreciation/amortisation on fixed assets is provided under the straight-line method over the estimated useful life of the asset. Depreciation for the entire month is charged in the month in which the asset is purchased. The rates for this purpose, which are based on management's estimate of the useful lives of the underlying assets, are higher than the rates prescribed by Schedule XIV of the Companies Act, 1956, and are as follows:

Class of Asset	Rate of Depreciation per annum
Office equipment	20%
Computer hardware and software	33.33%
Leasehold improvements to premises	Over the life of the lease or useful life, whichever is lower
Telecommunication equipment	50%
Furniture	20%

Fixed assets costing less than ₹ 5,000 are fully depreciated in the year of purchase.

Capital work in progress includes cost of fixed assets that are not ready for its intended use and also includes advances paid to acquire fixed assets.

Schedule to the financial statements for the year ended March 31, 2014

D. Significant Accounting Policies *(Continued)*

5) Gratuity

The Bank provides for gratuity, a defined benefit retirement plan, covering eligible employees. The plan provides for lump sum payments to vested employees at retirement or upon death while in employment or on termination of employment for an amount equivalent to 15 days' salary payable for each completed year of service if the service is more than five years. The Bank accounts for the liability for future gratuity benefits using the projected unit cost method based on annual actuarial valuation. The Bank recognises the actuarial gain or loss during the year in which the same is incurred.

6) Provident Fund

The bank contributes to recognised provident fund, which is a defined contribution scheme. The contributions are accounted for on an accrual basis and recognised in the profit and loss account.

7) Taxation

Provision for tax comprises of current tax and deferred tax. Current tax provisions represent the estimated liability on income tax as determined in accordance with the provisions of the Income-tax Act, 1961.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date as per 'AS-22 - Accounting for Taxes on Income'. Deferred tax asset is recognised only if there is virtual certainty of realisation of such assets. Deferred Tax assets/liabilities are reviewed at each Balance Sheet date and appropriately adjusted to reflect the amount that is reasonably/virtually certain to be realised.

8) Provisions and contingent liabilities and assets

In accordance with 'AS-29 on Provisions, Contingent Liabilities and Contingent Assets', a provision is required when the Bank has a present obligation as a result of past event where it is probable that outflow of resources is required and a reliable estimate can be made of the amount of the obligation. Provisions are not discounted to their present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. A disclosure of contingent liability is made when there is a possible obligation or present obligation that may but probably will not require an outflow of resources. When there is a possible obligation or a present obligation, where likelihood of outflow of resources is remote, no provision or disclosure is made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current management estimates.

Contingent liabilities are recognised only when there is possible obligation arising from past events due to occurrence or non occurrence of one or more uncertain future events, not wholly within the control of the Bank, or where any present obligation cannot be measured in terms of future outflow of resources, or where reliable estimate of obligation cannot be made. Obligations are assessed on an ongoing basis and only those having a largely probable outflow of resources are provided for. Contingent liabilities on account of foreign exchange contracts, derivative transactions, guarantees, acceptances, endorsements and other obligations denominated in foreign currencies are disclosed at closing rates of exchange notified by FEDAI.

Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the assets and related income are recognised in the year in which the change occurs.

9) Impairment of assets

In accordance with 'AS-28 on Impairment of Assets', an asset is considered as impaired when at balance date there are indications of impairment and the carrying amount of the asset, or where applicable, the cash generating unit to which the assets belongs, exceeds its recoverable amount (i.e. the higher of the asset's net selling price and value in use). The Bank assesses at each balance sheet date whether there is any indication that an asset may be impaired based on internal/external factors. If any such indication exists, the bank estimates the recoverable amount of the asset. If such recoverable amount of the asset is less than the carrying amount, the carrying amount is reduced to the recoverable amount and the reduction is recognised as an impairment loss in the Profit and Loss Account.

10) Investments

Classification and valuation of the Bank's investments is carried out in accordance with the RBI guidelines on Investment.

In determining acquisition cost of an investment, brokerage and commission paid at the time of acquisition are charged to revenue.

Schedule to the financial statements for the year ended March 31, 2014

D. Significant Accounting Policies *(Continued)*

Classification of investments

Investments are recognised on settlement date basis (i.e. value date) and are classified as Held for Trading ('HFT'), Available for Sale ('AFS') or Held to Maturity ('HTM') in accordance with RBI guidelines. Under each of these classifications, investments are further categorised as under;

(a) Government securities, (b) Other approved securities, (c) Shares, (d) Debentures and bonds, (e) Subsidiaries and (f) Others.

Valuation of investments

Investments under AFS category are marked to market on a quarterly basis and those classified under HFT are marked to market on a monthly basis. Investments classified under the HFT and AFS categories are valued at lower of acquisition cost or market value. Securities are valued scrip wise and depreciation/appreciation is aggregated for each category. Net depreciation per category is provided for while net appreciation is ignored. Book value of the individual security is not changed consequent to revaluation of the security. Treasury bills are held at carrying cost.

11) Repo/reverse repo

In accordance with the RBI guidelines, repurchase (repos) and reverse repurchase (reverse repos) including Liquidity Adjustment Facility (LAF) transactions are accounted as collateralised borrowing and lending.

12) Advances

Advances are classified as performing and non-performing based on management's periodic internal assessment and RBI prudential norms. Advances are stated net of specific loan provision, write offs and interest in suspense for non-performing advances. Provision for loan losses are made in respect of identified advances based on management's assessment of degree of impairment, subject to minimum provisioning levels prescribed by the RBI guidelines.

The Bank also maintains a provision on standard assets and derivative exposures at rates as prescribed by RBI and discloses the same in schedule 5 (I) ('Other liabilities and provisions'). In addition, the Bank maintains provision for country risk in accordance with RBI guidelines and the same is included under Schedule 5 (III) ('Other liabilities and provisions').

13) Derivatives transactions

Derivatives in the form of forward contracts are undertaken by the Bank in the foreign exchange market. Derivative transactions are classified as trading derivatives and are recognised at the fair values on inception and subsequently marked to market (MTM). The resultant gain or (loss) is recognised in Profit and Loss Account with the corresponding unrealized gain/(loss) amounts reflected in Other Assets or Other Liabilities in the Balance sheet.

The Bank also maintains a general provision on derivative exposure computed as per marked to market value of the contracts in accordance with the RBI guidelines.

14) Country risk management

As per RBI guidelines on Country Risk Management, the Bank has made adequate provisions, for the present, only in respect of country where the Bank's net funded exposure is one percent or more of its total assets. Accordingly, the Bank is maintaining provisions ranging from 0.25% to 100% of the total exposure to a particular country based on the "Risk Category" under which it falls. The Provision under the policy is reflecting under the head "Provisions and contingencies" in the Profit and Loss Account.

15) Standard asset provision

The Bank maintains a provision on Standard Assets at rates and norms prescribed by RBI.

16) Accounting for leases

Operating lease

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss Account on a straight line basis over the lease term in accordance with 'AS-19, Leases'.

17) Net profit

The Net profit is computed after:-

- Provision for country risk provision, provision on standard assets and derivatives.
- Provision for income tax.
- Provision for deferred taxation.

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Schedule to the financial statements for the year ended March 31, 2014

E. Notes to accounts

1) Capital adequacy

The Bank's capital adequacy ratio, calculated in accordance with the RBI guidelines under Basel II framework, is set out below:

(₹ in 000's)

Particulars	**As at March 31, 2014**	**As at March 31, 2013**
Tier-I capital	8,158,181	8,099,368
Tier-II capital	53,516	1,031
Total capital	**8,211,697**	**8,100,399**
Total risk weighted assets and contingents	18,803,755	2,892,359
Tier-I capital to risk weighted assets (%)	43.39%	280.02%
Tier-II capital to risk weighted assets (%)	0.28%	0.04%
Total capital to risk weighted assets (%)	**43.67%**	**280.06%**
Amount of subordinated debt raised as Tier-II capital during the year	–	–
Amount raised by issue of Innovative Perpetual Debt Instrument (IPDI) during the year	–	–
Amount raised by issue of upper Tier II Instruments	–	–

The Basel III capital rules became effective from April 1, 2013 except for those relating to Credit Valuation Adjustment (CVA) risk capital charge for over the counter derivatives. As per the circular issued by RBI on December 31, 2013, these rules would become effective from April 1, 2014. The Bank continues to monitor developments and ensures that the capital adequacy position is adequately placed for continuing compliance with the Basel III framework. The Bank's capital adequacy ratio, calculated in accordance with the RBI guidelines under Basel III framework, is set out below:

(₹ in 000's)

Particulars	**As at March 31, 2014**
Common Equity Tier-I capital	8,158,181
Tier-I capital	8,158,181
Tier-II capital	53,516
Total capital	**8,211,697**
Total risk weighted assets and contingents	18,803,755
Common Equity Tier-1 capital to risk weighted assets	43.39%
Tier-I capital to risk weighted assets (%)	43.39%
Tier-II capital to risk weighted assets (%)	0.28%
Total capital to risk weighted assets (%)	**43.67%**
Amount of subordinated debt raised as Tier-II capital during the year	–
Amount raised by issue of Innovative Perpetual Debt Instrument (IPDI) during the year	–
Amount raised by issue of upper Tier II Instruments	–

2) Investments

(₹ in 000's)

No.	**Particulars**	**As at March 31, 2014**	**As at March 31, 2013**
1	**Value of investments**		
	(i) Gross value of investments	17,592,332	4,466,038
	(a) In India	17,592,332	4,466,038
	(b) Outside India	–	–
	(ii) Provision for depreciation	–	–
	(a) In India	–	–
	(b) Outside India	–	–
	(iii) Net value of investments	17,592,332	4,466,038
	(a) In India	17,592,332	4,466,038
	(b) Outside India	–	–
2	**Movement of provisions held towards depreciation on investments**	–	–
	(i) Opening balance	–	–
	(ii) Add : Provisions made during the year	–	–
	(iii) Less : Write off/Write back of excess provisions during the year	–	–
	(iv) Closing balance	–	–

Schedule to the financial statements for the year ended March 31, 2014

E. Notes to accounts *(Continued)*

3) Repo/reverse repo transactions

(₹ in 000's)

In face value terms	Minimum outstanding during the year *	Maximum outstanding during the year *	Daily Average outstanding during the year	Outstanding as at March 31, 2014
Securities sold under repo				
i. Government securities	10,000	5,162,300	718,357	2,200,000
ii. Corporate debt securities	–	–	–	–
Securities purchased under reverse repo				
i. Government securities	21,700	525,100	4,506	–
ii. Corporate debt securities	–	–	–	–

The above disclosure includes Liquidity Adjustment Facility (LAF) done with RBI.

* For computing minimum and maximum outstanding during the year, day where balance is nil is excluded (Previous year Nil).

4) Issuer composition of Non-SLR investments

During the year ended March 31, 2014, there was no investment in Non SLR securities (Previous year Nil).

5) Non-Performing Non-SLR investments

During the year ended March 31, 2014, there was no investment in Non SLR securities (Previous year Nil).

6) Sale and Transfers to/from HTM Category

The Bank did not have any investments under HTM category for the year ended March 31, 2014; consequently, there was no sale or transfer to/from HTM category (Previous year Nil).

7) Derivatives

i. Forward Rate Agreements/Interest Rate Swaps

The Bank has not done any transaction in Forward Rate Agreements/Interest Rate Swaps during the year ended March 31, 2014 (Previous year Nil).

ii. Exchange traded interest rate derivatives

The Bank has not done any transaction in exchange traded interest rate derivatives during the year ended March 31, 2014 (Previous year Nil).

iii. Disclosures on risk exposure in derivative

Qualitative disclosures

Dealing in the derivatives is carried by the treasury front office team. Confirmation, settlement, accounting, risk monitoring, reporting and compliance are handled by independent teams who have clearly defined responsibilities.

The Bank has a detailed risk management and control framework to support its trading and balance sheet activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading and balance sheet portfolios.

Market risk limits are allocated at various levels and are reported and monitored by mid office on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes, risk factors and profit and loss limits (to monitor and manage the performance of the trading portfolios).

A key measure of market risk is Value at Risk ('VaR'). VaR is the primary mechanism for measuring and controlling market risk. VaR is the potential loss in earnings from adverse market movements and is calculated over a one day time horizon at a 99% confidence level using a minimum of one year of historical rate 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 among these variables. VaR is the primary mechanism for measuring and controlling market risk.

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E. Notes to accounts *(Continued)*

7) Derivatives *(Continued)*

The Bank applies Current Exposure Method ('CEM') to manage credit risk associated with derivative transactions. This is computed by taking the sum of its mark-to-market value if positive and its potential future exposure which is calculated based on its notional value and residual maturity. The Bank has made provision on such credit exposures in accordance with RBI guidelines.

Quantitative disclosures

(₹ in 000's)

No.	Particulars	As at March 31, 2014		As at March 31, 2013	
		Currency Derivatives @	Interest Rate Derivatives	Currency Derivatives @	Interest Rate Derivatives
1	Derivatives (Notional Principal Amount)				
	a) For hedging~	12,582,150	–	–	–
	b) For trading	70,982,703	–	4,641,195	–
2	Marked to Market Position				
	a) Asset (+)	1,059,938	–	18,995	–
	b) Liability (–)	(977,208)	–	(1,947)	–
3	Credit exposure#	4,745,679	–	1,118	–
4	Likely impact of one percentage change in interest rate (100*PV01)				
	a) on hedging derivatives	(30,007)	–	–	–
	b) on trading derivatives	(827)	–	(28)	–
5	Maximum of 100*PV01 observed during the year				
	a) For hedging	(18,189)	–	–	–
	b) For trading	422	–	(22)	–
6	Minimum of 100*PV01 observed during the year				
	a) For hedging	(56,283)	–	–	–
	b) For trading	(1,577)	–	(22)	–

Credit exposure represents total exposure based on current exposure method as prescribed vide RBI master circular on Exposure Norms.

@ Currency derivatives include forward foreign exchange contracts.

~ Comprise foreign currency swaps in the Banking book entered with RBI through the swap window to mobilise Foreign Currency Non Resident FCNR (B) deposits.

8) Asset Quality

The Bank has no Non Performing Advances (NPA), accounts restructured, sale of financial assets to securitisation/reconstruction Company, purchase/sale of NPAs during the year and hence the disclosures on NPAs, particulars of accounts restructured, write-offs & technical write-offs, details of financial assets sold to securitisation/reconstruction Company and details of purchase/sale of NPAs are not applicable (Previous Year Nil).

9) Provisions on standard assets

(₹ in 000's)

Particulars	As at March 31, 2014	As at March 31, 2013
Standard provision on advances	7,000	–
Standard provision on credit exposure on derivatives	37,700	447
Total	**44,700**	**447**

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Schedule to the financial statements for the year ended March 31, 2014

E. Notes to accounts *(Continued)*

10) Business Ratios

No	Particulars	For the year ended March 31, 2014	For the period ended March 31, 2013
i.	Interest income as percentage of working funds[1]	6.84%	3.34%
ii.	Non-interest Income as percentage to working funds[1]	2.05%	0.51%
iii.	Operating profit as percentage to working funds[1]	3.03%	1.98%
iv.	Return on assets[2]	1.35%	1.03%
v.	Business (Deposit plus advances) per employee[3] (₹ in 000's)	278,768	9.04
vi.	Net profit per employee[3] (₹ in 000's)	7,997	3,516

1. Working fund represent average of total assets as reported in Form X returns submitted to RBI under section 27 of the Banking Regulation Act, 1949 during the year. (Previous year working funds were total assets excluding deferred tax assets).
2. Return on assets is with reference to working fund (Previous year working funds were total assets excluding deferred tax assets).
3. Ratios (v & vi) above are computed based on average number of employees during the year. (Previous year based on number of employees as at March 31, 2013).

11) Asset liability management

Maturity pattern of certain items of assets and liabilities as at March 31, 2014

(₹ in 000's)

Maturity Bucket	Deposits	Advances	Investments	Borrowings	Foreign currency assets	Foreign currency liabilities
Day 1	285,178	–	16,618,392	2,200,000	3,320,646	–
2 to 7 days	110,000	–	896,416	–	–	–
8 to 14 days	950	–	220	–	1,497,925	
15 to 28 days	260,500	–	71,185	–	137,114	27,829
Day 29 to 3 months	5,000	–	1,162	–	143,419	–
3 to 6 months	–	–	–	–	1,093,129	–
6 months to 1 year	–	–	–	–	–	–
1 to 3 years	12,592,775	1,750,000	2,444	–	–	12,731,460
3 to 5 years	–	–	–	–	–	–
Over 5 years	–	–	2,513	–	–	–
Total	**13,254,403**	**1,750,000**	**17,592,332**	**2,200,000**	**6,192,233**	**12,759,289**

Maturity pattern of certain items of assets and liabilities as at March 31, 2013

(₹ in 000's)

Maturity Bucket	Deposits	Advances	Investments	Borrowings	Foreign currency assets	Foreign currency liabilities
Day 1	33	–	12,391	1,572	2,442,600	–
2 to 7 days	–	–	–	–	1,086,129	–
8 to 14 days	–	–	–	–	–	–
15 to 28 days	–	–	–	–	35,890	6,984
Day 29 to 3 months	–	–	3,028,646	718	–	718
3 to 6 months	–	–	–	–	–	–
6 months to 1 year	–	–	1,424,959	–	–	–
1 to 3 years	184	–	42	–	–	–
3 to 5 years	–	–	–	–	–	–
Over 5 years	–	–	–	–	–	–
Total	**217**	**–**	**4,466,038**	**2,290**	**3,564,619**	**7,702**

Schedule to the financial statements for the year ended March 31, 2014

E. Notes to accounts *(Continued)*

12) Exposure to real estate sector and capital market

The Bank has no direct or indirect exposure to real estate sector and capital market sector as at March 31, 2014 (Previous year: Nil).

13) Risk category wise country risk exposure

Provision for country risk exposure in terms of RBI guidelines is as follows:

(₹ in 000's)

Risk category	Exposure (net) as at March 31, 2014	Provision held as at March 31, 2014	Funded exposure (net) as at March 31, 2013	Provision held as at March 31, 2013
Insignificant	7,507,819	8,816	934,399	584
Low	–	–	–	–
Moderate	–	–	–	–
High	–	–	–	–
Very high	–	–	–	–
Restricted	–	–	–	–
Off-credit	–	–	–	–
Total	**7,507,819**	**8,816**	**934,399**	**584**

As per extant RBI guidelines the provision is created for only those countries where the net funded exposure exceeded 1% of the total assets. Further, lower provision of 25% of the requirement has been created with respect to short term exposures (i.e. exposures with contractual maturity of less than 180 days).

14) Details of Single Borrower Limit (SBL) and Group Borrower Limit (GBL)

During the year ended March 31, 2014, there were no instances of breach of the SBL or GBL (Previous year Nil).

15) Unsecured advances against intangible assets

During the year ended March 31, 2014, there are no unsecured advances against intangible assets (Previous year Nil).

16) Provision for current taxation

(₹ in 000's)

Particulars	As at March 31, 2014	As at March 31, 2013
Provision for Income tax (net of deferred tax)	216,834	77,172

17) Disclosure of penalties imposed by RBI

No penalties have been imposed by the RBI during the year ended March 31, 2014 (Previous year Nil).

18) Disclosure under Revised AS 15 - Employee Benefits

Gratuity – Defined benefit plan

The Bank has adopted 'AS-15 (Revised 2005) - Employees benefits (AS-15)' and determined the actuarial liability for gratuity as per the projected unit credit method using an independent actuary.

i. Net asset/liability recognised in Balance Sheet

(₹ in 000's)

No	Particulars	As at March 31, 2014	As at March 31, 2013
1	Present value of defined benefit obligation	2,779	2,622
2	Fair value of plan assets	–	–
3	Funded status (surplus/(deficit))	(2,779)	(2,622)
4	Unrecognised past service costs	–	–
5	Net asset/(liability) recognised in the Balance Sheet	(2,779)	(2,622)

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E. Notes to accounts *(Continued)*

18) Disclosure under Revised AS 15 - Employee Benefits *(Continued)*

ii. Total expenses recognised in Profit and Loss Account

(₹ in 000's)

No	Particulars	For the year ended March 31, 2014	For the period ended March 31, 2013
1	Current service cost	1,179	2,622
2	Interest cost	197	–
3	Actuarial losses/(Gains)	(894)	–
	Total expenses recognised in Profit and Loss Account	**482**	**2,622**

iii. Change in the fair value of plan assets

(₹ in 000's)

No	Particulars	As at March 31, 2014	As at March 31, 2013
1	Fair value of plan assets at the beginning of the year	–	–
2	Contributions by the Bank	–	–
3	Actuarial Gain/(Loss) recognised during the year	–	–
4	Benefit paid	–	–
5	Fair value of plan assets at the end of the year	–	–

iv. The principal actuarial assumptions used as at the Balance Sheet date are as follows:

No	Particulars	As at March 31, 2014	As at March 31, 2013
1	Salary escalations	9%	9%
2	Discount rate	9.10%	8%
3	Attrition rate	15%	15%

19) Segment Reporting

Part A : Business Segments

In accordance with the RBI guidelines, the Bank has identified three primary segments i.e. Treasury operations Corporate Banking and Retail. These segments are identified based on the nature of services provided, risk and returns, organisational structure of the Bank and internal financial reporting system.

Treasury operations comprises of money market operations, investment in treasury bills, and foreign exchange operations. The revenue of this segment consists of discount accreditation on treasury bills, interest on money market instruments and net gains on foreign exchange transactions. The principal expenses of this segment consist of interest expense on funds borrowed, interest expense on deposits raised, occupancy expenses, personnel costs, other direct overheads and allocated expenses.

Corporate Banking revenue primarily comprises of interest and fee income. The principal expenses of this segment consist of occupancy expenses, personnel costs, other direct overheads and allocated expenses.

Retail banking activities encompasses raising of deposits from retail customers.

For the year ended 31 March 2014 **(₹ in 000's)**

Business segments	Treasury	Corporate Banking	Retail	Unallocated	Total
Revenue	1,164,572	257,100	–	–	**1,421,672**
Operating profit/(loss)	286,863	187,918	–	(42,029)	**432,572**
Income Tax (net of deferred tax)					(216,834)
Net profit					**215,918**
Other information					
Segment asset	23,946,456	17,84,725	–	122,407	**25,853,588**
Segment liabilities	4,539,151	74,186	12,741,909	110,741	17,465,987
Capital and Reserves & Surplus					8,387,601
Total liabilities					**25,853,588**

Schedule to the financial statements for the year ended March 31, 2014

E. Notes to accounts *(Continued)*

19) Segment Reporting *(Continued)*

For the period ended 31 March 2013 (₹ in 000's)

Business segments	Treasury	Corporate Banking	Retail	Unallocated	Total
Revenue	294,933	21,278	–	–	**316,211**
Operating profit/(loss)	273,050	(17,514)	–	(93,981)	**161,555**
Income Tax (net of deferred tax)					(77,172)
Net profit					**84,383**
Other information					
Segment asset	8,120,148	16,895	97,003	–	**8,234,046**
Segment liabilities	5,269	–	57,094	–	62,363
Capital and Reserves & Surplus					8,171,683
Total liabilities					**8,234,046**

In computing the above disclosure, certain assumptions and estimate are made by the Management which have been relied upon by the auditors.

Part B: Geographic segment

The Bank does not have overseas operation and operates only in domestic segments.

20) Related Party Disclosures

Related party disclosure as required in accordance with 'AS-18 – Related Party Disclosures' and RBI guidelines, is provided below;

Name and nature of relationship of related parties

Relationship	Name of the related Party
Parent/Head Office	Westpac Banking Corporation, Australia and its branches
Key Management Personnel	Vikram Nimkar, Chief Executive Officer – India

As per RBI Circular DBOD.BP.BC No.7/21.04.018/2013-14 dated July 01, 2013, in case there is only one entity in any category of related party; the Bank is not required to disclose details thereof. Accordingly, as there is only one entity in each category of related party during the year, details thereof have not been disclosed. Similarly, there has been only one individual under Key Managerial Personnel at any given point of time, and therefore, those details are not disclosed.

21) Lease disclosure

As at March 31, 2014 the Bank was obligated under operating leases for premises primarily for business purposes which have a certain lock in year.

Lease payments recognised in the Profit and Loss Account during the year is ₹ 37,761 (000's) (Previous year ₹ 29,856 (000's).

Total minimum lease payments under non-cancellable operating lease are as under:

(₹ in 000's)

Particulars	As at March 31, 2014	As at March 31, 2013
Upto one year	34,759	32,529
More than one year and upto five years	15,651	46,698
More than five years	–	–
Total	**50,410**	**79,227**

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E. Notes to accounts *(Continued)*

22) Deferred taxes

The net deferred tax asset of ₹ 4,194 (000's) (Previous year ₹ 9,028 (000's)) is shown under Schedule 11 (iii) – Other Assets Deferred tax asset (net).

(₹ in 000's)

Particulars	As at March 31, 2014	As at March 31, 2013
Deferred tax assets	**6,710**	**10,828**
Provision for gratuity	1,170	1,102
Lease equalisation reserve	4,580	5,043
Disallowance under Section 43B of Income Tax Act, 1961	960	2,810
Disallowance under Section 40a(i)(a) of Income Tax Act, 1961	–	1,873
Deferred tax liability	**2,516**	**1,800**
Disallowance under Section 40a(i)(a) of Income Tax Act, 1961	55	–
Depreciation on fixed assets	2,461	1,800
Net Deferred tax asset	**4,194**	**9,028**

23) Capital commitments

Capital Commitments as on March 31, 2014 is ₹ 7,683 (000's) (Previous year ₹ 16,145 (000's)).

24) Disclosure of complaints/unimplemented awards of Banking Ombudsman:

There have been no customer complaints received during the year ended March 31, 2014 (Previous year Nil). Further, there have been no awards passed by Banking Ombudsman during the year ended March 31, 2014 (Previous year Nil).

25) Micro, Small and Medium Enterprises Development Act, 2006

There are no delays in payments to micro and small enterprises as required to be disclosed under 'The Micro, Small and Medium Enterprises Development Act 2006'. The determination has been made to the extent such parties were identified by the management based on the information available and are relied upon by the auditors (Previous year Nil).

26) Provisions and contingencies

Break up provisions and contingencies

(₹ in 000's)

Particulars	As at March 31, 2014	As at March 31, 2013
Provision for depreciation on investments	–	–
Provision towards NPA	–	–
Floating provisions	–	–
Provision towards standard assets	44,700	447
Provision made towards income tax		
– Current tax	298,200	86,200
– Deferred tax credit	4,194	9,028
Other provisions and contingencies	–	–
– Provision towards country risk exposure	8,816	584

27) Draw down from reserves

The Bank has not drawn any amount from reserves during the year ended March 31, 2014 (Previous year Nil).

28) Floating provisions

The Bank has not created or utilised any floating provision during the year ended March 31, 2014. The floating provision as on March 31, 2014 is Nil (Previous year Nil).

29) Letter of comfort

The Bank has not issued any letter of comfort during the year ended March 31, 2014 (Previous year Nil).

30) Provision coverage ratio

The Bank did not have any Non Performing Assets as at March 31, 2014 and thus provision coverage ratio is not applicable (Previous year Nil).

31) Credit default swaps

The Bank has not entered in any Credit Default Swaps during the year ended March 31, 2014 (Previous year Nil).

32) Bancassurance Business

The Bank is not into the business of Bancassurance and has not received any fees/remuneration in respect of the same during the year ended March 31, 2014 (Previous year Nil).

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Schedule to the financial statements for the year ended March 31, 2014

E. Notes to accounts *(Continued)*

33) Concentration of deposits, advances, exposures and NPAs'

a) Concentration of deposits

Particulars	As at March 31, 2014	As at March 31, 2013
Total deposits of twenty largest depositors (₹ in 000's)	13,245,455	2.17
Percentage of deposits of twenty large depositors to total deposits of the Bank	99.93%	100%

b) Concentration of advances

Particulars	As at March 31, 2014	As at March 31, 2013
Total advances to twenty largest borrowers (₹ in 000's)	1,750,000	–
Percentage of advances of twenty large borrowers to total advances of the Bank	100%	–

c) Concentration of exposures

Particulars	As at March 31, 2014	As at March 31, 2013
Total Exposure to twenty largest borrowers/customers (₹ in 000's)	1,873,893	–
Percentage of exposures of twenty largest borrowers/customers to total exposure of the Bank on borrowers/customers	100%	–

d) Concentration of NPAs'

The Bank did not have any NPA as at March 31, 2014 (Previous year Nil).

34) Sector-wise NPAs' and movement in NPAs'

The Bank did not have any NPA as at March 31, 2014 (Previous year Nil).

35) Overseas assets, NPAs' and revenue

The Bank is a branch of a foreign bank and hence this disclosure is not considered applicable.

36) Off Balance sheet SPVs sponsored (which are required to be considered as per accounting norms)

There are no off–balance sheet SPVs sponsored during the year ended March 31, 2014 (Previous year Nil).

37) Disclosures on Remuneration

In compliance with RBI circular DBOD No.BC.72/29.67.001/2011-12 dated January 13, 2012, the Bank has submitted the declaration to Reserve Bank of India to the effect that compensation structure in India, including that of CEO, is in conformity with the Financial Stability Board (FSB) principles and standards.

38) Expense included in the "other expenditure" schedule 16 (VII) (Operating expense) exceeding 1 % of total income includes technology charges amounting to ₹ 42,912 (000's) (Previous year ₹ 4,458 (000's)) and subscriptions ₹ 15,778 (000's) (Previous year ₹ 5,137 (000's)).

39) These financial statements have been prepared for the year ended March 31, 2014, whereas the previous period was from October 01, 2012 to March 31, 2013. The corresponding figures for the previous period are therefore not comparable with those for the current year. Previous period figures have been regrouped or reclassified to conform to the current year classification.

For **Walker Chandiok & Co LLP**
(formerly Walker, Chandiok & Co)
Chartered Accountants
Firm Registration No : 001076N/N500013

Sd-
Khushroo B. Panthaky
Partner
Membership No : F-42423

Place : Mumbai
Date : June 25, 2014

For and on behalf of
Westpac Banking Corporation – Mumbai Branch

Sd-
Vikram Nimkar
Chief Executive Officer

Sd-
Rajeev Bhargava
Chief Operating Officer

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(Incorporated in Australia)

PILLAR 3 REPORT

INTRODUCTION

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.

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

CONTROLLING AND MANAGING RISK

Branch risk management governance structure

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.

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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.

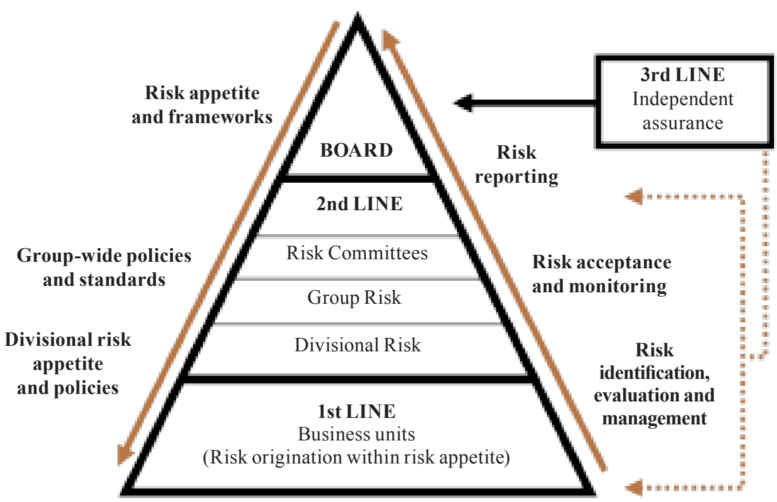
Our 2nd Line of Defence has three layers:

- 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:



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.

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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 31 March 2014.

₹ in '000	31 March 2014	31 March 2013
Tier 1 Capital		
Interest free funds from Head office	8,087,300	8,087,300
Statutory Reserves	75,075	21,096
Innovative instruments	–	–
Other capital instruments	–	–
Amount deducted from Tier-I Capital	(4.194)	(9,028)
Total Tier 1 Capital	**8,158,181**	**8,099,368**
Tier 2 Capital		
General Provision for Standard Advances	44,700	447
Provision for country risk	8,816	584
Total Tier 2 Capital	**53,516**	1,031
Total eligible capital	8,211,697	8,100,399

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.

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 31 March 2014 the Branch's CRAR stood at 43.67% as per Basel II. The Branch is adequately capitalised.

The Basel III capital rules became effective from 1 April 2013 except for those relating to Credit Valuation Adjustment (CVA) risk capital charge for over the counter derivatives. As per the circular issued by RBI on 31 December 2013, these rules would become effective from 1 April 2014. The Bank continues to monitor developments and believe that the current capital adequacy position is adequately placed for continuing compliance with the Basel III framework.

Capital adequacy ratios

Common Equity Tier 1 ('CET1'), Tier 1 and Total capital ratios (computed as per Basel III capital regulations)

The minimum capital requirements under Basel III will be phased-in as per the guidelines prescribed by RBI. Accordingly, the Bank is required to maintain a minimum CET1 capital ratio of 5.0%, a minimum Tier I capital ratio of 6.5% and a minimum total capital ratio of 9.0% as of March 31, 2014. The Bank's position in this regard is as follows:

%	31 March 2014
Common equity Tier I capital	43.39
Tier 1	43.39
Tier 2	0.28
Total	43.67

Total and Tier I capital ratios (computed as per Basel II - New Capital Adequacy Framework)

%	31 March 2014	31 March 2013
Tier 1	43.39	280.02
Tier 2	0.28	0.04
Total	43.67	280.06

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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.

	31 March 2014		31 March 2013	
₹ in '000	Total Capital Required	Total Risk Weighted Assets	Total Capital Required	Total Risk Weighted Assets
Credit risk				
Portfolios subject to standardised approach	370,587	4,117,634	100,302	1,114,467
Securitisation exposures	–	–	–	–
Total	370,587	4,117,634	100,302	1,114,467
Market risk				
Interest rate risk	1,030,286	11,447,622	17,467	194,078
Foreign exchange risk (including gold)	180,000	2,000,000	45,000	500,004
Equity risk	–	–	–	–
Total	1,210,286	13,447,622	62,467	694,082
Operational risk	111,464	1,238,494	97,543	1,083,810
Total	1,692,337	18,803,750	260,312	2,892,359

CREDIT RISK MANAGEMENT

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.

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 there 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.

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CREDIT RISK EXPOSURES

Summary credit risk disclosure

₹ in '000	31 March 2014	31 March 2013
Fund Based[1]	24,789,456	8,206,012
Non Fund Based[2]		
Non-Market related Off Balance sheet items	7,683	16,145
Market Related	4,745,679	111,819
Total	**29,542,818**	**8,333,976**

Portfolio by geography

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

Portfolio by industry classification

	31 March 2014			31 March 2013		
₹ in '000	Fund based	Non-fund based	Total	Fund based	Non-fund based	Total
Accommodation, cafes & restaurants						
Agriculture, forestry & fishing						
Construction						
Finance & insurance[3]	5,224,065	3,363,570	8,587,635	3,739,974	127,964	3,867,938
Government administration & defence	17,823,074	1,258,215	19,081,289	4,466,038	–	4,466,038
Manufacturing						
Mining						
Property & business services						
Services[4]	750,000	–	750,000			
Trade[5]	1,000,000	123,894	1,123,894			
Transport & storage						
Utilities[6]						
Retail lending						
Other						
Total	24,797,139	4,745,679	29,542,818	8,206,012	127,964	8,333,976

Portfolio by maturity breakdown[7]

₹ in '000	31 March 2014	31 March 2013
1 day	19,939,038	2,455,024
2 to 7 days	897,439	1,199,178
8 to 14 days	1,558,717	–
15 to 28 days	292,356	2,155
29 days & upto 3 months	145,111	3,028,675
Over 3 months & upto 6 months	85,627	–
Over 6 months & upto 1 year	–	1,424,958
Over 1 year & upto 3 years	2,874,906	50
Over 3 years & upto 5 years	–	–
Over 5 years	60,395	133,006
Total	25,853,588	8,243,046

1 Fund based exposure includes investments, claims on bank and other assets including fixed assets.
2 Non fund based exposure includes non-market related Off-Balance sheet items (Contingent Credits and Exposures).
3 Classification aligned to Group industry classification, as at 31 March 2014 category included no exposure to insurance.
4 Includes education, health & community services, cultural & recreational services and personal & other services.
5 Includes wholesale trade and retail trade.
6 Includes electricity, gas & water, and communications services.
7 Previous year figures have been regrouped or reclassified to conform to the current year classification methodology.

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Impaired and past due loans[1]

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 at 31 March 2014 (nil as at 31 March 2013).

Net Impaired and past due loans:

The Branch's net NPA amounts are nil as at 31 March 2014 (nil as at 31 March 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 (nil as at 31 March 2013).

Movement in Impaired and past due loans

Since the NPA's for the Branch are Nil, there is no movement to report (nil as at 31 March 2013).

Non Performing Investments

The Branch's non performing investments is nil as at 31 March 2014 (nil as at 31 March 2013).

Movement of provisions for depreciation on investments

Since the depreciation on investments for the Branch is nil, there is no movement to report (nil as at 31 March 2013).

Credit Risk: Disclosures for portfolios subject to the standardised approach

As at March 2014 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.

The Branch uses RBI guidelines with respect to usage of short term/long term issuer ratings set by the accredited rating agencies 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

₹ in '000	**31 March 2014**	**31 March 2013**
Below 100% risk weight	27,419,577	8,212,554
100% risk weight	2,127,435	130,450
Above 100% risk weight	–	–
Deductions[2]	(4,194)	(9,028)
Total	29,542,818	8,333,976

1 Also known as Non-performing Assets (NPA).

2 Fitch, Credit Analysis and Research (CARE), Credit rating and information services of India limited (CRISIL), Investment Information and Credit Rating Agency (ICRA), and Brickworks

3 Deductions represents amount deducted from Capital Funds

CREDIT RISK MITIGATION & SECURITISATION

Credit Risk Mitigation

The Branch has not received any collateral for any of its exposure for the period ended 31 March 2014. 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 31 March 2014.

Securitisation Exposures

The Branch has not entered into any securitisation transactions for the year ended 31 March 2014; hence no disclosures have been made.

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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.

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.

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. 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.

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Market risk regulatory capital

₹ in '000	**31 March 2014**	**31 March 2013**
Interest rate risk	1,030,286	17,467
Foreign exchange risk	180,000	45,000
Equity position risk	–	–
Total	1,210,286	62,467

OPERATIONAL RISK

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 31 March 2014, the Branch's operational risk capital is ₹ 111,464 in 000's. (Previous year ₹ 97,543, in 000's).

INTEREST RATE RISK IN THE BANKING BOOK

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. 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 31 March 2014 is ₹ 623,255 (000's) (previous year ₹ 4,340).

The increase/decline in earnings for an upward/downward rate shock of 200 basis points ('bps) is ₹ 524,560 (000's) (nil as at 31 March 2013).

EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK

This section describes Westpac's exposure to credit risk arising from derivative and treasury products.

Approach

The Bank's process for managing derivatives and counterparty credit risk is based on its assessment of the potential future credit risk Westpac is exposed to when dealing in derivatives products and securities financing transactions. Westpac simulates future market rates by imposing shocks on market prices and rates, and assessing the effect these shocks have on the mark-to-market value of Westpac's positions. These simulated exposure numbers are then checked against pre-settlement risk limits that are set at the counterparty level.

Counterparty limits are monitored and reported daily and internal triggers have been put in place to guard against breach in limits. Credit exposures to investments, advances etc. are monitored separately under the prudential norms for exposure to a single borrower as per the Bank's credit Risk Policy or Investment Policy, as applicable. The counterparty exposure limits are reviewed at periodic intervals based on the financials of the counterparties, business need, past transaction experiences and market conditions.

Structure and organisation

The Financial Markets (FM) and Treasury Credit management team is charged with managing the counterparty credit exposure arising from derivatives and treasury products.

Risk reporting

Westpac actively reassesses and manages the counterparty credit exposure arising from derivatives business. A daily simulation of potential future counterparty credit exposure taking into account movements in market rates is conducted. This simulation quantifies credit exposure using the current exposure methodology (CEM).

Risk mitigation

Bank does not use any collateral for risk mitigation with the current scale and the size of the business.

However, the following approaches will be as appropriate to mitigate credit risk:

– Incorporating right-to-break in Westpac's contracts, effectively reducing the tenor of the risk;
– signing ISDA netting agreements, thus allowing the exposure across a portfolio of trades to be netted;
– Downgrade triggers in documentation that, if breached, require the counterparty to provide collateral.

Counterparty derivative exposures and limits

The risk management methodology for counterparty derivatives exposures is similar to the credit methodology for loans. The main difference is in the estimation of the exposure for derivatives which is based on the Credit Equivalent methodology (CEM). CEM is a credit exposure measure for derivative trades which is calibrated to a 'loan-equivalent' exposure.

Counterparty credit limits are approved on an uncommitted and unadvised basis by authorised credit officers. This follows an evaluation of each counterparty's credit worthiness and establishing an agreed credit risk appetite for the nature and extent of prospective business.

Wrong-way risk exposures

Westpac defines wrong-way risk as exposure to a counterparty which is adversely correlated with the credit quality of that counterparty. With respect to credit derivatives, wrong-way risk refers to credit protection purchased from a counterparty highly correlated to the reference obligation.

Wrong-way risk exposures using credit derivatives are controlled by only buying protection from highly rated counterparties. These transactions are assessed by an authorised credit officer who has the right to decline any transaction where they feel there is an unacceptably high correlation between the ability to perform under the trade and the performance of the underlying counterparty.

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Consequences of a downgrade in Westpac's credit rating

Where an outright threshold and minimum transfer amount are agreed, there will not be any impact on the amount of collateral posted by Westpac in the event of a credit rating downgrade.

The Bank currently assesses the liquidity impact and related costs of a possible downgrade as part of the bank-wide stress testing exercise. The Bank will adopt Credit Value Adjustment (CVA) based on the regulatory guidelines on the asset side for capital computation purposes. The current regulatory guidelines do not require estimation of changes in collateral requirement in case of a likely rating downgrade of a Bank and the Bank also does not make such an assessment currently.

31-March-2014 ₹ in 000's	Gross positive fair value of contracts	Netting Benefits	Netted current credit exposure	Collateral held	Net Derivatives Credit Exposure	Exposure amount under (CEM)	Notional value of Credit Derivative Hedges	Credit Derivative transactions that create exposures to CCR
Corporate	15,241	–	15,241	–		123,893	–	–
Soverign	–	–	–	–		1,258,215	–	–
Bank	1,044,697	–	1,044,697	–		3,363,571	–	–
Total	1,059,938	–	1,059,938	–		4,745,679	–	–

31-March-2013 ₹ in 000's	Gross positive fair value of contracts	Netting Benefits	Netted current credit exposure	Collateral held	Net Derivatives Credit Exposure	Exposure amount under (CEM)	Notional value of Credit Derivative Hedges	Credit Derivative transactions that create exposures to CCR
Corporate	–	–	–	–				
Soverign	–	–	–	–				
Bank	18,997	–	18,997	–		111,822		
Total	18,997	–	18,997	–	–	111,822	–	–

Basel III – Common Disclosure template

(₹ in million)

Sr No	Particulars	Basel-III Amount	Amounts Subject to Pre-Basel III Treatment	Ref No.
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus (share premium)	8,087	–	A1
2	Retained earnings	75	–	A2
3	Accumulated other comprehensive income (and other reserves)	–	–	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	–	–	
	Public sector capital injections grandfathered until 1 January 2018		–	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	–	–	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**8,162**	–	**(A1+A2)**
	Common Equity Tier 1 capital: regulatory adjustments		–	
7	Prudential valuation adjustments	–	–	
8	Goodwill (net of related tax liability)	–	–	
9	Intangibles other than mortgage-servicing rights (net of related tax liability)	–	–	
10	Deferred tax assets	4	–	A5
11	Cash-flow hedge reserve	–	–	

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Basel III – Common Disclosure template

(₹ in million)

Sr No	Particulars	Basel-III Amount	Amounts Subject to Pre-Basel III Treatment	Ref No.
12	Shortfall of provisions to expected losses	–	–	
13	Securitisation gain on sale	–	–	
14	Gains and losses due to changes in own credit risk on fair valued Liablities	–	–	
15	Defined-benefit pension fund net assets	–	–	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	–	–	
17	Reciprocal cross-holdings in common equity	–	–	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	–	–	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	–	–	
20	Mortgage servicing rights[4] (amount above 10% threshold)	–	–	
21	Deferred tax assets arising from temporary differences[5] (amount above 10% threshold, net of related tax liability)	–	–	
22	Amount exceeding the 15% threshold[6]	–	–	
23	of which: significant investments in the common stock of financial entities	–	–	
24	of which: mortgage servicing rights	–	–	
25	of which: deferred tax assets arising from temporary differences	–	–	
26	National specific regulatory adjustments[7] (26a+26b+26c+26d)	–	–	
26a	of which: Investments in the equity capital of the unconsolidated insurance subsidiaries	–	–	
26b	of which: Investments in the equity capital of unconsolidated non-financial subsidiaries	–	–	
26c	of which: Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank	–	–	
26d	of which: Unamortised pension funds expenditures	–	–	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–	–	
28	**Total regulatory adjustments to Common equity Tier 1**	**4**	–	**A5**
29	**Common Equity Tier 1 capital (CET1)**	**8,158**	–	**(A1+A2-A5)**
	Additional Tier 1 capital: Instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	–	–	
31	of which: classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares)	–	–	
32	of which: classified as liabilities under applicable accounting standards (Perpetual debt Instruments)	–	–	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	–	–	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	–	–	
35	of which: instruments issued by subsidiaries subject to phase out	–	–	
36	**Additional Tier 1 capital before regulatory adjustments**			

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(₹ in million)

Sr No	Particulars	Basel-III Amount	Amounts Subject to Pre-Basel III Treatment	Ref No.
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	–	–	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	–	–	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	–	–	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	–	
41	National specific regulatory adjustments (41a+41b)	–	–	
41a	Investments in the Additional Tier 1 capital of unconsolidated insurance subsidiaries	–	–	
41b	Shortfall in the Additional Tier 1 capital of majority owned financial entities which have not been consolidated with the bank	–	–	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	–	–	
43	**Total regulatory adjustments to Additional Tier 1 capital**	–	–	
44	**Additional Tier 1 capital (AT1)**	–	–	
44a	**Additional Tier 1 capital reckoned for capital adequacy[11]**	–	–	
45	**Tier 1 capital (T1 = CET1 + AT1) (29 + 44a)**	**8,158**	–	**(A1+A2-A5)**
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	–	–	
47	Directly issued capital instruments subject to phase out from Tier 2	–	–	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	–	–	
49	of which: instruments issued by subsidiaries subject to phase out	–	–	
50	Provisions	54	–	(A3+A4)
51	**Tier 2 capital before regulatory adjustments**	–	–	
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	–	–	
53	Reciprocal cross-holdings in Tier 2 instruments	–	–	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–	–	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	–	
56	National specific regulatory adjustments (56a+56b)	–	–	
56a	of which: Investments in the Tier 2 capital of unconsolidated subsidiaries	–	–	
56b	of which: Shortfall in the Tier 2 capital of majority owned financial entities which have not been consolidated with the bank	–	–	
57	Total regulatory adjustments to Tier 2 capital	–	–	
58	Tier 2 capital (T2)	–	–	
58a	Tier 2 capital reckoned for capital adequacy[14]	54	–	(A3+A4)
58b	Excess Additional Tier 1 capital reckoned as Tier 2 capital	–	–	
58c	Total Tier 2 capital admissible for capital adequacy (58a + 58b)	54	–	

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(₹ in million)

Sr No	Particulars	Basel-III Amount	Amounts Subject to Pre-Basel III Treatment	Ref No.
59	Total capital (TC = T1 + T2) (45 + 58c)	8,212	–	(A1+A2-A5) +(A3+A4)
60	Total risk weighted assets (60a + 60b + 60c)	18,804	–	
60a	of which: total credit risk weighted assets	4,118	–	
60b	of which: total market risk weighted assets	13,448	–	
60c	of which: total operational risk weighted assets	1,238	–	
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	43.39%	–	
62	Tier 1 (as a percentage of risk weighted assets)	43.39%	–	
63	Total capital (as a percentage of risk weighted assets)	43.67%	–	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk weighted assets)	–	–	
65	of which: capital conservation buffer requirement	–	–	
66	of which: bank specific countercyclical buffer requirement	–	–	
67	of which: G-SIB buffer requirement	–	–	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	–	–	
	National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	–	–	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	–	–	
71	National total capital minimum ratio (if different from Basel III minimum)	–	–	
	Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financial entities	–	–	
73	Significant investments in the common stock of financial entities	–	–	
74	Mortgage servicing rights (net of related tax liability)	–	–	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	–	–	
	Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	–	–	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	–	–	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	–	–	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	–	–	
	Capital instruments subject to phase-out arrangements (only applicable between March 31, 2017 and March 31, 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	–	–	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–	–	
82	Current cap on AT1 instruments subject to phase out arrangements	–	–	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–	–	
84	Current cap on T2 instruments subject to phase out arrangements	–	–	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–	–	

Note: Westpac Banking Corporation -Mumbai Branch is solo entity in India and hence balance sheet is not under regulatory scope of consolidation.

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The Reconcillation of Regulatory Capital items as on March 31, 2014:

Step-1

(₹ in million)

No.		Particulars	Basel-III Amounts
A	Capital & Liabilities		
	I	Paid-up Capital	8,087
		Reserves & Surplus	300
		Minority Interest	–
		Total Capital	–
	II	Deposits	–
		of which: Deposits from banks	–
		of which: Customer deposits	13,254
	III	Borrowings	–
		of which: From RBI	2,200
		of which: From banks	–
		of which: From other institutions & agencies	–
		of which: Others (pl. specify)	–
		of which: Capital instruments	–
	IV	Other liabilities & provisions	2,013
		Total	**25,854**
B	Assets		
	I	Cash and balances with Reserve Bank of India	8
		Balance with banks and money at call and short notice	4,819
	II	Investments:	–
		of which: Government securities	17,592
		of which: Other approved securities	–
		of which: Shares	–
		of which: Debentures & Bonds	–
		of which: Subsidiaries / Joint Ventures / Associates	–
		of which: Others (Commercial Papers, Mutual Funds etc.)	–
	III	Loans and advances	–
		of which: Loans and advances to banks	–
		of which: Loans and advances to customers	1,750
	IV	Fixed assets	58
	V	Other assets	1,627
		of which: Goodwill and intangible assets	–
		of which: Deferred tax assets	4
	VI	Goodwill on consolidation	–
	VII	Debit balance in Profit & Loss account	–
		Total Assets	**25,854**

Note: Westpac Banking Corporation-Mumbai branch is solo entity in India and hence balance sheet is not under regulatory scope of consolidation.

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Step-2

(₹ in million)

No.	Particulars		Balance sheet as in financial statements	Reference No.
A	Capital & Liabilities			
	I	Paid-up Capital	8,087	A1
		Reserves and Surplus	–	–
		Of which:	–	–
		Statutory reserve	75	A2
		Share Premium	–	–
		Investment Reserve account	–	–
		General Reserve	–	–
		Capital Reserve	–	–
		Foreign Currency Translation Reserve	–	–
		Reserve Fund	–	–
		Balance in Profit / Loss A/C	225	–
		Minority Interest	–	–
		Of which: considered under capital fund	–	–
		Total Capital	–	–
	II	Deposits	–	–
		of which: Deposits from banks	–	–
		of which: Customer deposits	13,254	–
	III	Borrowings	–	–
		I Borrowings in India	2,200	–
		(A) of which: From RBI	–	–
		(B) of which: From banks	–	–
		(C) of which: From other institutions & agencies	–	–
		II Borrowings outside India	–	–
	IV	Other liabilities & provisions	2,013	–
		of which: Provision for standard Advances	45	A3
		of which: Provision for Country Risk	9	A4
		of which: Excess Provision on sale of NPA	–	–
		of which: Deferred Tax Liability	–	–
		Total	**25,854**	
B	Assets			
	I	Cash and balances with Reserve Bank of India	8	–
		Balance with banks and money at call and short notice	4,819	–
	II	Investments	–	–
		of which: Government securities	17,592	–
		of which: Other approved securities	–	–
		of which: Shares	–	–
		of which: Debentures & Bonds	–	–
		of which: Subsidiaries/Joint Ventures/Associates	–	–
		of which: Others (Commercial Papers, Mutual Funds etc.)	–	–
	III	Loans and advances	1,750	–
		Floating provisions adjusted in loans and advances	–	–
	IV	Fixed assets	58	–
	V	Other assets	1,627	–
		of which: Goodwill and intangible assets Out of which:	–	–
		of which: Deferred tax assets	4	A5
	VI	Goodwill on consolidation	–	–
	VII	Debit balance in Profit & Loss account	–	–
		Total Assets	**25,854**	–

Note: Westpac Banking Corporation-Mumbai Branch is solo entity in India and hence balance sheet is not under regulatory scope of consolidation.