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

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 2013, the Profit and Loss Account and the Cash Flow Statement for the period then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. 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 the provisions of Section 29 of the Banking Regulation Act, 1949, read with Section 211 of the Companies Act, 1956, and circulars and guidelines issued by Reserve Bank of India from time to time. 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. 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 2013;

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

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

Report on Other Legal and Regulatory Matter

7. The Balance Sheet and 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. 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;

    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, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 to the extent they are not inconsistent with the accounting policies prescribed by Reserve Bank of India.

10. We further report that:

    a) The Balance Sheet and 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;

    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**
Chartered Accountants
Firm Registration No: 001076N

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

Place: Mumbai
Date: June 25, 2013

Westpac
Australia's First Bank

Westpac Banking Corporation - Mumbai Branch
(Incorporated in Australia)

BALANCE SHEET

	Schedules	As at March 31, 2013
CAPITAL AND LIABILITIES		
Capital	1	8,087,300
Reserves and surplus	2	84,383
Deposits	3	217
Borrowings	4	2,290
Other liabilities & provisions	5	59,856
Total		**8,234,046**
ASSETS		
Cash and balances with Reserve Bank of India	6	3,203
Balances with banks and money at call & short notice	7	3,631,504
Investments	8	4,466,038
Advances	9	–
Fixed assets	10	66,233
Other assets	11	67,068
Total		**8,234,046**
Contingent liabilities	12	4,657,340
Bills for collection		–
Significant accounting policies & notes to accounts	18	

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

As per our report of even date.

For **Walker, Chandiok & Co**
Chartered Accountants
Firm Registration No : 001076N

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

Place: Mumbai
Date: June 25, 2013

PROFIT AND LOSS ACCOUNT

(Rupees in 000's)

		Schedules	Period ended March 31, 2013
I.	**INCOME**		
	Interest earned	13	274,627
	Other income	14	50,612
	Total		**325,239**
II.	**EXPENDITURE**		
	Interest expended	15	96
	Operating expenses	16	153,529
	Provisions and Contingencies	17	87,231
	Total		**240,856**
III.	**PROFIT**		
	Net profit for the period		84,383
	Profit brought forward		–
	Total		**84,383**
IV.	**APPROPRIATIONS**		
	Transfer to /(from) Statutory Reserve		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		63,287
	Total		**84,383**
	Significant Accounting Policies & Notes to Accounts	18	

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

For and on behalf of
Westpac Banking Corporation – Mumbai Branch

Sd/-
Vikram Nimkar
Chief Executive Officer

Sd/-
Rajeev Bhargava
Chief Operating Officer

Westpac
Australia's First Bank

Westpac Banking Corporation - Mumbai Branch
(Incorporated in Australia)

Cash Flow Statement

(Rupees in 000's)

Cash flows from operating activities		**Period ended March 31, 2013**
Net Profit		**84,383**
Adjustments for:		
Add: Depreciation on fixed assets		6,799
Add: Provision on standard assets		447
Add: Provision for country risk		584
Add: Provision for gratuity		2,622
Add: Lease equalisation reserve		12,000
Add: Other provisions		6,687
Operating profit before working capital changes		**113,522**
Adjustments for:		
(Increase)/Decrease in investments		**(4,466,038)**
(Increase)/Decrease in advances		–
Increase/(Decrease) in borrowings		2,290
Increase/(Decrease) in deposits		217
(Increase)/Decrease in other assets		(67,068)
Increase/(Decrease) in other liabilities & provisions		119,109
Net cash flow from operating activities before income tax		**(4,297,968)**
Less: Income tax paid		(81,593)
Net cash from operating activities	**(A)**	**(4,379,561)**
Cash flows from investing activities		
Purchase of fixed assets		(73,032)
Net cash from / (used) in investing activities	**(B)**	**(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)**	**3,634,707**
Cash and cash equivalents at the beginning of the period		–
Cash and cash equivalents for the period end		**3,634,707**
Cash and cash equivalents include the following:		
Cash and balances with Reserve Bank of India as per schedule 6		3,203
Balances with banks and money at call and short notice as per schedule 7		3,631,504
Total		**3,634,707**

The above cash flow statement has been prepared under Indirect method set out in Accounting Standard 3 issued by The Institute of Chartered Accountants of India and notified by the Companies (Accounting Standards) Rules 2006.

As per our report of even date.

For **Walker, Chandiok & Co**
Chartered Accountants
Firm Registration No : 001076N

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, 2013

Westpac Australia's First Bank

Westpac Banking Corporation - Mumbai Branch
(Incorporated in Australia)

Schedules annexed to and forming part of the Balance Sheet

(Rupees in 000's)

	As at March 31, 2013
Schedule 1 : Capital	
Opening balance	–
Additions during the period	8,087,300
Total	**8,087,300**
(Of the above, deposit kept with the Reserve Bank of India under Section 11(2)(b) of the Banking Regulation Act, 1949)	2,000
Schedule 2 : Reserves & surplus	
I. Statutory beserve:	–
Opening balance	–
Additions during the period	21,096
Closing balance	21,096
II. Investment fluctuation reserve:	
Opening balance	–
Additions during the period	–
Deductions during the period	–
Closing balance	–
III. Capital asset reserve:	
Opening balance	–
Additions during the period	–
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 period	–
Closing balance	–
VI. Balance in profit and loss account	63,287
Total	**84,383**
Schedule 3 : Deposits	
A. I Demand Deposits	–
i) From banks	–
ii) From others	–
II Saving Bank Deposits	217
III Term Deposits –	
i) From banks	–
ii) From others	–
Total (I+II+III)	**217**
B. i) Deposits of branches in India	217
ii) Deposits of branches outside India	–
Total	**217**

	As at March 31, 2013
Schedule 4 : Borrowings	
I. Borrowings in India	
i) Reserve Bank of India	–
ii) Other Banks	1,572
iii) Other institutions & agencies	–
Total	**1,572**
II. Borrowings outside India	
i) From Banks	718
ii) From Others	–
Total	**718**
Total (I+II)	**2,290**
Secured borrowings included in I and II above	–
Schedule 5 : Other liabilities and provisions	
I. Bills payable	–
II. Interest accrued	–
III. Others (including provisions)	59,409
IV. Provision towards standard assets	447
Total	**59,856**
Schedule 6 : Cash and balances with Reserve Bank of India	
I. Cash in hand	11
II. Balances with Reserve Bank of India	
i) In current account	3,192
ii) In other accounts	–
Total (I+II)	**3,203**
Schedule 7 : Balances with Banks and money at call and short notice	
I. In India	
i) Balances with Banks	
a) In current accounts	–
b) In other deposit accounts	1,085,600
ii) Money at call and short notice	
a) With Banks	1,731,300
b) With other institution	–
Total	**2,816,900**
II. Outside India	
i) In current accounts	404
ii) In other deposit accounts	–
iii) Money at call and short notice	814,200
Total	**814,604**
Total (I+II)	**3,631,504**

Westpac
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Westpac Banking Corporation - Mumbai Branch
(Incorporated in Australia)

Schedules annexed to and forming part of the Balance Sheet

(Rupees in 000's)

	As at March 31, 2013
Schedule 8 : Investments	
Investments in India in	
i) Government securities	4,466,038
ii) Other approved securities	–
iii) Shares	–
iv) Debentures and Bonds	–
v) Others	–
Total	**4,466,038**
Gross Value of Investments in India	4,466,038
Less: Provision for depreciation	–
	4,466,038
Schedule 9 : Advances	
CI . i) Bills purchased and discounted	–
ii) Cash credits, overdrafts and loans repayable on demand	–
iii) Term loans	–
Total	–
II. i) Secured by tangible assets (including advances against book debt)	–
ii) Covered by Bank/ government guarantees	–
iii) Unsecured	–
Total	–
III. Advances in India	
i) Priority Sectors	–
ii) Public sector	–
iii) Banks	–
iv) Others	–
Total	–
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)	–
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	–

	As at March 31, 2013
II. Other fixed assets (including furniture and fixtures)	
At cost at the beginning of the period	–
Additions during the period	71,376
Deductions during the period	–
Depreciation to date	(6,799)
Total	**64,577**
III. Capital work-in-progress (including capital advances)	1,656
Total	**66,233**
Schedule 11 : Other assets	
I. Interest accrued	295
II. Advance tax/tax deducted at source (net of provision for taxation)	–
III. Deferred tax asset (net)	9,028
IV. Others	57,745
Total	**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	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	
(i) Capital commitments not provided	16,145
(ii) Others	–
Total	**4,657,340**

Westpac
Australia's First Bank

Westpac Banking Corporation - Mumbai Branch
(Incorporated in Australia)

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

(Rupees in 000's)

	Period ended March 31, 2013
Schedule 13 : Interest earned	
I. Interest/discount on advances/bills	–
II. Income on investments	150,861
III. Interest on balances with Reserve Bank of India and other inter-bank funds	123,734
IV. Others	32
Total	**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)	24,688
VI. Miscellaneous income	25,924
Total	**50,612**
Schedule 15 : Interest expended	
I. Interest on deposits	4
II. Interest on Reserve Bank of India/ Inter-bank borrowings	92
III. Others	–
Total	**96**

	Period ended March 31, 2013
Schedule 16 : Operating expenses	
I. Payments to and provisions for employees	83,353
II. Rent, taxes and lighting	31,413
III. Printing and stationery	467
IV. Advertisement and publicity	1,517
V. Depreciation on bank's property	6,799
VI. Local advisory board fees, allowances and expenses	–
VII. Auditor's fees and expenses	743
VIII. Law charges	2,180
IX. Postages, Telegram, Telephones etc.	730
X. Repairs and maintenance	4,012
XI. Insurance	1,624
XII. Other expenditure	20,691
Total	**153,529**
Schedule 17 : Provisions and contingencies	
I. Provision for standard asset	447
II. Provision for country risk	584
III. Provision for current income tax	86,200
Total	**87,231**

SCHEDULE 18: Significant Accounting Policies and Notes to Accounts for the period ended March 31, 2013

A. Background

Westpac Banking Corporation–Mumbai Branch ('the Bank') is a branch of Westpac Banking Corporation ('WBC') which is 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 commenced its business operations in India on October 01, 2012. The Bank has only one branch in India as on March 31, 2013.

The financial statements presented pertain to the period commencing from the setting up of the Bank branch from May 18, 2012 to March 31, 2013. Consequently, no comparative information for the previous year/ period is disclosed. Disclosures made hereunder are in accordance with RBI Master Circular DBOD.BP.BC No.14/21.04.018/2012-13 Disclosure in Financial Statements - Notes to Accounts dated July 02, 2012.

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 ('the Act'), circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time, Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI') which are notified by Companies (Accounting Standards) Rules, 2006 (as amended) to the extent applicable and practices prevailing within the banking industry in India.

Schedule to the financial statements for the period ended March 31, 2013

C. Use of estimate

The preparation of the financial statements, 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 period. 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 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 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 losses 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.

Contingent liabilities and outstanding contracts denominated in foreign currencies are disclosed at the period 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 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
Furniture and Fixtures	20%
Motor Vehicles	20%
Telecommunication Equipment	50%

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

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 period 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 period in which the same is incurred.

6) Taxation

Provision for tax comprises of current 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.

Westpac Banking Corporation - Mumbai Branch
(Incorporated in Australia)

Schedule to the financial statements for the period ended March 31, 2013

D. Significant Accounting Policies *(Continued)*

6) Taxation *(Continued)*

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.

7) 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 period in which the change occurs.

8) Impairment of assets

In accordance with AS-28 on 'Impairment of Assets', an asset is considered as impaired when at balance sheet 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.

9) Investments

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

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.

10) 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 (IV) ('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').

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Australia's First Bank

Westpac Banking Corporation - Mumbai Branch
(Incorporated in Australia)

Schedule to the financial statements for the period ended March 31, 2013

D. Significant Accounting Policies *(Continued)*

11) 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 unrealised 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.

12) 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.

13) Standard asset provision

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

14) 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 over the lease term in accordance with AS – 19, Leases.

15) 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.

E. Notes to accounts

1) Capital adequacy

The Bank's Capital to Risk-weighted Asset Ratio ('CRAR') is calculated in accordance with the RBI's 'Prudential Guidelines on Capital Adequacy and Market Discipline – Implementation of the New Capital Adequacy Framework' ('Basel II guidelines').

Under the Basel II framework, the Bank is required to maintain a minimum capital adequacy ratio of 9% on an ongoing basis for credit risk, market risk and operational risk, with a minimum Tier-I capital ratio of 6%.

Further, the minimum capital maintained by the Bank as on March 31, 2013 is subject to a prudential floor, which is the higher of the following amounts:

a) Minimum capital required as per the Basel II framework.
b) 80% of the minimum capital required to be maintained under the Basel I framework.

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

(Rupees in 000's)

Particulars	As at March 31, 2013
Tier-I capital	8,099,368
Tier-II capital	1,031
Total capital	**8,100,399**
Total risk weighted assets and contingents	2,892,359
Tier-I capital to risk weighted assets (%)	280.02%
Tier-II capital to risk weighted assets (%)	0.04%
Total capital to risk weighted assets (%)	**280.06%**
Amount of subordinated debt raised as Tier-II Capital during the Period	–
Amount raised by issue of Innovative Perpetual Debt Instrument (IPDI) during the period	–
Amount raised by issue of upper Tier-II Instruments	–

Schedule to the financial statements for the period ended March 31, 2013

E. Notes to accounts *(Continued)*

2) Investments

(Rupees in 000's)

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

3) Repo/ reverse repo transactions

The Bank has not undertaken any repo/reverse repo transactions for the period ended March 31, 2013.

4) Issuer composition of Non-SLR investments

The Bank did not have any Non-SLR investments as at March 31, 2013.

5) Non-Performing Non-SLR investments

The Bank did not have any Non-Performing Non-SLR investments as at March 31, 2013.

6) Sale and Transfers to/ from HTM Category

The Bank did not have any investments under HTM category for the period ended March 31, 2013 consequently there was no sale or transfer to/from HTM category.

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 period ended March 31, 2013.

ii. Exchange traded interest traded derivatives

The Bank has not done any transaction in exchange traded derivatives during the period ended March 31, 2013.

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.

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Schedule to the financial statements for the period ended March 31, 2013

E. Notes to accounts *(Continued)*

7) Derivatives *(Continued)*

Qualitative disclosures *(Continued)*

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.

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 on based on its notional value and residual maturity. The Bank has made provision on such credit exposures in accordance with RBI guidelines.

Quantitative disclosures

(Rupees in 000's)

No.	Particulars	As at March 31, 2013	
		Currency Derivatives @	Interest Rate Derivatives
1	Derivatives (Notional Principal Amount)		
	a) For hedging	–	–
	b) For trading	4,641,195	–
2	Marked to Market Position		
	a) Asset (+)	18,995.17	–
	b) Liability (–)	(1,947.42)	–
3	Credit exposure#	1,118.22	–
4	Likely impact of one percentage change in interest rate (100*PV01)		
	a) on hedging derivatives	–	–
	b) on trading derivatives	(27.83)	–
5	Maximum of 100*PV01 observed during the period		
	a) For hedging	–	–
	b) For Trading	(21.72)	–
6	Minimum of 100*PV01 observed during the period		
	a) For hedging	–	–
	b) For Trading	(21.89)	–

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.

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 period and hence the disclosures on NPAs, particulars of accounts restructured, details of financial assets sold to securitisation/reconstruction Company and details of purchase/sale of NPAs are not applicable.

9) Provisions on standard assets

(Rupees in 000's)

Particulars	As on March 31,2013
Standard provision on advances	–
Standard provision on credit exposure on derivatives	447

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Schedule to the financial statements for the period ended March 31, 2013

E. Notes to accounts *(Continued)*

10) Business Ratios

No.	Particulars	For the period ended March 31,2013
i.	Interest income as percentage of working funds[1]	3.34%
ii.	Non-interest Income as percentage to working funds[1]	0.62%
iii.	Operating profit as percentage to working funds[1]	2.09%
iv.	Return on assets[2]	1.03%
v.	Business (Deposit plus advances) per employee[3] (Rupees in 000's)	9.04
vi.	Net profit per employee[3] (Rupees in 000's)	3,516

1 Working fund is taken as total assets (excluding deferred tax asset) as at March 31, 2013.
2 Return on assets is with reference to working fund (i.e. total of assets excluding deferred tax asset)
3 Above ratios are based on number of employees as at March 31, 2013.

11) Asset liability management

Maturity pattern of certain items of assets and liabilities

(Rupees in 000's)

Maturity Bucket	Deposits	Advances	Investments	Borrowings	Foreign currency assets	Foreign currency liabilities
Day 1	–	–	–	–	–	–
2 to 7 days	33	–	12,391	–	3,528,729	6,984
8 to 14 days	–	–	–	–	–	–
15 to 28 days	–	–	–	–	35,890	–
Day 29 to 3 months	–	–	3,028,646	718	–	718
3 to 6 months	–	–	–	–	–	–
6 month to 1 year	–	–	1,424,959	–	–	–
1 to 3 years	184	–	42	–	–	–
3 to 5 years	–	–	–	–	–	–
Over 5 years	–	–	–	–	–	–
Total	**217**	**–**	**4,466,038**	**718**	**3,564,619**	**7,702**

12) Exposure to real estate sector and capital market

The Bank has no direct or indirect exposure to real estate sector and capital market as on March 31, 2013.

13) Risk category wise country risk exposure

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

(Rupees in 000's)

Risk category	Funded exposure (net) as at March 31, 2013	Provision held as at March 31, 2013
Insignificant	934,399	584
Low	–	–
Moderate	–	–
High	–	–
Very high	–	–
Restricted	–	–
Off-credit	–	–
Total	**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 as on March 31, 2013. 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).

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Schedule to the financial statements for the period ended March 31, 2013

E. Notes to accounts *(Continued)*

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

During the period ended March 31, 2013, there was no instance of breach of the SBL or GBL. Further, during the period the Bank did not enhance SBL and GBL for any of its borrowers.

15) Unsecured advances against intangible assets

During the period ended March 31, 2013, the bank has not granted any advances against intangible securities.

16) Provision for current taxation

(Rupees in 000's)

Particulars	March 31, 2013
Provision for Income Tax	86,200

17) Disclosure of penalties imposed by RBI

No penalties have been imposed by the RBI during the period ended March 31, 2013.

18) Disclosure under Revised AS 15 – Employee Benefits

Gratuity – Defined benefit plan

The Bank has adopted AS15 (Revised 2005) – Employees benefits (AS –15) and determined the actuarial liability for gratuity as per the projected unit credit method using an independent actuary.

Summary

i. Net Asset/ Liability recognised in Balance Sheet

(Rupees in 000's)

No.	Particulars	As at March 31, 2013
1	Present value of defined benefit Obligation	2,621.68
2	Fair Value of Plan Assets	–
3	Funded Status (Surplus/ Deficit)	(2,621.68)
4	Unrecognised Past Service costs	–
5	Net Asset/(Liability) recognised in the Balance sheet	(2,621.68)

ii. Total expenses recognised in the profit and loss account

(Rupees in 000's)

No.	Particulars	For the period ended March 31, 2013
1	Current Service cost	2,622
2	Interest Cost	–
3	Actuarial losses / (Gains)	–
	Total expenses recognised in Profit and Loss Account	**2,622**

iii. Change in the fair value of plan assets

(Rupees in 000's)

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

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Schedule to the financial statements for the period ended March 31, 2013

E. Notes to accounts *(Continued)*

iv. The principal actuarial assumptions used as at the balance sheet date are as follows:

No.	Particulars	As at March 31, 2013
1	Salary Escalations	9%
2	Discount rate	8%
3	Attrition rate	15%

19) Segment Reporting

Part A : Business Segments

In accordance with the RBI guidelines, the Bank has identified two primary segments i.e. Treasury operations and Corporate Banking. 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 fee income. The principal expenses of this segment consist of occupancy expenses, personnel costs, other direct overheads and allocated expenses.

The Bank does not have retail and other banking operations, hence no segmental disclosure for retail and other banking operations have been made.

(Rupees in 000's)

Business segments	Treasury	Corporate Banking	Unallocated	Total
Revenue	294,933	21,278	9,028	**325,239**
Operating profit / (loss)	273,050	(17,514)	(84,953)	**170,583**
Income Tax				(86,200)
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.14 /21.04.018/2012-13 dated July 02, 2012 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 period, 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.

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Schedule to the financial statements for the period ended March 31, 2013

E. Notes to accounts *(Continued)*

21) Lease disclosure

As at March 31, 2013 the Bank was obligated under operating leases for premises primarily for business purposes which have a certain lock in period.

Lease payments recognised in the Profit and Loss Account during the period is 29,856 (000's).

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

(Rupees in 000's)

Particulars	March 31, 2013
Upto one year	32,529
More than one year and upto five years	43,983
More than five years	–
Total	**76,512**

22) Deferred taxes

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

(Rupees in 000's)

Particulars	March 31, 2013
Deferred tax assets	**10,828**
Provision for gratuity	1,102
Lease equalisation reserve	5,043
Disallowance under Section 43B of Income Tax Act,1956	2,810
Disallowance under Section 40a(i)(a) of Income Tax Act, 1956	1,873
Deferred tax liability	**1,800**
Depreciation on fixed assets	1,800
Net Deferred tax asset	**9,028**

23) Capital commitments

Capital Commitments as on March 31, 2013 is Rs 161.45 (000's).

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

There have been no customer complaints received during the period ended March 31, 2013. Further, there have been no awards passed by Banking Ombudsman during the period ended March 31, 2013.

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.

26) Provisions and contingencies

Break up provisions and contingencies

(Rupees in 000's)

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

27) Draw down from reserves

The Bank has not drawn any amount from reserves during the period ended March 31, 2013.

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Schedule to the financial statements for the period ended March 31, 2013

E. Notes to accounts *(Continued)*

28) Floating provisions

The Bank has not created or utilised any floating provision during the period ended March 31, 2013. The floating provision as on March 31, 2013 is Nil.

29) Letter of comfort

The Bank has not issued any letter of comfort during the period ended March 31, 2013.

30) Provision coverage ratio

The Bank did not have any non performing assets as at March 31, 2013 and thus provision coverage ratio is not applicable.

31) 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 period ended March 31, 2013.

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

a) Concentration of deposits

Particulars	March 31, 2013
Total deposits of twenty largest depositors (Rupees in 000's)	2.17
Percentage of deposits of twenty large depositors to total deposits of the Bank	100%

b) Concentration of advances

The Bank did not have any advances as at March 31, 2013.

c) Concentration of exposures

(Rupees in 000's)

Particulars	March 31, 2013
Total Exposure to twenty largest borrowers /customers	–
Percentage of exposures of twenty largest borrowers /customers to total exposure of the Bank on borrowers/customers	–

d) Concentration of NPAs'

The Bank did not have any NPA as at March 31, 2013.

33) Sector-wise NPAs and movement in NPAs'

The Bank did not have any NPA as at March 31, 2013.

34) Overseas assets, NPAs' and revenue

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

35) 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 period ended March 31, 2013.

36) 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.

37) Expense included in the "other expenditure" schedule 16 (VII) (Operating expense) exceeding 1 % of total income includes technology charges amounting to Rs. 4,458 (000's).

For **Walker Chandlok & Co**
Chartered Accountants
Firm Registration No : 001076N

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

Place: Mumbai
Date: June 25, 2013

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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Basel-II - Pillar 3 disclosure for the period ended March 31, 2013

INTRODUCTION

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

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

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

Scope of Application

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

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

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 being established as the main risk governance Committee for the Mumbai Branch with authority to:

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

India Asset & Liability Committee (ALCO) India ALCO's responsibilities in the Branch include:

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

Roles and responsibilities

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

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

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

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

Our 2nd Line of Defence 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.

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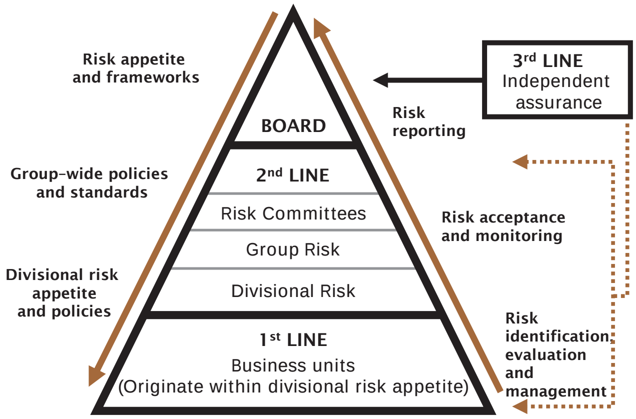
- our Group Risk function is independent from the business divisions, reports to the Chief Risk Officer (CRO), and establishes and maintains the Group-wide risk management frameworks, policies and concentration limits that are approved by the Board Risk Management Committee. It also reports on Westpac's risk profile to executive risk committees and the Board Risk Management Committee.
- 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.

Tier 2 capital comprises a general provision on standard assets and a provision for country risk exposure. The Branch has not issued subordinated debt instrument or any other Tier 2 capital instruments. The table below shows the Branch's capital resources as at 31 March 2013.

(Rs '000)	**31 March 2013**
Tier 1 Capital	
Interest free funds from Head office	8,087,300
Statutory Reserves	21,096
Innovative instruments	–
Other capital instruments	–
Amount deducted from Tier-I Capital	(9,028)
Total Tier 1 Capital	**8,099,368**
Tier 2 Capital	
General Provision for Standard Advances	447
Provision for country risk	584
Total Tier 2 Capital	1,031
Total eligible capital	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 scenario.

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

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

As per NCAF, currently the Branch has adopted the Standardised Approach (SA) for credit risk, the Basic Indicator Approach (BIA) for operational risk and the Standardised Duration Approach (SDA) for market risk. Under the BIA, the Branch holds capital for operational risk equal to 15% of positive gross annual income for the current year. As at 31 March 2013 the Branch's CRAR stood at 280.06% as per Basel II norms and 533.57% as per Basel I norms. The Branch is adequately capitalised.

Capital adequacy ratios

%	31 March 2013
Tier 1 Capital	280.02%
Tier 2 Capital	0.04%
Total regulatory capital ratio	280.06%

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 2013 Rs '000	Total Capital Required	Total Risk Weighted Assets
Credit risk		
Portfolios subject to standardised approach	100,302	1,114,467
Securitisation exposures	–	–
Total	100,302	1,114,467
Market risk		
Interest rate risk	17,467	194,078
Foreign exchange risk (including gold)	45,000	500,004
Equity risk	–	–
Total	62,467	694,082
Operational risk	97,543	1,083,810
Total	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. 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.

As at 31 March 2013 the Branch has only interbank exposure and has not lent to corporate borrowers.

Structure and organisation

The Chief Risk Officer is responsible for the effectiveness of overall risk management throughout the Westpac Group, including credit risk. Authorised officers approve credit risk exposures, including customer risk grades, other credit parameters and their ongoing review. Our largest exposures are approved by our most experienced credit officers. In the Branch 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.

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Credit risk management framework and policies

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

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

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

At the division 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.

CREDIT RISK EXPOSURES

Summary credit risk disclosure

(Rs '000)	31 March 2013
Fund Based[1]	8,206,012
Non Fund Based[2]	
Non-Market related Off Balance sheet items	16,145
Market Related (Foreign Exchange (Fx) and Derivative contracts)	111,819
Total	**8,333,976**

Portfolio by geography

All the exposures provided under (summary credit risk exposure) above are domestic.

Portfolio by industry classification

31 March 2013

(Rs '000)	Fund based	Non-Fund based	Total
Accommodation, cafes & restaurants			
Agrivulture, forestry & fishing			
Construction			
Finance & insurance[3]	3,739,974	127,964	3,867,938
Government administration & defence	4,466,038	–	4,466,038
Manufacturing			
Mining			
Property & business services			
Services[4]			
Trade[5]			
Transport & storage			
Utilities[6]			
Retail lending			
Other			
Total	8,206,012	127,964	8,333,976

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 2013 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 communication services.

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Portfolio by maturity breakdown

(Rs '000)	31 March 2013
1 day	–
2 to 7 days	3,645,202
8 to 14 days	–
15 to 28 days	2,155
29 days & upto 3 months	3,028,675
Over 3 months & upto 6 months	–
Over 6 months & upto 1 year	1,424,958
Over 1 year & upto 3 years	50
Over 3 years & upto 5 years	–
Over 5 years	133,006
Total	**8,234,046**

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.

1 Also known as Non-Performing Assets (NPA)

Gross Impaired and past due loans:

The Branch's gross NPA amounts are nil as on 31 March 2013.

Net Impaired and past due loans:

The Branch's net NPA amounts are nil as on 31 March 2013.

Impaired and past due loans ratios

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

Movement in Impaired and past due loans

This is the first pillar 3 disclosure for the Branch hence there is no movement to report.

Non Performing Investments

The Branch's non performing investments as on 31 March 2013 is nil.

Movement of provisions for depreciation on investments

This is the first pillar 3 disclosure for the Branch hence there is no movement to report.

Credit Risk: Disclosures for portfolios subject to the standardised approach

As at 31 March 2013 the Branch does not have credit risk exposure towards corporate clients. Consequently 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[1] 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

(Rs '000)	31 March 2013
Below 100 % risk weight	8,212,554
100 % risk weight	130,450
Above 100 % risk weight	–
Deductions[2]	(9,028)
Total	8,333,976

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

2 Deductions represents amount deducted from Capital Funds

Westpac Australia's First Bank

Westpac Banking Corporation - Mumbai Branch
(Incorporated in Australia)

Basel-II - Pillar 3 disclosure for the period ended March 31, 2013

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 2013. Consequently no collateral netting from exposure is considered for capital adequacy computation.

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

There are no mitigated exposures as at 31 March 2013.

Securitisation Exposures

The Branch has not entered into any securitisation transactions for the year under review; hence no disclosures have been made.

MARKET RISK

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

Approach

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

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

Group Treasury's trading activity represents dealings that include the management of interest rate, foreign exchange and credit spread risks associated with the wholesale funding task, liquid asset portfolios and foreign exchange repatriations.

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.

Australia's First Bank

Westpac Banking Corporation - Mumbai Branch
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Basel-II - Pillar 3 disclosure for the period ended March 31, 2013

Market risk regulatory capital

(Rs '000)	31 March 2013
Interest rate risk	17,467
Foreign exchange risk	45,000
Equity position risk	–
Total	**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 2013, the Branch's operational risk capital is Rs 97,543,000.

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

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

Approach

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

Risk reporting

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

The Branch uses the duration gap approach to measure the impact of Market Value of Equity (MVE) for upward and downward rate shocks. This measures the potential change in MVE of the Branch for a 200bps change in interest rates. The changes in MVE due to a 200bps change in interest as at 31 March 2013 is Rs 4,340.