

WESTPAC BANKING CORPORATION  
ABN 33 007 457 141



MUMBAI BRANCH

## Pillar 3 Report

MARCH 2015

INCORPORATING THE REQUIREMENTS OF THE RESERVE BANK OF INDIA

**Westpac** GROUP

EST. 1817

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

In this report, unless otherwise stated or the context otherwise requires, references to 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 Basel III Pillar 3 disclosures contained herein relate to Westpac Banking Corporation, Mumbai Branch (“the Branch”) for the year ended 31 March 2015. The Branch 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.

The Pillar 3 disclosures are compliant with Reserve Bank of India (the “RBI”) Master Circular DBOD. No. BP.BC. 6/ 21.06.201/2014-15 dated July 1, 2014 on BASEL III Capital Regulations along with Master Circular DBOD. No. BP.BC. 5/21.06.001/2014-15 dated July 1, 2014 on Prudential Guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework in respect of regulatory adjustments/deductions during the BASEL III transition period up to March 31, 2017.

The Branch operates as a scheduled commercial bank and is required to maintain capital ratios as prescribed by NCAF guidelines issued by RBI. The Branch is also required to comply with all applicable laws and regulations in India including guidelines issued by RBI and other relevant regulatory bodies.

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

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<b>India Country Leadership Team (ICLT)</b>	<p>ICLT is the highest decision making Committee for the Branch in India. Its roles in the Branch include:</p> <ul style="list-style-type: none"><li>▪ managing the governance of the branch;</li><li>▪ monitoring the integrity of all its business; and</li><li>▪ overseeing the risk profile and regulatory requirements.</li></ul>
<b>International Risk and Compliance Committee (IRCC)</b>	<p>IRCC has oversight over Westpac's operations in Asia (including the Mumbai Branch). Its responsibilities are to:</p> <ul style="list-style-type: none"><li>▪ review and oversee credit, operational, compliance, market and reputation risk in accordance with frameworks and policies;</li><li>▪ review and oversee credit, operational, compliance, market and reputational risk profile;</li><li>▪ identify emerging; credit, operational, compliance and reputational risks and allocate responsibility for assessing impact and response as appropriate; and</li><li>▪ enable continuous improvement in risk management by providing a forum for testing risk tolerances and debating alternate approaches.</li></ul>
<b>India Country Risk and Compliance Committee (ICRCC)</b>	<p>ICRCC is the main risk governance Committee for the Mumbai Branch with authority to:</p> <ul style="list-style-type: none"><li>▪ review and oversee credit, market, operational and compliance risk;</li><li>▪ Identify emerging credit, market, operational and compliance risks and allocate responsibility for assessing impact and response as appropriate; and</li><li>▪ enable continuous improvement in risk management by providing a forum for testing risk tolerance and debating alternate approaches.</li></ul>
<b>India Asset &amp; Liability Committee (ALCO)</b>	<p>India ALCO's responsibilities in the Branch include:</p> <ul style="list-style-type: none"><li>▪ leads the optimisation of funding and liquidity risk-reward;</li><li>▪ oversees the liquidity risk management framework and key policies;</li><li>▪ oversees the funding and liquidity risk profile and balance sheet risk profile;</li><li>▪ review of market risk, trading risk and oversee pricing trends and balance sheet performance; and</li><li>▪ monitor and oversee action to regulatory change impacts.</li></ul>

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## Roles and responsibilities

Our 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 Enterprise Risk management approach as is outlined below unless otherwise stated.

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

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

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

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

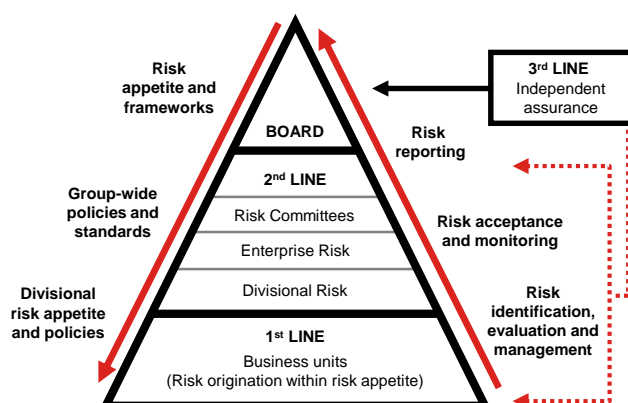
Our 2nd Line of Defence has three layers:

- our executive risk committees lead the optimisation of risk-reward by overseeing the development of risk appetite statements, risk management frameworks, policies and risk concentration controls, and monitoring Westpac's risk profile for alignment with approved appetites and strategies;
- our Enterprise 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 & Compliance Committee. It also reports on Westpac's risk profile to executive risk committees and the Board Risk & Compliance 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 & Compliance 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 structure

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

Tier 2 capital comprises a general provision on standard assets and a provision for country risk exposure. The Branch has not issued subordinated debt instruments or any other Tier 2 capital instruments. The table below shows the Branch's capital resources as at 31 March 2015.

₹ in '000	31 March 2015	31 March 2014
<b>Tier 1 capital</b>		
Interest free funds from Head Office	8,087,300	8,087,300
Statutory reserves	142,836	75,075
Innovative instruments	-	-
Other capital instruments	-	-
Amount deducted from Tier 1 capital	(21,922)	(4,194)
<b>Total Tier 1 capital</b>	<b>8,208,214</b>	<b>8,158,181</b>
<b>Tier 2 capital</b>		
General Provision for Standard Advances	76,922	44,700
Provision for country risk	5,628	8,816
<b>Total Tier 2 capital</b>	<b>82,550</b>	<b>53,516</b>
<b>Total Eligible Capital</b>	<b>8,290,764</b>	<b>8,211,697</b>

### Capital adequacy

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

- To comply with the Basel III Regulatory Capital requirements set out by RBI; 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 III 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 Basel III, 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 2015 the Branch's Capital to Risk Weighted Assets Ratio (CRAR) stood at 49.90% as per Basel III. The Branch is adequately capitalised.

### 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 Branch is required to maintain a minimum CET1 capital ratio of 5.0%, a minimum Tier I capital ratio of 7 % and a minimum total capital ratio of 9.0% as of 31 March 2015. The Branch's position in this regard is as follows:

%	31 March 2015	31 March 2014
Common Equity Tier-I Capital Ratio	49.41	43.39
Additional Tier-1 Capital	-	-
Tier 1 capital ratio	49.41	43.39
Tier 2 capital	0.49	0.28
Total regulatory capital ratio	49.90	43.67



**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.

` in '000	31 March 2015		31 March 2014	
	Total Capital Required	Total Risk Weighted Assets	Total Capital Required	Total Risk Weighted Assets
<b>Credit Risk</b>				
Portfolios subject to standardised approach	672,208	7,468,980	370,587	4,117,634
Securitisation exposures	-	-	-	-
<b>Total</b>	<b>672,208</b>	<b>7,468,980</b>	<b>370,587</b>	<b>4,117,634</b>
<b>Market risk</b>				
Interest rate risk	516,697	5,741,076	1,030,286	11,447,622
Foreign exchange risk (including gold)	180,000	2,000,000	180,000	2,000,000
Equity risk	-	-	-	-
<b>Total</b>	<b>696,697</b>	<b>7,741,076</b>	<b>1,210,286</b>	<b>13,447,622</b>
Operational risk	126,337	1,403,747	111,464	1,238,494
<b>Total</b>	<b>1,495,242</b>	<b>16,613,803</b>	<b>1,692,337</b>	<b>18,803,750</b>

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.



**Summary credit risk disclosure<sup>12</sup>**

₹ in '000	31 March 2015	31 March 2014
Fund Based	28,762,583	24,789,456
Non Fund Based		
Non-Market related Off Balance sheet items	-	7,683
Market Related	9,423,653	4,745,679
<b>Total</b>	<b>38,186,236</b>	<b>29,542,818</b>

**Portfolio by geography**

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

**Portfolio by industry classification**

₹ in '000	31 March 2015			31 March 2014		
	Fund based	Non-fund based	Total	Fund based	Non-fund based	Total
Accommodation, cafes & restaurants	-	-	-	-	-	-
Agriculture, forestry & fishing	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Finance & insurance <sup>3</sup>	6,342,830	4,498,727	10,841,557	5,224,065	3,363,570	8,587,635
Government administration & defence	20,168,018	-	20,168,018	17,823,074	1,258,215	19,081,289
Manufacturing	-	-	-	-	-	-
Mining	536	1,497	2,033	-	-	-
Property & business services	-	-	-	-	-	-
Services <sup>4</sup>	3,276,917	2,381,801	5,658,718	750,000	-	750,000
Trade <sup>5</sup>	808,825	112,588	921,413	1,000,000	123,894	1,123,894
Transport & storage	-	-	-	-	-	-
Utilities <sup>6</sup>	-	-	-	-	-	-
Retail lending	-	-	-	-	-	-
Other	502,623	91,874	594,497	-	-	-
<b>Total</b>	<b>31,099,749</b>	<b>7,086,487</b>	<b>38,186,236</b>	<b>24,797,139</b>	<b>4,745,679</b>	<b>29,542,818</b>

**Portfolio by maturity breakdown**

₹ in '000	31 March 2015	31 March 2014
1 day	18,273,079	2,490,318
2 to 7 days	6,131,583	17,515,831
8 to 14 days	419,900	1,558,717
15 to 28 days	3,501,235	314,395
29 days & upto 3 months	371,395	145,111
Over 3 months & upto 6 months	-	150,061
Over 6 months & upto 1 year	2,763	-
Over 1 year & upto 3 years	2,261,073	3,618,760
Over 3 years & upto 5 years	-	-
Over 5 years	160,640	60,395
<b>Total</b>	<b>31,121,668</b>	<b>25,853,588</b>

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

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

<sup>3</sup> Classification aligned to Group industry classification, as at 31 March 2015 category included no exposure to insurance.

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

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

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

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

The following disclose the crystallisation of credit risk as impairment and loss. Analysis of exposures 90 days past due not impaired, 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 2015 (nil as at 31 March 2014).

#### Net Impaired and past due loans:

The Branch's net NPA amounts are nil as at 31 March 2015 (nil as at 31 March 2014).

#### 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 2014).

#### 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 2014).

#### Non Performing Investments

The Branch's non performing investments is nil as at 31 March 2015 (nil as at 31 March 2014).

#### 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 2014).

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

As at 31 March 2015 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<sup>2</sup> for assigning risk weights, for non-resident corporate entities and foreign banks, ratings issued by the international rating agencies such as S&P, Moody's and Fitch are used.

#### Portfolio by risk weight<sup>3</sup>

in '000	31 March 2015	31 March 2014
Below 100% risk weight	34,510,450	27,419,577
100% risk weight	3,175,786	2,127,435
Above 100% risk weight	500,000	-
Deductions	-	(4,194)
Total	38,186,236	29,542,818

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

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

<sup>3</sup> Deductions represents amount deducted from Capital Funds.

### **Credit Risk Mitigation**

The Branch has not received any collateral for any of its exposure for the period ended 31 March 2015. 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 2015 (no mitigated exposures existed for the year ended 31 March 2014).

### **Securitisation Exposures**

The Branch has not entered into any securitisation transactions for the year ended 31 March 2015; hence no disclosures have been made (no securitisation transactions were entered into in the previous year ended 31 March 2014).

## Exposures related to Counterparty Credit Risk

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

### Approach

The Branch's process for managing derivatives and counterparty credit risk is based on its assessment of the potential future credit risk. The Branch is exposed to when dealing in derivatives products and securities financing transactions. The Branch 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 the Branch'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 Branch'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

The Branch 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

The Branch 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.

**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 Branch currently assesses the liquidity impact and related costs of a possible downgrade as part of the bank-wide stress testing exercise. The Branch adopts 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 Westpac and the Branch does not make such an assessment currently.

` in '000	31 March 2015	31 March 2014
Gross positive fair value of contracts	2,337,166	1,061,238
Netting Benefits	-	-
Netted current credit exposure	2,337,166	1,061,238
Collateral held	-	-
Net Derivatives Credit Exposure	2,337,166	1,061,238
Exposure amount under (CEM)	9,331,795	4,745,679
Notional value of Credit Derivative Hedges	-	-
Credit Derivative transactions that create exposures to CCR	-	-

## Market Risk

The Branch's market risk exposure is quantified using the Standardise Duration Approach (SDA) for regulatory capital purposes.

### Approach

Trading activities within Westpac is 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 book, 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.

### Back testing

Daily back testing 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

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 branch management:

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

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

#### Market risk regulatory capital

in '000	31 March 2015	31 March 2014
Interest rate risk	516,697	1,030,286
Foreign exchange risk	180,000	180,000
Equity position risk	-	-
Total	696,697	1,210,286



## 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 Westpac'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 2015, the Branch's operational risk capital is INR 126,337 in 000's (INR 111,464 000's as at 31 March 2014).

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's Asset & Liability Management (ALM) unit 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 2015 is INR 138,519 (000's) and INR 62,355(000's) as at 31 March 2014.

The increase / decline in earnings for an upward / downward rate shock of 200 basis points ('bps) is INR 507,978 (000's) and INR 27,033 (000's) as at 31 March 2014.



Westpac Banking Corporation - Mumbai Branch  
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Basel III – Common Disclosure template

(₹ in million)

Sr. No	Particulars	Basel-III Amount	Amount subject to Pre - Basel III Treatment	Ref. No.
<b>Common Equity Tier 1 capital: instruments and reserves</b>				
1	Directly issued qualifying common share capital plus related stock surplus (share premium)	8,087	-	A1
2	Retained earnings	143	-	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)	-	-	
<b>Public sector capital injections grandfathered until 1 January 2018</b>				
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	8,230	-	(A1+A2)
<b>Common Equity Tier 1 capital: regulatory adjustments</b>				
7	Prudential valuation adjustments	-	-	
8	Goodwill (net of related tax liability)	-	-	
9	Intangibles other than mortgage-servicing rights (net of related tax liability)	4	-	
10	Deferred tax assets	18	-	A5
11	Cash-flow hedge reserve	-	-	
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 Liabilities	-	-	
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 <sup>4</sup> (amount above 10% threshold)	-	-	
21	Deferred tax assets arising from temporary differences <sup>5</sup> (amount above 10% threshold, net of related tax liability)	-	-	
22	Amount exceeding the 15% threshold <sup>6</sup>	-	-	
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 <sup>7</sup> (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	22	-	A5
29	Common Equity Tier 1 capital (CET1)	8,208	-	(A1+A2-A5)
<b>Additional Tier 1 capital: instruments</b>				
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	-	-	
<b>Additional Tier 1 capital: regulatory adjustments</b>				
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 <sup>11</sup>	-	-	
45	Tier 1 capital (T1 = CET1 + AT1) (29 + 44a)	8,208	-	(A1+A2-A5)



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(₹ in million)

Sr. No	Particulars	Basel-III Amount	Amount subject to Pre - Basel III Treatment	Ref. No.
<b>Tier 2 capital: instruments and provisions</b>				
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	83	-	(A3+A4)
51	Tier 2 capital before regulatory adjustments	-	-	
<b>Tier 2 capital: regulatory adjustments</b>				
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 <sup>14</sup>	83	-	(A3+A4)
58b	Excess Additional Tier 1 capital reckoned as Tier 2 capital	-	-	
58c	Total Tier 2 capital admissible for capital adequacy (58a + 58b)	83	-	
59	Total capital (TC = T1 + T2) (45 + 58c)	8,291	-	(A1+A2-A5)+(A3+A4)
60	Total risk weighted assets (60a + 60b + 60c)	16,614	-	
60a	of which: total credit risk weighted assets	7,469	-	
60b	of which: total market risk weighted assets	7,741	-	
60c	of which: total operational risk weighted assets	1,404	-	
<b>Capital ratios</b>				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	49.41%	-	
62	Tier 1 (as a percentage of risk weighted assets)	49.41%	-	
63	Total capital (as a percentage of risk weighted assets)	49.90%	-	
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)	-	-	
<b>National minima (if different from Basel III)</b>				
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)	-	-	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>				
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)	-	-	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>				
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	-	-	
<b>Capital instruments subject to phase-out arrangements (only applicable between March 31, 2017 and March 31, 2022)</b>				
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)	-	-	



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Basel III common disclosure template

The Reconciliation of Regulatory Capital items as on March 31, 2015:

Step-1

(₹ in million)

No.	Particulars	Basel-III Amounts
<b>A</b>	<b>Capital &amp; Liabilities</b>	
I	Paid-up Capital	8,087
	Reserves & Surplus	571
	Minority Interest	-
	Total Capital	-
II	Deposits	-
	of which: Deposits from banks	-
	of which: Customer deposits	15,273
III	Borrowings	-
	of which: From RBI	3,500
	of which: From banks	-
	of which: From other institutions & agencies	-
	of which: Others (pl. specify)	-
	of which: Capital instruments	-
IV	Other liabilities & provisions	3,691
	<b>Total</b>	<b>31,122</b>
<b>B</b>	<b>Assets</b>	
I	Cash and balances with Reserve Bank of India	124
	Balance with banks and money at call and short notice	4,960
II	Investments:	-
	of which: Government securities	19,805
	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	2,875
IV	Fixed assets	42
V	Other assets	3,314
	of which: Goodwill and intangible assets	-
	of which: Deferred tax assets	18
VI	Goodwill on consolidation	-
VII	Debit balance in Profit & Loss account	-
	<b>Total Assets</b>	<b>31,122</b>

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



Westpac Banking Corporation -Mumbai Branch  
(Incorporated in Australia)

Basel III common disclosure template

The Reconciliation of Regulatory Capital items as on March 31, 2015:

Step-2

(₹ in million)

No.	Particulars	Balance sheet as in financial statements	Reference No.
<b>A</b>	<b>Capital &amp; Liabilities</b>		
I	<b>Paid-up Capital</b>	8,087	A1
	<b>Reserves and Surplus</b>	-	-
	Of which:	-	-
	Statutory reserve	143	A2
	Share Premium	-	-
	Investment Reserve account	-	-
	General Reserve	-	-
	Capital Reserve	-	-
	Foreign Currency Translation Reserve	-	-
	Reserve Fund	-	-
	Balance in Profit / Loss A/C	429	-
	<b>Minority Interest</b>	-	-
	Of which: considered under capital fund	-	-
	<b>Total Capital</b>	-	-
II	<b>Deposits</b>	-	-
	of which: Deposits from banks	-	-
	of which: Customer deposits	15,273	-
III	<b>Borrowings</b>	-	-
	<b>i Borrowings in India</b>	3,500	-
	(A) of which: From RBI	-	-
	(B) of which: From banks	-	-
	(C) of which: From other institutions & agencies	-	-
	<b>ii Borrowings outside India</b>	-	-
IV	<b>Other liabilities &amp; provisions</b>	3,691	-
	of which: Provision for standard Advances	77	A3
	of which: Provision for Country Risk	6	A4
	of which: Excess Provision on sale of NPA	-	-
	of which: Deferred Tax Liability	-	-
	<b>Total</b>	<b>31,122</b>	
<b>B</b>	<b>Assets</b>		
I	Cash and balances with Reserve Bank of India	124	-
	Balance with banks and money at call and short notice	4,960	-
II	<b>Investments</b>	-	-
	of which: Government securities	19,805	-
	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	<b>Loans and advances</b>	2,875	-
	Floating provisions adjusted in loans and advances	-	-
IV	<b>Fixed assets</b>	42	-
V	<b>Other assets</b>	3,314	-
	of which: Goodwill and intangible assets Out of which:	-	-
	of which: Deferred tax assets	18	A5
VI	<b>Goodwill on consolidation</b>	-	-
VII	<b>Debit balance in Profit &amp; Loss account</b>	-	-
	<b>Total Assets</b>	<b>31,122</b>	-

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