



# Pillar 3 Report

**MUMBAI BRANCH**

**WESTPAC BANKING CORPORATION**

ABN 33 007 457 141

**DECEMBER 2014**

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

**Westpac** GROUP

EST. 1817

<b>INTRODUCTION</b>	3
Scope of Application	3
<b>CAPITAL OVERVIEW</b>	4
Credit risk management	6

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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 quarter year ended 31 December 2014. 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.

### 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 December 2014.

` in '000	31 December 2014
Tier 1 capital	
Interest free funds from Head Office	8,087,300
Statutory reserves	75,075
Innovative instruments	-
Other capital instruments	-
Amount deducted from Tier 1 capital	(9,261)
Total Tier 1 capital	8,153,114
Tier 2 capital	
General Provision for Standard Advances	76,922
Provision for country risk	16,093
Total Tier 2 capital	93,015
Total Eligible Capital	8,246,129

### 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 December 2014 the Branch's Capital to Risk Weighted Assets Ratio (CRAR) stood at 38.84% 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 6.5% and a minimum total capital ratio of 9.0% as of 31 December 2014. The Branch's position in this regard is as follows:

%	31 December 2014
Common Equity Tier 1 Capital ratio	38.41
Additional Tier 1 capital	-
Tier 1 capital ratio	38.41
Tier 2	0.43
Total regulatory capital ratio	38.84

### 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 December 2014	
	Total Capital Required	Total Risk Weighted Assets
Credit Risk		
Portfolios subject to standardised approach	789,093	8,767,702
Securitisation exposures	-	-
	789,093	8,767,702
Market risk		
Interest rate risk	830,027	9,222,518
Foreign exchange risk (including gold)	180,000	2,000,000
Equity risk	-	-
	1,010,027	11,222,518
Operational risk	111,464	1,238,494
Total	1,910,584	21,228,714

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.



Westpac Banking Corporation Mumbai Branch  
Pillar 3 report  
Credit risk management

### Summary credit risk disclosure

₹ in '000	31 December 2014
Fund Based	25,789,656
Non Fund Based	
Non-Market related Off Balance sheet items	-
Market Related	9,566,235
Total	35,355,892

### Portfolio by geography

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

### Portfolio by industry classification<sup>3</sup>

₹ in '000	31 Decemeber 2014		
	Fund based	Fund based	Total
Accommodation, cafes & restaurants	-	-	-
Agriculture, forestry & fishing	-	-	-
Construction	-	-	-
Finance & insurance <sup>3</sup>	700,858	5,019,767	5,720,625
Government administration & defence	21,518,278	1,666,542	23,184,820
Manufacturing	-	-	-
Mining	977,043	28,705	1,005,748
Property & business services	-	-	-
Services <sup>4</sup>	1,254,552	2,456,409	3,710,961
Trade <sup>5</sup>	1,000,000	206,870	1,206,870
Transport & storage	-	-	-
Utilities <sup>6</sup>	-	-	-
Retail lending	-	-	-
Other	338,926	187,942	526,868
Total	25,789,657	9,566,235	35,355,892

### Portfolio by maturity breakdown<sup>4</sup>

₹ in '000	31 December 2014
1 day	19,566,742
2 to 7 days	1,981,944
8 to 14 days	231,625
15 to 28 days	695,632
29 days & upto 3 months	1,130,122
Over 3 months & upto 6 months	309,437
Over 6 months & upto 1 year	1,327,638
Over 1 year & upto 3 years	3,063,651
Over 3 years & upto 5 years	-
Over 5 years	287,734
Total	28,594,525

<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 December 2014 category included no exposure to insurance.

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

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

#### Gross Impaired and past due loans:

The Branch's gross NPA amounts are nil as at 31 December 2014.

#### Net Impaired and past due loans:

The Branch's net NPA amounts are nil as at 31 December 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.

#### Movement in Impaired and past due loans

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

#### Non Performing Investments

The Branch's non performing investments is nil as at 31 December 2014.

#### Movement of provisions for depreciation on investments

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

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

As at 31 December 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

₹ in '000	31 December 2014
Below 100% risk weight	31,559,192
100% risk weight	443,323
Above 100% risk weight	3,362,637
Deductions	(9,261)
Total	35,355,892

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<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.