

# Westpac Banking Corporation

**Pillar 3 Report - March 2018**

**Mumbai Branch**

**Incorporating the requirements of the Reserve Bank of India**

A branch of Westpac Banking Corporation



200 years proudly supporting Australia

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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.

## Introduction

### 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 2018. 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 DBR. No. BP.BC. 6/ 21.06.201/2015-16 dated 1 July 2015 on BASEL III Capital Regulations hereinafter referred to as “Basel III guidelines”.

The Branch operates as a scheduled commercial bank and is required to maintain capital ratios as prescribed by New Capital Adequacy Framework (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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# Controlling and Managing Risk

## Branch risk management governance structure

<b>India Country Leadership Team (ICLT)</b>	<p>ICLT is the highest decision making Committee for the Branch in India. Its responsibilities are:</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>Country Risk and Compliance Committee - India (CRCC-I)</b>	<p>CRCC-I 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>▪ lead the optimisation of funding and liquidity risk-reward;</li> <li>▪ oversee the liquidity risk management framework and key policies;</li> <li>▪ oversee 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>
<b>India Credit Committee (ICC)</b>	<p>The ICC is a branch credit risk approval committee</p> <ul style="list-style-type: none"> <li>▪ Final Sanctioning Authority for all credit exposures booked in the India branch of Westpac Banking Corp.</li> </ul> <p>Sanction credit exposures upto the local legal lending limits as applicable (currently Single and Group Borrower Limits).</p>

**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 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.

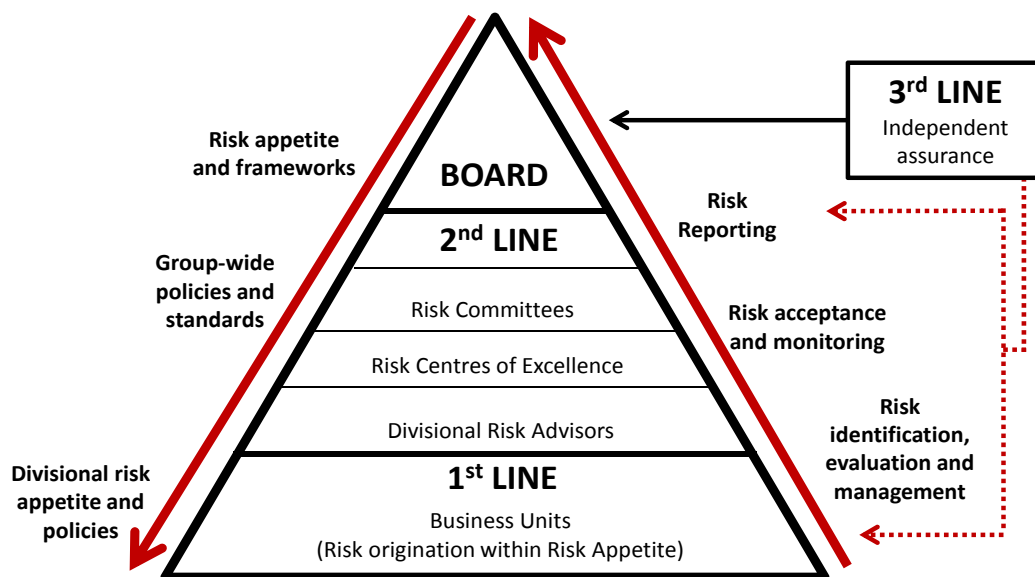
**The 2nd Line of Defence – Establishment of risk management frameworks and policies and risk management oversight**

Our 2nd Line of Defence is a separate risk and compliance advisory, control, assurance and monitoring function which establishes frameworks, policies, limits and processes for the management, monitoring and reporting of risks. The 2nd line of Defence may approve risks outside the authorities granted to the 1st Line, and 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.

**The 3rd Line of Defence – Independent internal review**

Group Audit is an independent assurance function that evaluates and opines on the adequacy and effectiveness of both 1st and 2nd line risk management approaches and tracks remediation progress, with the aim of providing the Board, and senior executives, with comfort that the Group’s governance, risk management and internal controls are operating effectively.

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



## Capital Overview

### Capital structure

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

Tier 2 capital comprises of general provision on standard assets and 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 2018

₹ in '000	31 March 2018	31 March 2017
<b>Tier 1 capital</b>		
Interest free funds from Head Office	8,087,300	8,087,300
Statutory reserves	380,809	318,009
Innovative instruments	-	-
Other capital instruments	-	-
Amount deducted from Tier 1 capital	(22,727)	(25,961)
<b>Total Tier 1 capital</b>	<b>8,445,382</b>	<b>8,379,348</b>
<b>Tier 2 capital</b>		
General Provision for Standard Advances	92,400	76,922
Provision for country risk	3,706	6,619
<b>Total Tier 2 capital</b>	<b>96,106</b>	<b>83,541</b>
<b>Total Eligible Capital</b>	<b>8,541,488</b>	<b>8,462,889</b>

### Capital adequacy

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

- To comply with the Basel III Regulatory Capital requirements set out by RBI; and
- To minimize 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 guidelines, 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 average of positive gross annual income over the previous three years. As at 31 March 2018 the Branch's Capital to Risk Weighted Assets Ratio (CRAR) stood at 56.24% 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 minimum common equity Tier 1 (CET1) of 5.5%, minimum Tier 1 capital ratio of 7 %, capital conservation buffer (CCB) of 1.625% and a minimum total capital ratio of 9.0% as at 31 March 2018. Minimum total capital requirement including CCB is 10.875% as at 31 March 2018. The Branch's position in this regard is as follows:

%	31 March 2018	31 March 2017
Common Equity Tier-I Capital Ratio	55.61	53.23
Additional Tier-1 Capital	-	-
Tier 1 capital ratio	<b>55.61</b>	<b>53.23</b>
Tier 2 capital ratio	0.63	0.53
Total regulatory capital ratio	<b>56.24</b>	<b>53.76</b>

## 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 2018		31 March 2017	
	Total Capital Required	Total Risk Weighted Assets	Total Capital Required	Total Risk Weighted Assets
<b>Credit Risk</b>				
Portfolios subject to standardised approach	702,989	7,810,984	797,221	8,858,011
Securitisation exposures	-	-	-	-
<b>Total</b>	<b>702,989</b>	<b>7,810,984</b>	<b>797,221</b>	<b>8,858,011</b>
<b>Market risk</b>				
Interest rate risk	271,680	3,396,000	249,901	3,123,758
Foreign exchange risk (including gold)	160,000	2,000,000	160,000	2,000,000
Equity risk	-	-	-	-
<b>Total</b>	<b>431,680</b>	<b>5,396,000</b>	<b>409,901</b>	<b>5,123,758</b>
<b>Operational risk</b>				
	158,464	1,980,803	140,866	1,760,830
<b>Total</b>	<b>1,293,133</b>	<b>15,187,788</b>	<b>1,347,988</b>	<b>15,742,599</b>

# Credit Risk Management

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

## Structure and organisation

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

The Country Risk and Compliance Committee – India (CRCC-I) 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.

The India Credit Committee is the final Sanctioning Authority for all credit exposures booked in the India branch of Westpac Banking Corp. It has the authority to sanction credit exposures upto the local legal lending limits as applicable (currently Single and Group Borrower Limits).

## 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.

The India Credit Committee is the final Sanctioning Authority for all credit exposures booked in the India branch of Westpac Banking Corp.



# Credit Risk Exposures

## Summary Credit Risk Exposures

₹ in '000	31 March 2018	31 March 2017
Fund Based <sup>1</sup>	20,243,768	20,520,329
Non Fund Based <sup>2</sup>		
Non-Market related Off Balance sheet items	657,372	164,277
Market Related	9,277,557	13,752,929
<b>Total</b>	<b>30,178,697</b>	<b>34,437,535</b>

## Portfolio by geography

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

## Portfolio by industry classification

₹ in '000	31 March 2018			31 March 2017		
	Fund based	Non-fund based	Total	Fund based	Non-fund based	Total
Food Processing	650,000	1,158	651,158	-	-	-
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	-	184,068	184,068	-	815,359	815,359
Basic Metal and Metal Products	-	92,610	92,610	-	18,793	18,793
Infrastructure - Communication	-	35,975	35,975	-	148,465	148,465
Other Industries	-	-	-	1,000,000	202,629	1,202,629
Residuary other advances (to tally with total exposure) <sup>3</sup>	19,593,768	9,621,119	29,214,887	19,520,329	12,731,960	32,252,289
<b>Total</b>	<b>20,243,768</b>	<b>9,934,929</b>	<b>30,178,697</b>	<b>20,520,329</b>	<b>13,917,206</b>	<b>34,437,535</b>

## Portfolio by maturity breakdown

₹ in '000	31 March 2018	31 March 2017
Day 1	7,592,094	12,468,874
2-7 Days	4,572,486	1,279,073
8-14 Days	2,954,402	307,152
15-30 Days	4,101,965	9,184,627
31 Days & upto 2 months	1,011,996	209,771
More than 2 months and upto 3 months	683,952	843,752
Over 3 Months and upto 6 months	1,391,410	918,707
Over 6 Months and upto 1 year	899	654,137
Over 1 Year and upto 3 years	414,844	1,143,683
Over 3 Year and upto 5 years	6,188	16,087
Over 5 years and upto 7 years	-	341,750
Over 7 years and up to 10 years	-	-
Over 10 year and up to 15 years	-	-
Over 15 years	-	-
<b>Total</b>	<b>22,730,236</b>	<b>27,367,613</b>

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

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

<sup>3</sup> Includes other assets and exposures to Banks, NBFC's and CCIL

### 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 are broken down by concentrations reflecting Westpac's asset categories, industry and geography.

#### Gross Impaired and past due loans:

There are no non-performing advances as at 31 March 2018 (nil as at 31 March 2017)

#### Net Impaired and past due loans:

There are no non-performing advances as at 31 March 2018 (nil as at 31 March 2017).

#### Impaired and past due loans ratios

There are no non-performing advances as at 31 March 2018 (nil as at 31 March 2017).

#### Movement in Impaired and past due loans

Since the non performing advances for the Branch are nil during the quarter, at the beginning and at the end of quarter, there is no movement to report (nil as at 31 March 2017).

#### Non Performing Investments

There are no non-performing investments as at 31 March 2018 (nil as at 31 March 2017).

₹ in '000	31 March 2018	31 March 2017
Opening Balance	854	-
Provisions made during the year	8,007	3,086
Write-off	-	-
Write-back of excess provisions	(8,861)	(2,233)
Closing Balance	-	854

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

As at 31 March 2018 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 2018	31 March 2017
Below 100% risk weight	26,751,270	31,607,112
100% risk weight	2,740,294	1,633,285
Above 100% risk weight	687,132	1,197,138
Deductions	-	-
<b>Total</b>	<b>30,178,697</b>	<b>34,437,535</b>

<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), SME Rating Agency of India (SMERA) 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 2018. 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 2018 (no mitigated exposures existed for the year ended 31 March 2017).

### **Securitisation Exposures**

The Branch has not entered into any securitisation transactions for the half year ended 31 March 2018; hence no disclosures have been made (no securitisation transactions were entered into in the previous year ended 31 March 2017).

# Counterparty Credit Risk

## Exposures related to Counterparty Credit Risk (CCR)

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 needs, 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 International Swaps and Derivative Association (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 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 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 2018	31 March 2017
Gross positive fair value of contracts	2,463,742	6,820,469
Netting Benefits	-	-
Netted current credit exposure	2,463,742	6,820,469
Collateral held	-	-
Net Derivatives Credit Exposure	2,463,742	6,820,469
Exposure amount under CEM	9,277,557	13,752,929
Notional value of Credit Derivative Hedges	-	-
Credit Derivative transactions that create exposures to	-	-

## 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 Market Risk 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. CRCC-I 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 Market Risk 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, minimizing 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 2018	31 March 2017
Interest rate risk	271,680	249,901
Foreign exchange risk	160,000	160,000
Equity position risk	-	-
<b>Total</b>	<b>431,680</b>	<b>409,901</b>

## 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 2018, the Branch's operational risk capital is INR 158,464 in 000's (INR 140,866 in 000's as at 31 March 2017).



## Interest Rate Risk in 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. 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 Market Risk, 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 2018 is INR 16,900(000's) and INR 38,449(000's) as at 31 March 2017.

The increase / decline in earnings for an upward / downward rate shock of 200 basis points ('bps) is INR 23,903 (000's) as at 31 March 2018 and INR 88,176 (000's) as at 31 March 2017.

## Equities in Banking Book

### Equities – Disclosure for Banking Book Positions Qualitative Disclosures

- |   |   |     |
|---|---|-----|
| 1 | The general qualitative disclosure requirement with respect to equity risk, including: <ul style="list-style-type: none"> <li>• differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and</li> <li>• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.</li> </ul> | NIL |
|---|---|-----|

### Quantitative Disclosures

- |   |   |     |
|---|---|-----|
|   | (₹ in '000)   |     |
| 1 | Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.   | NIL |
| 2 | The types and nature of investments, including the amount that can be classified as: <ul style="list-style-type: none"> <li>• Publicly traded; and</li> <li>• Privately held</li> </ul>   | NIL |
| 3 | The cumulative realised gains (losses) arising from sales and liquidations in the reporting period.   | NIL |
| 4 | Total unrealised gains (losses)   | NIL |
| 5 | Total latent revaluation gains (losses)   | NIL |
| 6 | Any amounts of the above included in Tier 1 and/or Tier 2 capital.  | NIL |
| 7 | Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirements. | NIL |

## Leverage Ratio

Sr.no	Item	31 March 2018 (₹ in 000)	31 March 2017 (₹ in 000)
<b>On-balance sheet exposures</b>			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	18,469,652	20,546,290
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	<b>Total on-balance sheet exposures</b> (excluding derivatives and SFTs) (sum of lines 1 and 2)	<b>18,469,652</b>	<b>20,546,290</b>
<b>Derivative exposures</b>			
4	Replacement cost associated with all <i>derivatives</i> transactions (i.e. net of eligible cash variation margin)	2,463,742	6,820,469
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	6,813,815	6,932,460
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>9,277,557</b>	<b>13,752,929</b>
<b>Securities financing transaction exposures</b>			
12	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	1,774,116	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	<b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	<b>1,774,116</b>	<b>-</b>
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	865,372	559,277
18	(Adjustments for conversion to credit equivalent amounts)		
19	Off-balance sheet items (sum of lines 17 and 18)	<b>865,372</b>	<b>559,277</b>
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	<b>8,445,382</b>	<b>8,379,348</b>
21	<b>Total exposures (sum of lines 3, 11, 16 and 19)</b>	<b>30,386,697</b>	<b>34,858,496</b>
22	<b>Basel III leverage ratio</b>	<b>27.79%</b>	<b>24.04%</b>

**Summary comparison of Accounting Assets v/s. leverage ratio exposure measure**

	31 March 2018 (₹ in 000)	31 March 2017 (₹ in 000)
1 Total consolidated assets as per published financial statements	18,469,652	20,546,290
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation		
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4 Adjustments for derivative financial instruments		
5 Adjustment for securities financing transactions (i.e. repos and similar secured lending)	1,774,116	-
6 Adjustment for off-balance sheet items (i.e conversion to credit equivalent amounts of off-balance sheet exposures)	10,142,929	14,312,206
7 Other Adjustments		
<b>8 Leverage Ratio exposures</b>	<b>30,385,867</b>	<b>34,858,496</b>

As per RBI guideline DBR.No.BP.BC.58/21.06.201/2014-15 issued on January 8, 2015, Banks operating in India are required to make disclosure of the leverage ratio and its components from the date of publication of their first set of financial statements / results on or after April 1, 2015.

As per the instructions the disclosure is required to be made along with the Pillar 3 disclosures.

₹ in '000	31 March 18	31 December 2017	30 September 2017	30 June 2017	31 March 2017
Tier 1 capital	8,445,382	8,385,668	8,376,696	8,378,877	8,379,348
Exposure Measure	30,386,697	29,909,822	27,106,879	38,354,462	34,858,496
Leverage	27.79%	28.04%	30.90%	21.85%	24.04%

Westpac Banking Corporation - Mumbai Branch  
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 Basel III common disclosure template  
 The Reconciliation of Regulatory Capital items as on March 31, 2018:

		(₹ in 000's)
No.	Particulars	Basel-III Amounts
<b>A</b>	<b>Capital &amp; Liabilities</b>	
I	Paid-up Capital	8,087,300
	Reserves & Surplus	1,468,999
	Minority Interest	-
	<b>Total Capital</b>	<b>9,556,299</b>
II	Deposits	
	of which: Deposits from banks	5,832
	of which: Customer deposits	2,624,560
III	Borrowings	
	of which: From RBI	850,000
	of which: From banks	2,360,527
	of which: From other institutions & agencies	4,792,376
	of which: Others (pl. specify)	-
	of which: Capital instruments	-
IV	Other liabilities & provisions	2,540,642
	<b>Total</b>	<b>22,730,236</b>
<b>B</b>	<b>Assets</b>	
I	Cash and balances with Reserve Bank of India	240,905
	Balance with banks and money at call and short notice	1,793,408
II	Investments:	
	of which: Government securities	9,027,579
	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	8,548,810
IV	Fixed assets	4,885
V	Other assets	3,114,649
	of which: Goodwill and intangible assets	1,303
	of which: Deferred tax assets	21,424
VI	Goodwill on consolidation	-
VII	Debit balance in Profit & Loss account	-
	<b>Total Assets</b>	<b>22,730,236</b>

**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  
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 Basel III common disclosure template  
 Step-2

(₹ in 000's)

No.	Particulars	Balance sheet as in financial statements	Reference No.
<b>A</b>	<b>Capital &amp; Liabilities</b>		
I	<b>Paid-up Capital</b>	8,087,300	A1
	<b>Reserves and Surplus</b>	-	-
	Of which:	-	-
	Statutory reserve	380,809	A2
	Share Premium	-	-
	Investment Reserve account	-	-
	General Reserve	-	-
	Capital Reserve	-	-
	Foreign Currency Translation Reserve	-	-
	Reserve Fund	-	-
	Balance in Profit / Loss A/C	1,088,190	-
		-	-
	<b>Minority Interest</b>	-	-
	Of which: considered under capital fund	-	-
	<b>Total Capital</b>	9,556,299	-
II	<b>Deposits</b>		-
	of which: Deposits from banks	5,832	-
	of which: Customer deposits	2,624,560	-
III	<b>Borrowings</b>	8,002,903	-
	<b>i Borrowings in India</b>		-
	(A) of which: From RBI	850,000	-
	(B) of which: From banks	-	-
	(C) of which: From other institutions & agencies	4,792,376	-
	<b>ii Borrowings outside India</b>	2,360,527	-
IV	<b>Other liabilities &amp; provisions</b>	2,540,642	-
	of which: Provision for standard Advances	92,400	A3
	of which: Provision for Country Risk	3,705	A4
	of which: Excess Provision on sale of NPA	-	-
	of which: Deferred Tax Liability	-	-
	<b>Total</b>	<b>22,730,236</b>	

Westpac Banking Corporation -Mumbai Branch  
(Incorporated in Australia)  
Basel III common disclosure template

(₹ in 000's)

No.	Particulars	Balance sheet as in financial statements	Reference No.
<b>B</b>	<b>Assets</b>		
I	Cash and balances with Reserve Bank of India	240,905	-
	Balance with banks and money at call and short notice	1,793,408	-
II	Investments	9,027,579	-
	of which: Government securities	9,027,579	-
	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	8,548,810	-
	Floating provisions adjusted in loans and advances	-	-
IV	Fixed assets	4,885	-
V	Other assets	3,114,649	-
	of which: Goodwill and intangible assets Out of which:	1,303	-
	of which: Deferred tax assets	21,424	A5
VI	Goodwill on consolidation	-	-
VII	Debit balance in Profit & Loss account	-	-
	<b>Total Assets</b>	<b>22,730,236</b>	-

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