



2017  
PILLAR 3  
REPORT

SEPTEMBER 2017



200 years proudly supporting Australia



**WESTPAC EUROPE LIMITED**

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In this report any reference to 'WEL' refers to Westpac Europe Limited and any reference to 'Westpac', 'WBC', 'WBCLB' (Westpac Banking Corporation London Branch) and 'WIB' (Westpac Institutional Bank) refers to Westpac Banking Corporation.

WEL has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL and is a company registered in England and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority

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

In this report the disclosures reflect the disclosure requirements set out in the European Union Regulation No 575/2013.

This report is available on the Westpac group website (<http://www.westpac.com.au/about-westpac/global-locations/westpac-uk/>).

Unless otherwise indicated, financial information provided in this report is as at 30 September 2017 (the financial year end for Westpac and WEL). This report is produced on an annual basis, following the financial year end publication of the Westpac Annual Report. This report may omit one or more disclosures on the basis that the information is immaterial, confidential or proprietary in nature. In these circumstances the report will specify which items of information are not disclosed and the reason for non-disclosure.

In this report, unless otherwise stated or the context otherwise requires, references to \$, USD or US\$ are to United States dollars.

In this report, the accounting currency used is US dollar.

These disclosures have been presented by the WEL Board and prepared by WBCLB Compliance and Finance teams.

The Pillar 3 report has been prepared to disclose certain capital requirement, risk management and governance related information and for no other purpose. This report does not constitute any form of financial statement and must not be relied upon in making any judgement in relation to WEL.

## Pillar 3 report

### Executive summary

Westpac Europe Limited (WEL) is a 100% owned subsidiary of Westpac Banking Corporation (Westpac). The firm was registered at Companies House on 21 December 2005 and the name changed to Westpac Europe Limited in January 2006. WEL was granted a banking licence by the FSA in May 2006.

Due to the legislative restrictions on the ability of Westpac, as a non EEA incorporated entity, to conduct cross border activities in certain European jurisdictions, it became necessary to incorporate an EEA subsidiary that would be able to gain cross border permissions or licences to conduct activities in those jurisdictions.

The WEL Balance Sheet<sup>1</sup> as at 30 September 2017 is set out below:

#### Statement of Financial Position

	30 September 2017	30 September 2016
\$000's	US\$	US\$
<b>Assets</b>		
<b>Current assets:</b>		
Cash and bank balances	12,120	11,237
Derivative financial instruments	14,205	15,817
Held to maturity securities	140,691	90,846
Due from related entities	294	3,192
Other assets	2,807	3,120
<b>Total current assets</b>	<b>170,117</b>	<b>124,212</b>
<b>Non-current assets</b>		
Held to maturity securities	60,000	90,041
Loans and advances to customers	138,795	147,223
<b>Total non-current assets</b>	<b>198,795</b>	<b>237,264</b>
<b>Total assets</b>	<b>368,912</b>	<b>361,476</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Borrowings	249,888	208,318
Derivative financial instruments	14,205	15,817
Due to related entities	2,908	3,445
Other liabilities	252	2,836
Current tax liabilities	21	
<b>Total current liabilities</b>	<b>267,274</b>	<b>230,416</b>
<b>Non-current liabilities</b>		
Borrowings	60,000	90,000
Other liabilities	120	
<b>Total non-current liabilities</b>	<b>60,120</b>	<b>90,000</b>
<b>Total liabilities</b>	<b>327,394</b>	<b>320,416</b>
<b>Net assets</b>	<b>41,518</b>	<b>41,060</b>
<b>Equity</b>		
Share premium reserve account	38,427	38,427
Accumulated profit	3,091	2,633
<b>Total equity</b>	<b>41,518</b>	<b>41,060</b>
<b>Total equity and liabilities</b>	<b>368,912</b>	<b>361,476</b>

<sup>1</sup> The WEL balance sheet published in the financial statements is the same as the balance sheet prepared under the regulatory scope and therefore a reconciliation between the two is not carried out.

## Pillar 3 report

### Executive summary

The material risks to WEL include:

- Credit Risk;
- Liquidity Risk;
- Operational Risk;
- Legal and Regulatory Risk; and
- Related Party Risk

As at 30 September 2017 WEL had \$41,518k of Tier 1 capital available, which the Board considered more than sufficient to cover the risk profile of the firm.

WEL has a simple business model designed to minimise market risk, credit risk and liquidity risk. This is accomplished as follows:

- All derivative transactions are backed out to Westpac and any mark to market is covered by cash collateral placed by Westpac;
- All loans and advances made by WEL are funded by Westpac;
- All undrawn commitments and deposits are covered by cash collateral placed by Westpac; and
- The cash collateral is invested in high quality liquid assets (HQLA), specifically government securities and bank papers.

The underlying credit, market and liquidity risks for WEL are mitigated through various legally binding agreements with Westpac.

The collateral requirement from Westpac is monitored by WEL on a daily basis and includes a minimum buffer to ensure WEL always has sufficient collateral. Management reviews the collateral position report daily and the board reviews the overall collateral position on a monthly basis. The board views the collateral report as an appropriate control to ensure that undrawn commitments, deposits and derivative transactions are adequately cash collateralised on a daily basis. In addition, Group Assurance reviews the collateral procedure and position report as part of their audit scope.

The key regulatory ratios assessed by the WEL Board include<sup>1</sup> :

	<b>2017</b>	<b>2016</b>
<b>\$m</b>	<b>US\$</b>	<b>US\$</b>
<b>Capital indicators</b>		
Common equity tier 1 ratio	109.95%	154.25%
<b>Leverage ratios</b>		
Debt ratio	88.75%	88.64%
Debt-to-equity ratio	7.89	7.8
<b>Liquidity indicators</b>		
Liquidity coverage ratio	557%	2396%
Current ratio	1.38	1.69
<b>Profitability indicators</b>		
Return on assets	0.12%	0.09%
Return on equity	1.11%	0.81%
<b>Asset quality indicators</b>		
Off balance sheet commitments/Total assets	30.09%	29.38%
Customer advance/Total assets	37.72%	40.85%
Internal funding/Total assets	84.03%	82.53%

<sup>1</sup> This table is based on the audited Financial Statement as at 30/09/2017; the CET1 ratio is based on the September 2017 COREP001 calculation.

Westpac's vision is to be one of the world's great service companies, helping customers, communities and people to prosper and grow. The WEL Board endorses this vision and recognises its responsibilities in maintaining a robust management process and a strong risk management culture. Well defined controls, that are designed to ensure that the capital and liquidity adequacy requirements are embedded into WEL's day to day operations, include:

- Strong reporting process – regular (daily and monthly), structured and transparent reporting provided for senior management oversight;
- Escalation process – to inform the PRA about expected or actual fall in capital below the regulatory buffers;
- Review and sign-off process - annual review of the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP to assess the quantity and quality of capital to adequately cover the level and nature of risks and evaluation of appropriate stress tests and scenario analysis. The Board seeks to gain full insight into the risk and calculations to be able to fully deliberate, challenge and gain assurance that all the appropriate risks are considered and capital adequacy assessed and maintained;
- Compliance review – periodic reviews are carried out in accordance with the monitoring programmes;
- Internal Audit review – internal reviews are carried out to assess the effectiveness of controls and procedures;
- Business Continuity Procedures – periodic reviews and tests are carried out to test business continuity and disaster recovery procedures; and
- Reasonableness review of regulatory returns – a review of the material is performed by subject matter experts prior to submission of the returns to the regulatory authority.

### Background and Business Strategy

WEL is essentially a sales and marketing operation, which was established to generate business in selected EEA countries. Competition is intense in these markets, and the ability to deal with counterparties in these jurisdictions is critical to generating business in Australasia through the Australasian subsidiaries of EEA companies. WBC continues to value the ongoing maintenance and growth of its business in Europe, and promoting its AUD and NZD franchise. WEL also assists in protecting and promoting business gained in Australasia through various products and services.

In view of the nature, scale and complexity of its business model, and its categorisation under the current supervisory approach by both regulators, WEL should be considered a non-systemic risk entity.

WEL only enters into business with professional clients and eligible counterparties, as defined by MiFID, which is consistent with the strategy of Westpac Banking Corporation London Branch (WBCLB). There are no dealings with retail clients.

WEL's business focuses primarily on wholesale vanilla FX (spot, forward and options), bonds, swaps and other derivatives, and commodity/energy risk management products. In addition, bi-lateral and syndicated loan facilities and other types of commitments are extended through Corporate & Institutional Banking. Wholesale deposits are also accepted through the Treasury desk. There are no structured products originated or distributed by WEL.

The following graph illustrates the flow of credit and market risk from WEL to Westpac, the funding of loans by Westpac via WEL to the counterparty and subsequent repayment, and cash collateral from Westpac to WEL.



To allow WEL to operate on a near risk free basis and to minimise the impact of WEL's business on Westpac's capital, all financial markets transactions entered into by WEL are simultaneously backed out to Westpac. All back out trades are on terms exactly equal and opposite to the transaction with the external/customer counterparty.

### WEL's statement of Risk Appetite

The WEL Board is responsible for the risk management framework (including the ICAAP and ILAAP), governance and strategy. The Board articulates the risk appetite, adopts strong risk management strategies and encourages a sound risk culture. The Board understands the WEL risk profile, balances risk and reward with the risk appetite, maintains a strong balance sheet, guards against excessive risk or undue risk concentration and meets regulatory and compliance obligations.

In principle WEL's tolerance level for risk is very low due to the business model and strategy of backing out any risk on transactions to Westpac.

WEL does not have any employees. Instead staff are seconded from WBCLB to WEL under a formal arrangement. A consequence of the secondment arrangement with Westpac is that there are no employee costs (including pension costs, redundancy costs etc.) incurred by WEL in the event of WEL ceasing operations.

WEL has entered into an intragroup Outsourcing Agreement with Westpac's Institutional Banking Services team for the provision of operational services for the confirmation and settlement of financial transactions and corporate loans executed in its name.

On a group wide and global basis, WBC operates a Three Lines of Defence ("3LoD") approach to risk management which reflects its culture of 'risk is everyone's business'. WEL also operates within this framework. WBC's overall 3LoD approach is depicted diagrammatically below:



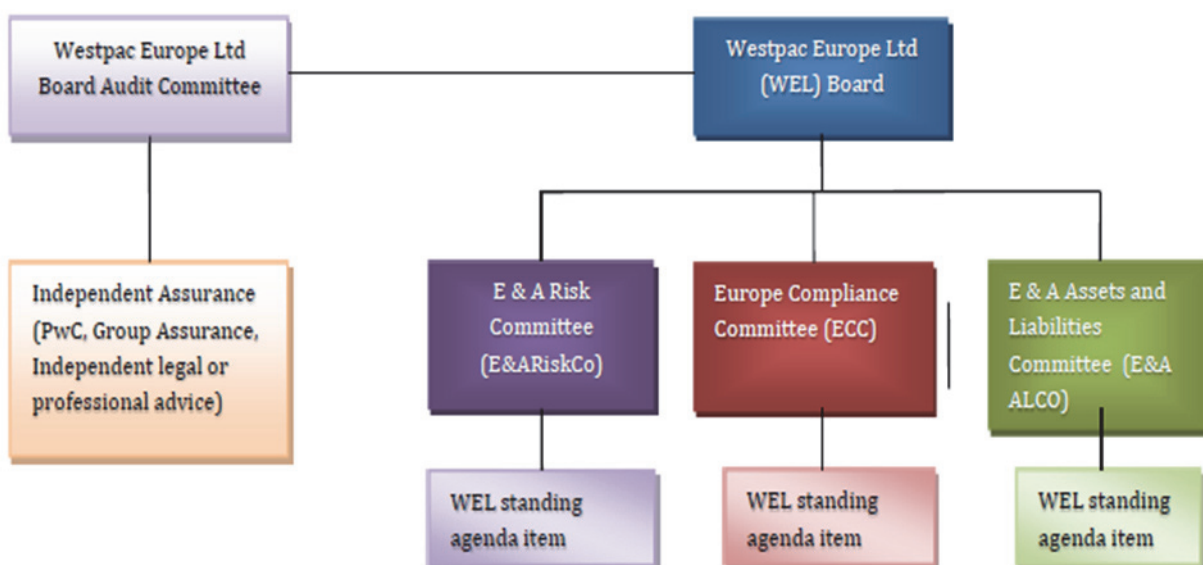
### Governance Structure & Committees

The WEL Board comprises five Directors:

- Chairman of the Board and Non-Executive Director;
- Executive Director;
- Executive Director;
- Independent Non-executive Director; and
- Independent Non-executive Director.

Board meetings are held at least quarterly.

WEL Committees:



#### Board Audit Committee

The WEL Board has one committee: the Board Audit Committee (“BAC”). BAC meetings are held half yearly.

The BAC oversees all matters concerning the integrity of the financial statements and financial reporting systems, the external auditor’s qualifications, performance, independence and fees; oversight and performance of the internal audit function; compliance with financial reporting and related regulatory requirements; and procedures for the receipt, retention and treatment of complaints received on accounting, internal accounting controls or auditing matters and the confidential reporting by employees of concerns regarding accounting and auditing matters.

The BAC receives information from external audit and internal WBC Group Audit. The BAC reports into the WEL Board.



### **Shared Committees**

The following governance committees are shared committees considering matters relevant to WBCLB and WEL:

- Europe Risk Committee;
- Europe Compliance Committee; and
- E&A Asset and Liability Committee.

Information packs from the governance committees (e.g. minutes, quarterly reports) are provided to the WEL Board as part of the quarterly WEL board pack.

#### **Europe Risk Committee (EU RISKCO)**

The EU RISKCO provides senior business management oversight and control of the risks arising out of the E&A business activities of WBCLB and WEL.

The EU RISKCO is responsible for implementing and monitoring WBC Group risk frameworks and policies and all aspects of risk for E&A, including acceptance and ratification of Local VaR (Value at Risk) limits. Additionally it is responsible for ensuring effective risk management oversight.

Westpac Institutional Bank Risk and Compliance Committee (WIB RISKCO) and the WEL Board have ultimate oversight over the EU RISKCO.

Standing agenda items include the following risk categories: market, liquidity, credit, operational, legal & regulatory, technology & business continuity and reputational, sustainability and strategic.

The EU RISKCO also includes a sub-committee (the Credit & Pricing Sub-Committee), which reviews recent and pending credit decisions against WIB risk appetite, credit portfolio composition, risk concentration and asset quality parameters, and meets immediately after each full EU RISKCO meeting.

#### **Europe Compliance Committee (ECC)**

The ECC oversees the compliance systems and controls environment of Westpac and ensures that these are both adequate and effective. The ECC is responsible for monitoring WBC's compliance with applicable laws and regulation, ensuring the First Line is adequately supported, reviewing any compliance breaches and assessing any action taken as well as any requirements to report any breach to regulators. The ECC also has responsibility for ensuring that all compliance issues are recorded and resolved in an effective time frame.

The WIB Risk Committee has divisional oversight of the ECC within WIB. The Westpac Board Risk & Compliance Committee has ultimate oversight of the ECC within the broader Group framework.

Standing agenda items include compliance plan review; Certified Persons approvals and withdrawals; compliance training; compliance monitoring; regulatory reform; FCA/PRA correspondence; FCA/PRA visit preparation or remediation; prudential matters; projects; compliance breaches; and financial crime reporting and oversight (including new accounts, fraud, sanctions issues, transaction monitoring and bribery & corruption).

#### **Europe & Americas Asset & Liability Committee (E&A ALCO)**

The E&A ALCO has oversight of liquidity, credit portfolio composition and key credit approval decisions taken in the E&A jurisdictions. The E&A ALCO oversees regulatory compliance as well as managing the balance sheet in line with WIB Offshore ALCO strategy.

The objectives and responsibilities of the E&A ALCO are to:

- review asset quality and balance sheet composition;
- review global funding and liquidity management including short and long term risks and the Offshore Funding Crisis Model;
- review key credit approval decisions;
- review pending or potential business activity;
- review pricing trends and balance sheet performance; and
- monitor regulatory change impacts to identify and address any potential balance sheet impacts.

The WIB Offshore Asset & Liability Committee has ultimate oversight over the E&A ALCO.

### **Other**

A monthly New York & London New Products and Markets ("NPSM") forum, through which new products are reviewed, assessed and approved (including by relevant Second Line of Defence functions), to ensure they are within risk tolerance levels (e.g. compliance, legal, credit and market risk and operational risk) for WBCLB and WEL.

### Overview of Key Business Units for WBCLB and WEL

The E&A business of WBC is managed locally overall by the General Manager E&A, including management of risk and controls, with direct line responsibility for the support of finance and people and performance. The General Manager E&A is the main interface with the relevant business heads in Australia on implementing strategic initiatives into the global business lines, including ensuring that risk is within risk tolerance levels (such as compliance, legal, credit, market, and operational risk). The General Manager E&A chairs the Europe Management Committee which oversees the activities of WBCLB and WEL. This is supported by the Europe RISKCO, E&A ALCO, ECC and NPSM forum.

The E&A business of WBC is also managed on a global basis, with each of the product, operational and risk lines reporting into their respective global heads in relation to strategy, execution and revenue targets.

The key business units for WBC and WEL are:

- Financial Markets;
- Corporate & Institutional Banking;
- Treasury;
- Finance;
- Risk Management Function;
- Internal Audit;
- Compliance;
- Financial Crime Management
- Operations;
- Human Resources;
- Technology; and
- Legal.

WEL Senior Managers (Job Titles):

- General Manager E&A;
- Chief Operating Officer E&A;
- Head of WIB Compliance Europe;
- Money Laundering Reporting Officer;
- Chief Risk Officer E&A;
- Head of Audit, WIB and Treasury, Group Audit;
- Chief Finance Officer International;
- Non-Executive Director; and
- Non-Executive Director.

## Pillar 3 report

### Capital overview

This table shows WEL's capital resources as at 30 September 2017:

	30 September 2017		30 September 2016	
	2017		2016	
\$000's	US\$		US\$	
Risk Exposures:				
Credit Risk 1	32,016		21,286	
Market Risk	-		-	
Operational Risk	5,328		5,119	
<b>Total Risk Exposure Amount</b>	<b>37,343</b>		<b>26,405</b>	
Capital Resource Requirement	-		-	
Pillar 1	2,987		2,112	
Pillar 2 (including buffers)	4,758		2,729	
<b>Total Capital</b>	<b>5,441</b>		<b>4,841</b>	
Tier 1 capital (equity and reserves)	41,518		41,060	
<b>Capital surplus</b>	<b>33,773</b>		<b>36,219</b>	

WEL seeks to ensure that it is adequately capitalised at all times. WEL's common equity Tier 1 capital ratio was 110%<sup>1</sup> at 30 September 2017. WEL's capital adequacy ratios are below:

	30 September 2017	30 September 2016
Common equity Tier 1 capital ratio %	110	154
Additional Tier 1 capital %	0	0
Tier 1 capital ratio %	110	154
Tier 2 capital %	0	0
<b>Total regulatory capital ratio %</b>	<b>110</b>	<b>154</b>

The Pillar 1 capital calculated per the risk weighted assets are below. WEL uses the Standardised Approach for the calculation of credit risk and the Basic Indicator Approach for calculating operational risk<sup>2</sup>.

	30 September 2017		30 September 2016	
	2017		2016	
\$m	US\$		US\$	
Credit risk	32.0		21.3	
Market risk	0.0		0.0	
Operational risk	5.3		5.1	
Interest rate risk in the banking book	0.0		0.0	
Other	0.0		0.0	
<b>Total</b>	<b>37.3</b>		<b>26.4</b>	

<sup>1</sup> This is based upon September 2017 COREP001 reported number.

<sup>2</sup> The Credit risk exposure amount calculated in accordance with Article 111 to 134 of the Capital Requirements Regulation (575/2013) (CRR). The Operational Risk amount calculated in accordance with Article 315 of the Capital Requirements Regulation (575/2013) (CRR).

## Pillar 3 report

### Capital overview

This table shows risk weighted assets and associated capital requirements<sup>1</sup> for each risk type included in the regulatory assessment of WEL's capital adequacy.

30 September 2017		Total Capital	
\$m	Risk Exposures	Required	
Credit risk			
Corporate	0.0	0.0	
Business lending	0.0	0.0	
Sovereign	0.0	0.0	
Bank	29.5	2.4	
Residential mortgages	0.0	0.0	
Other retail	0.0	0.0	
Small business	0.0	0.0	
Specialised lending	0.0	0.0	
Securitisation	0.0	0.0	
Mark-to-market related credit risk	0.0	0.0	
Other assets	2.5	0.2	
<b>Total</b>	<b>32.0</b>	<b>2.6</b>	
Market risk	0.0	0.0	
Operational risk	5.3	0.4	
Interest rate risk in the banking book	0.0	0.0	
<b>Total</b>	<b>37.3</b>	<b>3.0</b>	

This table sets out WEL's risk weighted assets as at 30 September 2017:

\$000's	30 September 2017		Assets after Risk Mitigation		Risk weighting	Risk weighted Assets
	US\$	US\$	US\$	US\$		
<b>ASSETS</b>						
<b>Current assets:</b>						
Cash and bank balances	12,120	-	12,120		20%	2,424
Derivative financial instruments	14,205	14,205	-		100%	-
Held to maturity securities - Credit Step 1	105,691	105,691	0		20%	0
Held to maturity securities - Credit Step 2	35,000	-	35,000		50%	17,500
Due from related entities	294	294	-		20%	-
Other assets	2,807	2,348	459		20%	92
<b>Total current assets</b>	<b>170,117</b>	<b>122,538</b>	<b>47,579</b>			<b>20,016</b>
<b>Non-current assets</b>						
Held to maturity securities - Credit Step 1	60,000	-	60,000		20%	12,000
Loans and advances to customers	138,795	138,795	-		100%	-
<b>Total non-current assets</b>	<b>198,795</b>	<b>138,795</b>	<b>60,000</b>			<b>12,000</b>
<b>TOTAL ASSETS</b>	<b>368,912</b>	<b>261,333</b>	<b>107,579</b>			<b>32,016</b>
Pillar 1 credit risk requirement						<b>2,561</b>

The WEL Board and the various governance committees ensure that an appropriate level and quality of capital commensurate with its risk profile, business strategy and risk appetite is maintained. WEL regards material risks as those risks that affect its business in terms of performance, reputation and future success. WEL manages these material risks by taking an integrated and balanced approach to risk and reward. Assessments of the various risks faced by WEL are provided below.

<sup>1</sup> The risk weighted assets are calculated using the standardised approach.

## Credit Risk

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations; it is measured and monitored through the Westpac credit risk calculation and limit monitoring systems and processes. The standardised risk weighted approach is used to measure credit risk. Counterparty risk uses the Marked to Market method and credit risk mitigation is recognised only when formal legal documentation is held that establishes direct, irrevocable and unconditional recourse to collateral or to an unrelated credit risk mitigation provider.

### Counterparty Credit Risk

WEL faces counterparty credit risk when it trades derivative products with counterparties or enters into loan facilities with clients. WEL minimises credit risk as follows:

- All derivative transactions are backed out to Westpac and any mark to market is covered by cash collateral placed by Westpac
- All loans and advances made by WEL are funded by Westpac
- All undrawn commitments and deposits are covered by cash collateral placed by Westpac

### Concentration Risk

The above risk transfer process inevitably creates a large single name concentration<sup>1</sup> risk to Westpac. This is effectively mitigated when:

- Care is taken to invest the cash collateral in high rated government securities and investment grade bank paper; the investment in bank paper are held in parcels within the regulatory ceiling to prevent concentration risk. The credit risk on these liquid assets is monitored by Treasury and WIB Credit and overseen by E&A ALCO.

The collateral position as at 30 September 2017:

	30 September 30 September	
	2017	2016
\$m	US\$	US\$
Collateral amount required	114	111
Collateral amount held*	171	151
Surplus	57	40
% Buffer	50%	36%

\*Excluding \$30m Capital invested in Government Securities and Bank Papers

WEL is exposed to geographic risk as the underlying counterparties are all located in the EEA. The credit risk arising on these exposures is covered by Westpac as part of the risk transfer arrangement through collateralisation.

### Residual Risk

Residual risk arises from the partial performance or failure of credit risk mitigation techniques. For the purposes of the risk assessment, this also includes the partial performance of the collateral arrangement with Westpac.

A key mitigating control is the daily review of the collateral position report by Senior Management. This report is produced on a T+1 basis and demonstrates that there is sufficient collateral to cover the undrawn commitments and any mark-to-market fluctuations on derivative transactions. Additionally, the operations area informs management in advance of any loan drawdowns or repayments.

WEL has also developed a systematic Risk Mitigation Testing Programme matrix consisting of several early warning indicators that are critical for monitoring the quality of assets for WEL. The matrix is monitored on a monthly basis.

### Market Risk

The historical simulation Value-at-Risk (at 99% confidence level) is used to calculate market risk, however WEL does not run any traded market risk exposure as all trades are immediately and automatically backed out to Westpac through matching transactions under risk transfer arrangements.

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<sup>1</sup> Concentration risk is the risk that results from a lack of diversification of exposures and includes large exposures, geographic and industry risk.

## Liquidity Risk

Liquidity risk is the risk that WEL will not be able to fund its assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk is measured and managed in accordance with the policies and processes defined in the Liquidity Risk Management Framework which sets out the liquidity risk appetite, roles and responsibilities, tools for measuring and managing liquidity risk, reporting procedures and supporting policies. This risk is mitigated via the collateralisation and loan funding agreement with Westpac. WEL also has a multicurrency liquidity facility with Westpac which can be availed in the event of a liquidity shortfall as a result of a market wide stress or idiosyncratic stress. WEL acquires most of its funding and liquidity resources from Westpac. As at 30 September 2017 WEL maintained its Liquidity Coverage Ratio (LCR) in excess of 100%. The LCR is calculated and monitored on a daily basis.

The LCR requires banks to hold sufficient HQLA to withstand 30 days under a stress scenario. WEL's LCR as at 30 September 2017 was 557%. Liquid assets included in the LCR comprise unencumbered high quality government securities.

The LCR disclosure template on quantitative information of LCR which complements Article 435 (1)(f) of Regulation (EU) No 575/2013:

US\$	TOTAL ADJUSTED VALUE
Period ending on	30 September 2017
Number of data points used in the calculation of averages	12
21 Liquidity Buffer	87.4
22 Total Net Cash Outflows	6.8
23 Liquidity Coverage Ratio (%)	1278%

Unconsolidated LCR simple averages of month-end observations over the twelve months of FY 2017

## Operational Risk

Operational risk is the risk that arises from inadequate or failed internal processes, people and systems or from external events. The Board has adopted the Westpac Operational Risk Management Framework including the likelihood and primary impact categories and thresholds to manage operational risk. Westpac also has comprehensive and well tested Disaster Recovery and Business Continuity Plans. WEL has adopted the basic indicator approach to measuring operational risk.

WEL's operational risk capital as at 30 September 2017 is \$426k, being 15% of the sum of the three year average total net income.

	30 September	30 September	30 September
	2017	2016	2015
\$000's	US\$	US\$	US\$
Net interest income	208	65	57
Net non interest income	2,710	2,714	2,771
<b>Total net income</b>	<b>2,917</b>	<b>2,779</b>	<b>2,828</b>
Three year average total net income	2,841		
<b>15% of three year average</b>	<b>426</b>		

## Other Risk Categories

Various other risks categories are considered under the ICAAP review:

**Interest Rate Risk in the Banking Book (IRRBB)** – This is the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of banking activities; it is mitigated via collateralisation of derivatives, match funding of loan facilities and investment of collateral in HQLA.

**Legal and Regulatory Risk** - Ongoing compliance with regulatory obligations is facilitated by the Compliance team in conjunction with legal counsel. Changes to the regulatory regime are monitored by Compliance, legal counsel and trade organisations and action is taken accordingly.

**Reputation Risk** - Westpac has a Reputation Risk Framework that sets out its approach to managing reputation risk. The requirements of this framework apply equally to WEL as a subsidiary of Westpac.

**Related Party Risk** – Related party risk is considered low due to the strength of Westpac, its credit rating (since 01 Dec 2011: S&P AA-) and occurrence probability.

**Securitisation Risk** - WEL does not undertake any securitisation activities.

**Business and Strategic Risk** – given the size, scale and complexity of WEL, the Business and Strategic risk are minimal.

The WEL Board also considers Currency Risk, Conduct Risk, Sustainability Risk, Pension Obligation Risk and Insurance Risk in its deliberations on risk management.

## Westpac Group Remuneration Policy

The objective of the Westpac Group Remuneration Policy (the Policy) is to attract and retain talented employees, by rewarding them for achieving high performance and delivering superior long term results for our customers and our shareholders, while adhering to sound risk management and governance principles. The Policy applies to all employees of Westpac globally (except temporary/casual employees), and its related bodies corporate (unless separately listed on the Australian Securities Exchange). Specific variable reward (VR) plans are established to ensure alignment between business strategy and performance. Processes are in place to ensure remuneration arrangements comply with regulatory requirements.

In the UK, the Policy covers WBCLB (FRN 124586) and WEL (FRN 447161).

The Policy is reviewed by the Board Remuneration Committee (BRC) on a regular basis.

## Remuneration Governance

### Governance Structure

WBC operates a remuneration governance model below the Westpac Board and BRC level. This includes the Remuneration Oversight Committee (ROC), Risk Adjustment Oversight Committee (RAOC) and, in respect of WEL and WBCLB, the Westpac Institutional Bank Divisional Remuneration Oversight Committee (WIB DROC).

### Reward Strategy and Link to Performance

Fixed remuneration is reviewed annually. Employees have the opportunity to participate in a VR plan designed to support the objectives of their division and the Group, including risk management. All employees who receive VR above a certain threshold have a portion of the award deferred into equity. All current and unvested VR is subject to risk adjustment.

When approving the VR pools, the Westpac BRC and ROC primarily take into account Economic Profit (EP) performance year on year and against target and is informed an assessment of the appropriate sharing of profit among employees, shareholders, required capital and reinvestment capital. The Group variable reward pool is adjusted for current and future risk.

The determination of VR for all employees is based on performance against agreed objectives/goals in line with the relevant business strategy, performance relative to peers and the demonstration of behaviours in line with our values (including compliance and risk requirements).

### Independence of Risk and Financial Control Employees

Remuneration outcomes for risk and financial control employees, which are principally based on the achievement of functional objectives and not the financial performance, are subject to review and approval by the relevant functional leadership team.

### Quantitative Disclosures

WEL has no permanent employees. WBCLB has employees that are seconded to work for WEL as required. The following remuneration disclosures relate to WBCLB employees.

It is considered that WEL operates a single business unit. For the performance year ending 30 September 2017, the total remuneration of senior managers was £2.9million and the total remuneration of other material risk takers was £1.35million.

Senior Managers includes those employees, as defined by SYSC 4 and 19, SUP 10A & B of the FCA Handbook and Senior Management Functions chapter of the PRA CRR Handbook, who are the most senior executives of WBC London Branch and WEL; their activities can materially affect a substantial part of WEL or its financial standing, either directly or indirectly. Other material risk takers are those individuals (other than Senior Managers) identified in accordance with the European Regulation on Material Risk Takers and includes employees who can influence capital and/or liquidity, are in a control function, take market risk positions, and/or can approve large credit exposures or programmes. The above disclosures relate to the total remuneration of relevant employees, which has not been apportioned between WBCLB and WEL.



## Pillar 3 report

### Appendix I | Own Funds: Transitional Basis

Disclosure according to Article 3 in Commission implementing regulation (EU) No 1423/2013<sup>1</sup>

		US\$000's
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>		
1	Capital instruments and the related share premium accounts	38,427
2	Retained earnings	3,091
3	Accumulated other comprehensive income (and other reserves)	-
3a	Funds for general banking risk	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-
5	Minority interests (amount allowed in consolidated CET1)	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>41,518</b>
7	Additional value adjustments (negative amount)	-
8	Intangible assets (net of related tax liability) (negative amount)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-
11	Fair value reserves related to gains or losses on cash flow hedges	-
15	Defined-benefit pension fund assets (negative amount)	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-
20b	of which: qualifying holdings outside the financial sector (negative amount)	-
20c	of which: securitisation positions (negative amount)	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-</b>
29	<b>Common Equity Tier 1 (CET1) capital</b>	<b>41,518</b>
44	<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>41,518</b>
50	<b>Credit risk adjustments</b>	<b>-</b>
57	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	<b>-</b>
58	<b>Tier 2 (T2) capital</b>	<b>-</b>
59	<b>Total capital (TC = T1 + T2)</b>	<b>41,518</b>
60	<b>Total risk weighted assets</b>	<b>37,343</b>
<b>Capital ratios and buffers<sup>2</sup></b>		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	110%
62	Tier 1 (as a percentage of total risk exposure amount)	110%
63	Total capital (as a percentage of total risk exposure amount)	110%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	-
65	of which: capital conservation buffer requirement	
66	of which: countercyclical buffer requirement	
67	of which: systemic risk buffer requirement	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	-
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	

<sup>1</sup> Due to the nature scale and complexity of WEL's business the Own Funds report on the "Transitional Basis" and "Full Basis" are the same

<sup>2</sup> The Capital ratios and buffers under 64, 65 and 68 have not been disclosed in this report and are fully detailed in the WEL ICAAP

Disclosure according to Article 3 in Commission implementing regulation (EU) No 1423/2013

**Called up share capital**

	<b>2017</b>	<b>2016</b>
	<b>No.</b>	<b>No.</b>
<b>Issued and fully paid share capital</b>		
1 share of US\$1 each	<u>1</u>	<u>1</u>
<b>Total called up share capital</b>	<b>1</b>	<b>1</b>

The capital was issued on 18 May 2006. The US\$1 of share capital was paid up at a price of US\$38,427k and transferred to the share premium account.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure. The Company's capital management is also driven by the requirements of the Companies Act 2006 and Prudential Regulation Authority as applicable to UK Banks, and as such a regular calculation is performed in order to calculate the statutory capital requirements versus the current capital resources of the Company.