WESTPAC EUROPE LIMITED

2019
Pillar 3
Report

30 SEPTEMBER 2019

Incorporating the
requirements of APS330

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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 2019 (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.

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 licensing 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 conduct cross border business with EEA clients pursuant to an EEA Passport.

The WEL Balance Sheet[1] as at 30 September 2019 is set out below:

Statement of Financial Position

$000's	30 September 2019 US$	30 September 2018 US$
Assets		
Current assets:		
Cash and bank balances	7,458	7,496
Derivative financial instruments	5,861	6,369
Debt securities at amortised cost	209,325	215,342
Due from related entities	4,213	369
Other financial assets	14,392	1,463
Total current assets	**241,249**	**231,039**
Non-current assets		
Debt securities at amortised cost	35,174	-
Loans and advances to customers	134,158	116,611
Total non-current assets	**169,332**	**116,611**
Total assets	**410,581**	**347,650**
Liabilities		
Current liabilities		
Borrowings	288,304	277,226
Derivative financial instruments	5,861	6,369
Due to related entities	15,575	1,499
Other financial liabilities	1,842	1
Provisions	81	-
Current tax liabilities	114	75
Total current liabilities	**311,777**	**285,170**
Non-current liabilities		
Borrowings	35,000	-
Other financial liabilities	47	57
Total non-current liabilities	**35,047**	**57**
Total liabilities	**346,824**	**285,227**
Net assets	**63,757**	**62,423**
Equity		
Share premium reserve account	58,427	58,427
Accumulated profit	3,996	3,091
Current period retained earnings	1,334	905
Total equity	**63,757**	**62,423**
Total equity and liabilities	**410,581**	**347,650**

[1] The WEL balance sheet published in the financial statements is the same as the balance sheet prepared under the regulatory scope and therefore reconciliation between the two is not carried out.

The determination of the appropriate levels of capital is dependent on the risks associated with WEL's business model. The material risks to WEL include:

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

As at 30 September 2019, WEL had $62,423k[1] of Tier 1 capital available, which the Board considered more than sufficient to cover the risk profile of the firm, regulatory requirements and market conditions.

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

- All foreign exchange, capital markets and other derivative transactions are backed out to Westpac at the same market rates, and any mark-to-market (for example, on client facing derivatives) is calculated and covered daily by cash collateral placed by Westpac;
- All loans and advances made by WEL are funded by Westpac;
- All undrawn commitments and wholesale 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 received from Westpac is monitored by WEL on a daily basis and includes a minimum buffer to ensure WEL always holds sufficient collateral. Management reviews the collateral position report daily and the board reviews the overall collateral position on a monthly basis. The WEL 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[2]:

$m	30 September 2019 US$	30 September 2018 US$
Capital indicators		
Common equity tier 1 ratio	163.86%	166.60%
Leverage ratios		
Debt ratio	84.47%	82.04%
Debt-to-equity ratio	5.44	4.57
Liquidity indicators		
Liquidity coverage ratio	1239%	790%
Current ratio	1.41	1.39
Profitability indicators		
Return on assets	0.32%	0.26%
Return on equity	2.09%	1.47%
Asset quality indicators		
Off balance sheet commitments/Total assets	33.26%	36.64%
Customer advance/Total assets	32.68%	33.60%
Internal funding/Total assets	78.74%	79.76%

[1] This figure excludes current period retained earnings in consideration of Article 26 of the Capital Requirement Regulation (CRR) which allows institutions to include interim or year-end profits in CET1 capital before the institution has taken a formal decision confirming the fin al profit or loss for the year only with prior permission of the competent authority.
[2] This table is based on the audited Financial Statement as at 30/09/2019.

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 processes – regular (daily and monthly), structured and transparent reporting, with a range of metrics, are provided to senior management so that informed decisions can be taken;
- Escalation processes – procedures are in place to inform the PRA about expected or actual fall in capital below the regulatory buffers;
- Review and sign-off processes – there is strong governance around the annual review of the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) to assess the quantity and quality of capital and liquid resources to adequately cover the level and nature of risks and evaluation of appropriate stress tests and scenario analysis. Stress testing and scenario analysis are part of the ICAAP/ILAAP process. A recovery plan is also documented. The Board seeks information to gain full insight into the risk and calculations to be able to fully deliberate, challenge and gain assurance that all appropriate risks are considered and capital adequacy assessed and maintained;
- Compliance reviews – periodic reviews are carried out in accordance with monitoring programmes;
- Internal Audit reviews – internal reviews are undertaken to assess the effectiveness of controls and procedures;
- Business Continuity Procedures – periodic reviews and tests are performed to test business continuity and disaster recovery procedures; and
- Reasonableness review of regulatory returns – a review of the material is completed by subject matter experts prior to submission of the returns to the regulatory authorities.

Background and Business Strategy

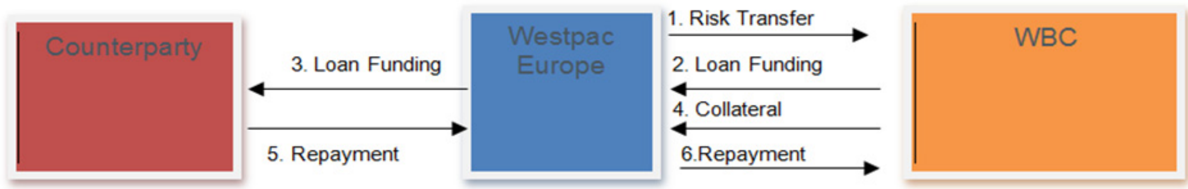
As a wholly owned subsidiary of Westpac and consistent with Westpac's existing operations in WBCLB, WEL's business is anchored to customers with connections to Australia and New Zealand. WEL is essentially a sales and marketing operation, which was established to generate business in selected EEA countries. 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.

The principal activities of WEL are regulated banking business and MiFID II investment services with targeted European corporate and institutional customers (all of which are eligible counterparties or professional clients) on a cross-border basis via an EEA Passport. There are no dealings with retail clients.

WEL's business focuses primarily on wholesale vanilla FX (spot, forward and swaps), bonds, and other derivatives such as interest rate swaps. 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 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 which is reflected in and reinforced by its business model.

WEL does not have any employees. Instead staff are seconded from WBCLB to WEL under a secondment 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, settlement and where relevant, reporting 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' in which all employees are responsible for identifying and managing risk and operating within the Group's desired risk profile. WEL also operates within this framework. WBC's overall 3LoD approach is depicted diagrammatically below:

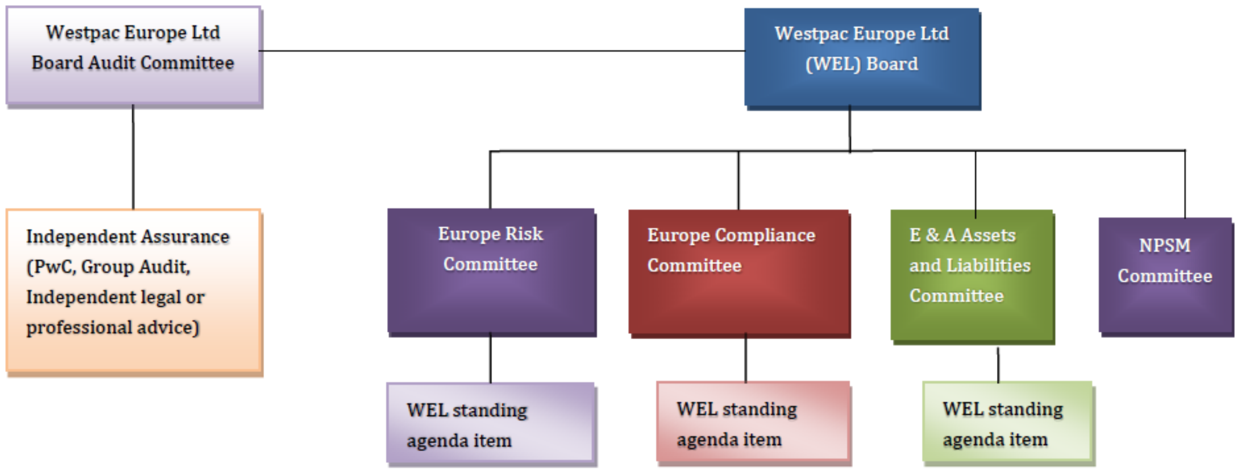
Governance Structure & Committees

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 (Chair of the WEL Board Audit Committee).

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
- Europe and Americas (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 (ERC)

The ERC[1] provides senior business management oversight and control of the risks arising out of the E&A business activities of WBCLB and WEL and is responsible for ensuring effective risk management. The ERC 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.

Westpac Institutional Bank Risk Committee and the WEL Board have ultimate oversight over the ERC.

Standing agenda items include the following risk categories: market, liquidity, credit, operational, financial crime, legal & regulatory, technology & cyber and conduct, reputational, sustainability and strategic.

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

Europe Compliance Committee (ECC)

The ECC oversees the compliance environment and processes of WBCLB and WEL and ensures that these are both adequate and effective. The ECC is responsible for monitoring 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, conduct of business matters, prudential matters, projects, audit matters relating to compliance, compliance and GDPR breaches and compliance reporting and oversight.

Europe & Americas Asset & Liabilities Committee (E&A ALCO)

The E&A ALCO has oversight of liquidity and funding 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 balance sheet composition; review global funding and liquidity management including short and long term risks and the Offshore Funding Crisis Model; review balance sheet performance. It also monitors regulatory change impacts to identify and address any potential balance sheet impacts.

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

Other

A monthly New York & London New Products, Services and Markets (“NPSM”) Committee, 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.

[1] The ERC and ECC will be consolidated to form the ERCC (Europe Risk & Compliance Committee) in mid-2020.

Overview of Key Business Units for WBCLB and WEL

The E&A business of WBC is managed 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 (in addition to the WEL Board) WEL. This is supported by the ERC, E&A ALCO, ECC and NPSM.

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.

There is an appropriate matrix of reporting protocols in place, which accounts for both global product and geographical responsibility and accountability. The General Manager E&A is ultimately responsible for any business included on the London balance sheet wherever initiated globally.

The key business units for WBC and WEL are:

- Financial Markets;
- Corporate & Institutional Banking;
- Treasury;
- Finance;
- Risk;
- Internal Audit;
- Compliance;
- Financial Crime Management;
- Operations and Outsourcing;
- 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;
- Group Audit;
- Chief Finance Officer International;
- Non-Executive Director; and
- Non-Executive Director (Chair of the WEL Board Audit Committee).

This table shows WEL's capital resources as at 30 September 2019:

$000's	30 September 2019 US$	30 September 2018 US$
Risk Exposures:		
Credit Risk	31,590	31,140
Market Risk	-	-
Operational Risk	6,506	5,786
Total Risk Exposure Amount	**38,096**	**36,925**
Capital Resource Requirement	-	-
Pillar 1	3,048	2,954
Pillar 2 (including regulatory buffers)	4,853	4,706
Total Capital	**7,901**	**7,660**
Tier 1 capital (equity and reserves)	62,423	61,518
Capital surplus	**54,522**	**53,858**

Pillar 1 capital is the minimum capital that a firm is required to hold for credit, market and operational risk. It is calculated as 8% of Risk Weighted Assets. Pillar 2 capital consists of Pillar 2A and Pillar 2B. Pillar 2A is held for risks that are not captured or not fully captured under Pillar 1 calculation. Pillar 2A capital is set by the PRA during the SREP (supervisory review and evaluation process). Pillar 2B capital is held for forward looking risks that may arise under stressed conditions. WEL also meets its requirements for holding capital conservation buffer (CCB) and the countercyclical buffer (CCyB). CCB is calculated at 2.5% and CCyB is dependent on the buffers that are set in jurisdictions to which WEL has exposure. Systemic risk buffers do not apply to WEL. The PRA buffer is set during the SREP. As at 30 September 2019 WEL held CET1 capital to cover all its capital and buffer requirements.

WEL is not required to hold MREL (Minimum Requirements for Own Funds and Eligible Liabilities) above its minimum capital requirements.

WEL ensures that it is adequately capitalised at all times, and as at the reporting date held capital well in excess of regulatory requirements. WEL's common equity Tier 1 capital ratio was 164%[1] at 30 September 2019. WEL's capital adequacy ratios are below:

	30 September 2019	30 September 2018
Common equity Tier 1 capital ratio %	164	167
Additional Tier 1 capital %	0	0
Tier 1 capital ratio %	164	167
Tier 2 capital %	0	0
Total regulatory capital ratio %	164	167

[1] This is based upon September 2019 Financial Statement.

The Pillar 1 exposures calculated on risk weighted assets are set out below. WEL uses the Standardised Approach for the calculation of risk weights for credit risk and the Basic Indicator Approach for calculating operational risk[1].

	30 September 2019	30 September 2018
$m	US$	US$
Credit risk	31.6	31.1
Market risk	0.0	0.0
Operational risk	6.5	5.8
Interest rate risk in the banking book	0.0	0.0
Other	0.0	0.0
Total	38.1	36.9

This table shows risk weighted assets and associated capital requirements[2] for each risk type included in the regulatory assessment of WEL's capital adequacy.

30 September 2019 $m	Risk Exposures	Total Capital Required
Credit risk		
Corporate	0.0	0.0
Business lending	0.0	0.0
Sovereign	0.0	0.0
Bank	30.1	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	1.5	0.1
Total	31.6	2.5
Market risk	0.0	0.0
Operational risk	6.5	0.5
Interest rate risk in the banking book	0.0	0.0
Total	38.1	3.0

[1] 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).
[2] The risk weighted assets are calculated using the standardised approach.

This table sets out WEL's risk weighted assets as at 30 September 2019:

$000's	30 September 2019 US$	Risk Mitigation US$	Assets after Risk Mitigation US$	Risk weighting US$	Risk weighted Assets US$
ASSETS					
Current assets:					
Cash and bank balances	7,458	-	7,458	20%	1,492
Derivative financial instruments	5,861	5,861	-	100%	-
Debt securities at amortised cost - Credit Step 1	184,302	184,302	-	20%	-
Debt securities at amortised cost - Credit Step 2	25,023	-	25,023	50%	12,511
Due from related entities	4,213	4,213	-	20%	-
Other financial assets	14,392	14,392	-	20%	-
Total current assets	**241,249**	**208,768**	**32,481**		**14,003**
Non-current assets					
Debt securities at amortised cost - Credit Step 2	35,174	-	35,174	50%	17,587
Loans and advances to customers	134,158	134,158	-	100%	-
Total non-current assets	**169,332**	**134,158**	**35,174**		**17,587**
TOTAL ASSETS	**410,581**	**342,926**	**67,655**		**31,590**
Pillar 1 credit risk requirement (8% of RWA)					**2,527**

The WEL Board and the various governance committees ensure that an appropriate level and quality of capital commensurate with its risk profile, business strategy, risk appetite and overall financial adequacy rule 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. WEL has also entered into a range of agreements with Westpac to facilitate risk transfer and risk mitigation.

Credit Risk

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations to WEL. It is measured and monitored through the Westpac credit risk calculation and limit monitoring systems and processes. WEL has adopted the standardised risk weighted approach to measuring its credit risk. Credit Risk Mitigation is a technique to reduce the credit risk associated with an exposure or exposures which a firm continues to hold, and is achieved through funded or unfunded credit protection.

Credit Risk Mitigation - Counterparty Credit Risk

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

- All foreign exchange, capital markets and other derivative transactions are backed out to Westpac at the same market rates, with any mark-to-market (for example, on client facing derivatives) calculated and covered daily through cash collateral placed by Westpac;
- All loans and advances made by WEL are funded by Westpac;
- All undrawn commitments and wholesale deposits are covered by cash collateral placed by Westpac; and
- All settlement activities are carried out by Westpac on behalf of WEL under a Service Level Agreement.

Credit Risk Mitigation - Concentration Risk & collateral holding

The above risk transfer process inevitably creates a large single name concentration[1] risk to Westpac. This is effectively mitigated by the collateral arrangement between WEL and Westpac.

WEL invests the cash collateral it receives from Westpac in high rated government securities and investment grade bank paper. The investment in bank paper is held in parcel sizes that are 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 2019:

$m	30 September 2019 US$	30 September 2018 US$
Collateral amount required	138	130
Collateral amount held*	190	161
Surplus	52	31
% Buffer	38%	24%

Excluding Capital invested in Government Securities and Bank Papers

WEL is exposed to geographic risk as the range of counterparties it faces are all located in the EEA. The credit risk arising on these exposures is covered by Westpac under the risk transfer arrangements.

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. Furthermore, the operations area informs management in advance of any loan drawdowns or repayments which are funded by Westpac.

[1] Concentration risk is the risk that results from a lack of diversification of exposures and includes large exposures, geographic and industry risk.

WEL has also developed a systematic Risk Mitigation Testing Programme matrix consisting of several early warning indicators (EWI). The EWIs are monitored on a monthly basis to consider whether they may have an adverse impact on capital and liquidity adequacy under various stress scenarios.

Market Risk

Market Risk is the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. 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.

Funding and Liquidity Risk

Funding and Liquidity risk is the risk that WEL cannot meet its payment obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. 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. WEL carries out a Liquidity Adequacy Assessment Process (ILAAP) annually. Liquidity risk is mitigated as follows:

- All loans and advances made by WEL are funded by Westpac. All undrawn commitments made by WEL are covered by cash collateral placed by Westpac upon WEL's commitment to its customer.
- WEL 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.
- Cash collateral is invested in a large portfolio of HQLA (High Quality Liquid Assets). As at 30 September 2019, WEL maintained its Liquidity Coverage Ratio (LCR) significantly in excess of 100%. The LCR is calculated and monitored daily.

The LCR requires banks to hold sufficient HQLA to withstand 30 days under a stress scenario. WEL's LCR as at 30 September 2019, was 1239%. This HQLA is held for Pillar 1 requirements, Pillar 2 guidance and any eligible surplus above that. 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:

USD $m		TOTAL ADJUSTED VALUE
Period ending on		30-Sep-2019
Number of data points used in the calculation of averages		12
21	Liquidity Buffer	166.8
22	Total Net Cash Outflows	21.4
23	Liquidity Coverage Ratio (%)	778%

Unconsolidated LCR simple averages of month-end observations over the twelve months of FY 2019

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 2019 is $522k, being 15% of the sum of the three-year average total net income.

$000's	30 September 2019 US$	30 September 2018 US$	September 2017 US$
Net interest income	1,307	753	208
Net non interest income	2,650	2,808	2,710
Total net income	**3,957**	**3,561**	**2,918**
Three year average total net income	3,479		
15% of three year average	**522**		

The following non-financial risks are assessed under the umbrella of operational risk:

- Business continuity risk

  Business Continuity Management (BCM) forms a key component of the Group operational risk framework and is a key mitigant of business disruption and people safety risk.

- Cyber risk

  Westpac protects the privacy and security of the bank's confidential information and encompasses a range of security protection services such as Cyber Security and Data Loss Prevention Services.

- Third party (outsourcing) risk

  WEL operates under the Group outsourcing policy however WEL predominantly outsources its requirements to Westpac. This arrangement is governed by a Service Level Agreement.

Legal and Regulatory Risk - Ongoing compliance with legal and regulatory (including conduct and compliance) obligations is facilitated by the first and second line risk and compliance teams in conjunction with legal counsel and senior management. Changes to the regulatory regime, communications from regulators and commentary from trade organisations are monitored for relevance to WEL and action is taken accordingly.

The WEL Board ensures appropriate oversight of conduct and compliance risk. Conduct and compliance risk is the risk of failing to abide by compliance obligation and failing to have behaviours and practices that deliver suitable, fair and clear outcomes for customers. Staff are seconded to WEL from Westpac and are diligent in meeting the requirements of the Westpac Group Conduct Framework, Group Compliance Management Framework and Financial Crime Risk Management Framework including the supporting policies and standards.

Related Party Risk – Related party risk is the risk that problems arising in other Westpac Group members compromise the financial and operational position of WEL. Related party risk is considered low given the nature of WEL's business, the operational arrangements in place between Westpac and WEL, and due to the strength of Westpac's credit rating (S&P AA-).

Other Risk Categories

Various other risks categories are considered under the ICAAP review including:

Interest Rate Risk in the Banking Book (IRRBB) – Interest rate risk from non-trading book activity is the risk of losses arising from changes in the interest rates associated with banking book items and includes duration risk, basis risk and optionality risk. WEL faces duration risk due to the mismatch across time buckets of assets and liabilities that arise in the normal course of business activities. This is mitigated via collateralisation of derivatives, match funding of loan facilities and investment of collateral in HQLA.

Business and Strategic Risk – Strategic risk is relevant to WEL given that its existence and ongoing viability is dependent on Westpac. The strategic considerations in respect of the UK's withdrawal from the EU ("Brexit") are being discussed at both the WEL Board and Westpac Group Board level. However given the size, scale and complexity of WEL, the Business and Strategic risk are manageable.

Financial Crime Risk – WEL adopts robust Financial Crime Standards and incorporates local jurisdictional standards. Financial crime policy and procedures cover money laundering, terrorist financing, bribery and corruption, fraud, market abuse and tax evasion. The Head of Financial Crime, Europe & Money Laundering and Reporting Officer is responsible for WEL's financial crime risks with support from Financial Crime and Assurance staff in London and Sydney.

Reputational Risk – the risk that an action, inaction, transaction, investment or event will reduce trust in WEL or Westpac group's integrity and competence by clients, counterparties, regulators, staff (included seconded staff) or the public.

The WEL Board also considers a range of other risks that include but are not limited to Currency Risk, Sustainability 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). The WEL Non-Executive Directors have an oversight role and review the remuneration report annually.

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 by 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.

For the purposes of this disclosure, it is considered that WEL and WBCLB operate as a single business unit. For the performance year ending 30 September 2019, the total remuneration of senior managers was £2.5million and the total remuneration of other material risk takers was £1.06million.

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.

Disclosure according to Article 3 in Commission implementing regulation (EU) No 1423/2013[1]

		US$000's
Common Equity Tier 1 (CET1) capital: instruments and reserves[2]		
1	Capital instruments and the related share premium accounts	58,427
2	Retained earnings	3,996
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	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**62,423**
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	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	-
29	**Common Equity Tier 1 (CET1) capital**	**62,423**
44	**Additional Tier 1 (AT1) capital**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**62,423**
50	**Credit risk adjustments**	**-**
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-
58	**Tier 2 (T2) capital**	-
59	**Total capital (TC = T1 + T2)**	**62,423**
60	**Total risk weighted assets**	**38,096**
Capital ratios and buffers[3]		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	164%
62	Tier 1 (as a percentage of total risk exposure amount)	164%
63	Total capital (as a percentage of total risk exposure amount)	164%
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)	-
Amounts below the thresholds for deduction (before risk weighting)		
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)	
Applicable caps on the inclusion of provisions in Tier 2		
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	

[1] 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.

[2] This figure excludes current period retained earnings in consideration of Article 26 of the Capital Requirement Regulation (CRR) which allows institutions to include interim or year-end profits in CET1 capital before the institution has taken a formal decision confirming the final profit or loss for the year only with prior permission of the competent authority.

[3] 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

	2019 No.	2018 No.
Issued and fully paid share capital		
Ordinary shares of US$1 each	2	2
Ordinary shares of £1 each	1	1
Ordinary shares at end of the year	**3**	**3**

Effective 12 January 2018, the Company issued US$1 ordinary share to the Parent for a total consideration of US$20,000k which has been transferred to the share premium account. Collectively share capital was paid up at a total price of US$58,427k.

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.