WESTPAC BANKING CORPORATION
ABN 33 007 457 141

MUMBAI BRANCH

Pillar 3 Report

DECEMBER 2015

INCORPORATING THE REQUIREMENTS OF THE RESERVE BANK OF INDIA

Westpac GROUP

EST. 1817

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

In this report, unless otherwise stated or the context otherwise requires, references to are to Indian Rupees.

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

Scope of Application

The Basel III Pillar 3 disclosures contained herein relate to Westpac Banking Corporation, Mumbai Branch ("the Branch") for the quarter year ended December 31, 2015.The Branch operates in India as a branch of Westpac, Sydney under the licence granted by Reserve Bank of India (RBI). The Branch has no subsidiary or joint venture to be consolidated in line with requirement of Accounting Standard (AS) 21 (consolidated financial statements) and AS 27 (financial reporting of interest in joint ventures). The Branch does not have any interest in insurance companies in India.

The Pillar 3 disclosures are compliant with Reserve Bank of India (the "RBI") Master Circular DBR. No. BP.BC. 6/ 21.06.201/2015-16 dated July 1, 2015 on BASEL III Capital Regulations along with Master Circular DBR. No. BP.BC. 4/21.06.001/2015-16 dated July 1, 2015 on Prudential Guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (NCAF) in respect of regulatory adjustments/deductions during the BASEL III transition period up to March 31, 2017.

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

Branch risk management governance structure

India Country Leadership Team (ICLT)	ICLT is the highest decision making Committee for the Branch in India. Its roles in the Branch include: ▪ managing the governance of the branch; ▪ monitoring the integrity of all its business; and ▪ Overseeing the risk profile and regulatory requirements.
International Risk and Compliance Committee (IRCC)	IRCC has oversight over Westpac's operations in Asia (including the Mumbai Branch). Its responsibilities are to: ▪ review and oversee credit, operational, compliance, market and reputation risk in accordance with frameworks and policies; ▪ review and oversee credit, operational, compliance, market and reputational risk profile; ▪ identify emerging; credit, operational, compliance and reputational risks and allocate responsibility for assessing impact and response as appropriate; and ▪ enable continuous improvement in risk management by providing a forum for testing risk tolerances and debating alternate approaches.
India Country Risk and Compliance Committee (ICRCC)	ICRCC is the main risk governance Committee for the Mumbai Branch with authority to: ▪ review and oversee credit, market, operational and compliance risk; ▪ identify emerging credit, market, operational and compliance risks and allocate responsibility for assessing impact and response as appropriate; and ▪ enable continuous improvement in risk management by providing a forum for testing risk tolerance and debating alternate approaches.
India Asset & Liability Committee (ALCO)	India ALCO's responsibilities in the Branch include: ▪ lead the optimisation of funding and liquidity risk-reward; ▪ oversee the liquidity risk management framework and key policies; ▪ oversee the funding and liquidity risk profile and balance sheet risk profile; ▪ review of market risk, trading risk and oversee pricing trends and balance sheet performance; and ▪ monitor and oversee action to regulatory change impacts.

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.

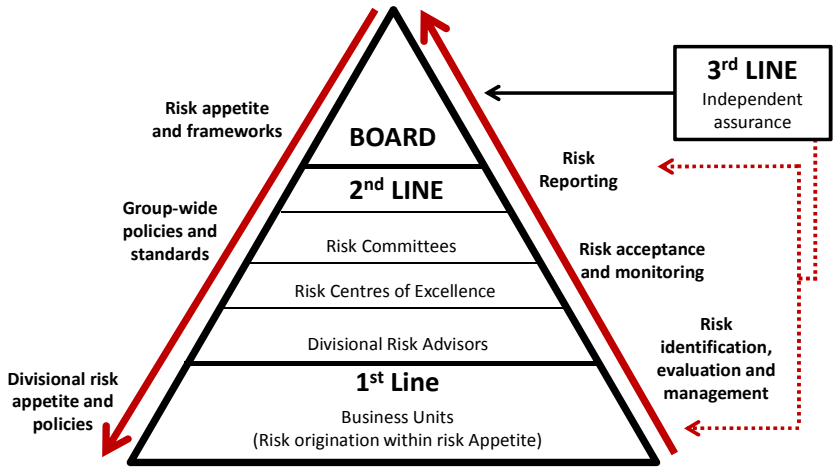
The 2nd Line of Defence – Establishment of risk management frameworks and policies and risk management oversight

Our 2nd Line of Defence is a separate risk and compliance advisory, control 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 assurance

Our Group Audit function independently evaluates the adequacy and effectiveness of the Group's overall risk management framework and controls.

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



Capital structure

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

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

₹ in '000	31 December 2015	30 September 2015
Tier 1 capital		
Interest free funds from Head Office	8,087,300	8,087,300
Statutory reserves	142,836	142,836
Innovative instruments	-	-
Other capital instruments	-	-
Amount deducted from Tier 1 capital	(22,276)	(34,274)
Total Tier 1 capital	8,207,860	8,195,862
Tier 2 capital		
General Provision for Standard Advances	76,922	76,922
Provision for country risk	7,672	8,098
Total Tier 2 capital	84,594	85,020
Total Eligible Capital	8,292,454	8,280,882

Capital adequacy

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

- To comply with the Basel III Regulatory Capital requirements set out by RBI; and
- To minimise the possibility of the Branch's capital falling below the minimum regulatory requirement by maintaining a capital buffer (in excess of the Basel III minimum requirements) sufficient to cover Pillar 2 risks and the capital impact of stress scenarios.

The Branch's capital management is mainly guided by its current capital position, current and future business needs, regulatory environment including Basel III and strategic business planning. The Branch continuously focuses on effective management of risk and corresponding capital to support the risk.

As per Basel III, currently the Branch has adopted the Standardised Approach (SA) for credit risk, the Basic Indicator Approach (BIA) for operational risk and the Standardised Duration Approach (SDA) for market risk. Under the BIA, the Branch holds capital for operational risk equal to 15% of average of positive gross annual income over the previous three years. As at 31 December 2015 the Branch's Capital to Risk Weighted Assets Ratio (CRAR) stood at 55.70% as per Basel III. The Branch is adequately capitalised.

Capital adequacy ratios

Common Equity Tier 1 (CET1), Tier 1 and Total capital ratios (computed as per Basel III capital regulations)

The minimum capital requirements under Basel III will be phased-in as per the guidelines prescribed by RBI. Accordingly, the Branch is required to maintain a minimum CET1 capital ratio of 5.5%, a minimum Tier I capital ratio of 7 % and a minimum total capital ratio of 9.0% as of 31 December 2015. The Branch's position in this regard is as follows:

%	31 December 2015	30 September 2015
Common Equity Tier-I Capital Ratio	55.13	50.95
Additional Tier-1 Capital	-	-
Tier 1 capital ratio	55.13	50.95
Tier 2 capital	0.57	0.53
Total regulatory capital ratio	55.70	51.48

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.

	31 December 2015		30 September 2015	
₹ in '000	Total Capital Required	Total Risk Weighted Assets	Total Capital Required	Total Risk Weighted Assets
Credit Risk				
Portfolios subject to standardised approach	640,627	7,118,080	739,381	8,215,346
Securitisation exposures	-	-	-	-
Total	**640,627**	**7,118,080**	**739,381**	**8,215,346**
Market risk				
Interest rate risk	335,244	4,190,547	323,209	4,040,115
Foreign exchange risk (including gold)	160,000	2,000,000	180,000	2,250,000
Equity risk	-	-	-	-
Total	**495,244**	**6,190,547**	**503,209**	**6,290,115**
Operational risk	126,337	1,579,216	126,337	1,579,216
Total	**1,262,208**	**14,887,843**	**1,368,927**	**16,084,677**

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 ICRCC has oversight of credit risk management within the Branch and includes the Branch CEO, representatives from the business and risk functions. It is responsible for the review and oversight of credit risk in line with the Westpac Group credit risk management framework and policies.

Credit risk management framework and policies

Westpac maintains a credit risk management framework and supporting policies that are designed to clearly define roles and responsibilities, acceptable practices, limits and key controls.

The Credit Risk Management Framework describes the principles, methodologies, systems, roles and responsibilities, reports and controls that exist for managing credit risk in Westpac. The Credit Risk Rating System policy describes the credit risk rating system philosophy, design, key features and uses of rating outcomes.

Concentration risk policies cover individual counterparties, specific industries (e.g. property) and individual countries. In addition there are policies covering risk appetite statements, Environmental, Social and Governance (ESG) credit risks and the delegation of credit approval authorities.

At the divisional level, credit manuals embed the Group's framework requirements for application in line businesses. These manuals include policies covering the origination, evaluation, approval, documentation, settlement and on-going management of credit risks, and sector policies to guide the extension of credit where industry-specific guidelines are considered necessary.

Credit approval limits govern the extension of credit and represent the formal delegation of credit approval authority to responsible individuals throughout the organisation.

Summary credit risk disclosure

₹ in '000	31 December 2015	30 September 2015
Fund Based[1]	30,638,138	31,757,435
Non Fund Based[2]	-	-
Non-Market related Off Balance sheet items	-	-
Market Related	6,080,316	9,383,583
Total	36,718,454	41,141,018

Portfolio by geography

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

Portfolio by industry classification

	31 December 2015			30 September 2015		
₹ in '000	Fund based	Non-fund based	Total	Fund based	Non-fund based	Total
Accommodation, cafes & restaurants	-	-	-	-	-	-
Agriculture, forestry & fishing	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Finance & insurance[3]	194,586	3,072,550	3,267,136	2,375,264	5,476,806	7,852,070
Government administration & defence	26,518,280	-	26,518,280	25,521,553	-	25,521,553
Manufacturing	-	-	-	-	-	-
Mining	-	-	-	-	3,647	3,647
Property & business services	-	-	-	-	-	-
Services[4]	2,966,733	2,622,058	5,588,791	2,965,881	3,384,377	6,350,258
Trade[5]	875,000	325,480	1,200,480	805,000	434,295	1,239,295
Transport & storage	-	-	-	-	-	-
Utilities[6]	-	-	-	-	-	-
Retail lending	-	-	-	-	-	-
Other	83,539	60,228	143,767	89,737	84,457	174,194
Total	**30,638,138**	**6,080,316**	**36,718,454**	**31,757,435**	**9,383,582**	**41,141,017**

Portfolio by maturity breakdown

₹ in '000	31 December 2015	30 September 2015
1 day	23,161,950	24,098,267
2 to 7 days	1,218,522	1,977,683
8 to 14 days	1,173,214	800,603
15 to 28 days	2,824,418	2,905,654
29 days & upto 3 months	417,119	1,035,321
Over 3 months & upto 6 months	1,920,290	-
Over 6 months & upto 1 year	200,094	1,852,081
Over 1 year & upto 3 years	1,106,070	1,113,883
Over 3 years & upto 5 years	-	-
Over 5 years	158,897	159,531
Total	**32,180,574**	**33,943,023**

[1] Fund based exposures includes investments, claims on bank and other assets including fixed assets
[2] Non fund based exposures includes non-market related off-Balance sheet items (Contingent Credits and Exposures)
[3] Classification aligned to Group industry classification, as at 31 December 2015 category included no exposure to insurance
[4] Includes education, health & community services, cultural & recreational services and personal & other services
[5] Includes wholesale trade and retail trade
[6] Includes electricity, gas, water and communication services

Impaired and past due loans[1]

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:

The Branch's gross NPA amounts are nil as at 31 December 2015 (nil as at 30 September 2015).

Net Impaired and past due loans:

The Branch's net NPA amounts are nil as at 31 December 2015 (nil as at 30 September 2015).

Impaired and past due loans ratios

As both the Branch's net and gross NPA amounts are nil the ratios are nil as well (nil as at 30 September 2015).

Movement in Impaired and past due loans

Since the NPA's for the Branch are nil, there is no movement to report (nil as at 30 September 2015).

Non Performing Investments

The Branch's non performing investments are nil as at 31 December 2015 (nil as at 30 September 2015).

Movement of provisions for depreciation on investments

Since the depreciation on investments for the Branch is nil, there is no movement to report (nil as at 30 September 2015).

Credit Risk: Disclosures for portfolios subject to the standardised approach

As at 31 December 2015 the Branch has not applied any ratings for the exposures under standardised approaches. All the exposures to scheduled commercial banks for the purpose of Pillar 1 calculation are risk weighted at 20% since these exposures are made to counterparty banks having capital adequacy ratio of 9% and above.

The Branch uses RBI guidelines with respect to usage of short term/long term issuer ratings set by the accredited rating agencies[2] 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[3]

₹ in '000	31 December 2015	30 September 2015
Below 100% risk weight	32,500,450	36,074,527
100% risk weight	83,413	3,966,491
Above 100% risk weight	4,134,591	1,100,000
Deductions	-	-
Total	36,718,454	41,141,018

[1] Also known as Non-Performing Assets (NPA).
[2] Fitch, Credit Analysis and Research (CARE), Credit rating and information services of India limited (CRISIL), Investment Information and Credit Rating Agency (ICRA), and Brickworks.
[3] 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 December 2015. Consequently no collateral netting from exposure is considered for capital adequacy computation.

The Branch is guided by NCAF guidelines for eligible financial collateral which includes cash (deposited with the Branch), gold, securities issued by Central and State governments, Kisan Vikas Patra, National Savings Certificate, life insurance policies, certain debt securities rated by a recognised credit rating agencies, mutual fund units, etc.

There are no mitigated exposures as at 31 December 2015 (no mitigated exposures existed for the half year ended 30 September 2015).

Securitisation Exposures

The Branch has not entered into any securitisation transactions for the quarter year ended 31 December 2015; hence no disclosures have been made (no securitisation transactions were entered into during the half year ended 30 September 2015).

Leverage Ratio

Sr.no	Item	31 December 2015 (₹ in million)	30 September 2015 (₹ in million)
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	30,573	33,943
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	**30,573**	**33,943**
Derivative exposures			
4	Replacement cost associated with all *derivatives* transactions (i.e. net of eligible cash variation margin)	1,423	2,207
5	Add-on amounts for PFE associated with *all* derivatives transactions	4,597	7,092
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	**Total derivative exposures (sum of lines 4 to 10)**	**6,020**	**9,299**
Securities financing transaction exposures			
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**		
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	150	82
18	(Adjustments for conversion to credit equivalent amounts)		
19	Off-balance sheet items (sum of lines 17 and 18)		
Capital and total exposures			
20	**Tier 1 capital**	**8,208**	**8,196**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**36,743**	**43,324**
22	**Basel III leverage ratio**	**22.34%**	**18.92%**
	Summary comparision of Accounting Assets v/s. leverage ratio exposure measure		
1	Total consolidated assets as per published financial statements	30,573	33,943
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)		
6	Adjustment for off-balance sheet items (i.e conversion to credit equivalent amounts of off-balance sheet exposures)	6,170	9,381
7	Other Adjustements		
8	**Leverage Ratio exposures**	**36,743**	**43,324**

Leverage Ratio

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 INR mn	31 December 2015	30 September 2015	30 June 2015	31 March 2015
Tier 1 capital	8,208	8,196	8,202	8,208
Exposure Measure	36,743	43,324	37,265	38,282
Leverage	22.34%	18.92%	22.01%	21.44%