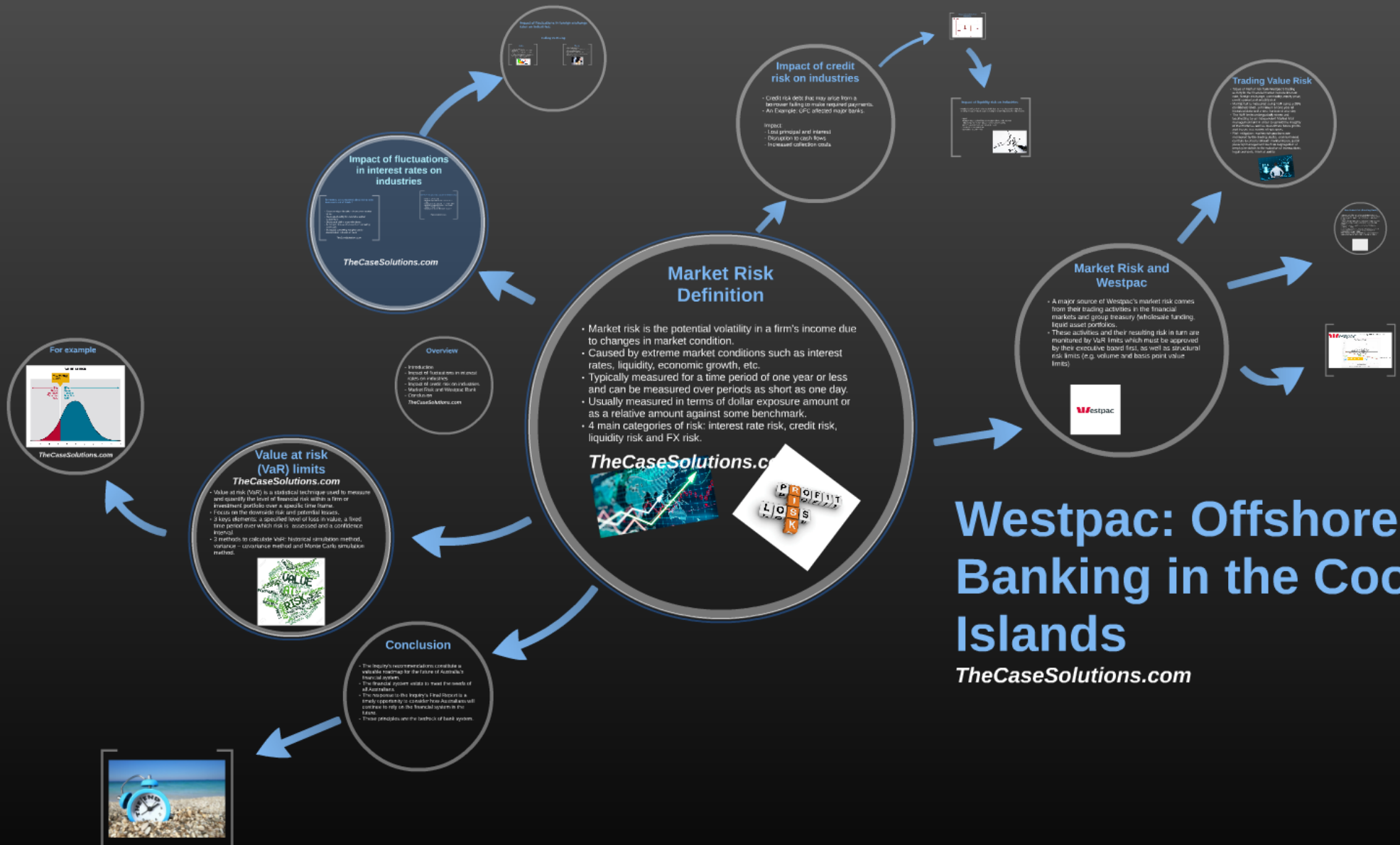


Westpac: Offshore Banking in the Cook Islands

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Overview

- Introduction
- Impact of fluctuations in interest rates on industries
- Impact of credit risk on industries
- Market Risk and Westpac Bank
- Conclusion

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Market Risk Definition

- Market risk is the potential volatility in a firm's income due to changes in market condition.
- Caused by extreme market conditions such as interest rates, liquidity, economic growth, etc.
- Typically measured for a time period of one year or less and can be measured over periods as short as one day.
- Usually measured in terms of dollar exposure amount or as a relative amount against some benchmark.
- 4 main categories of risk: interest rate risk, credit risk, liquidity risk and FX risk.

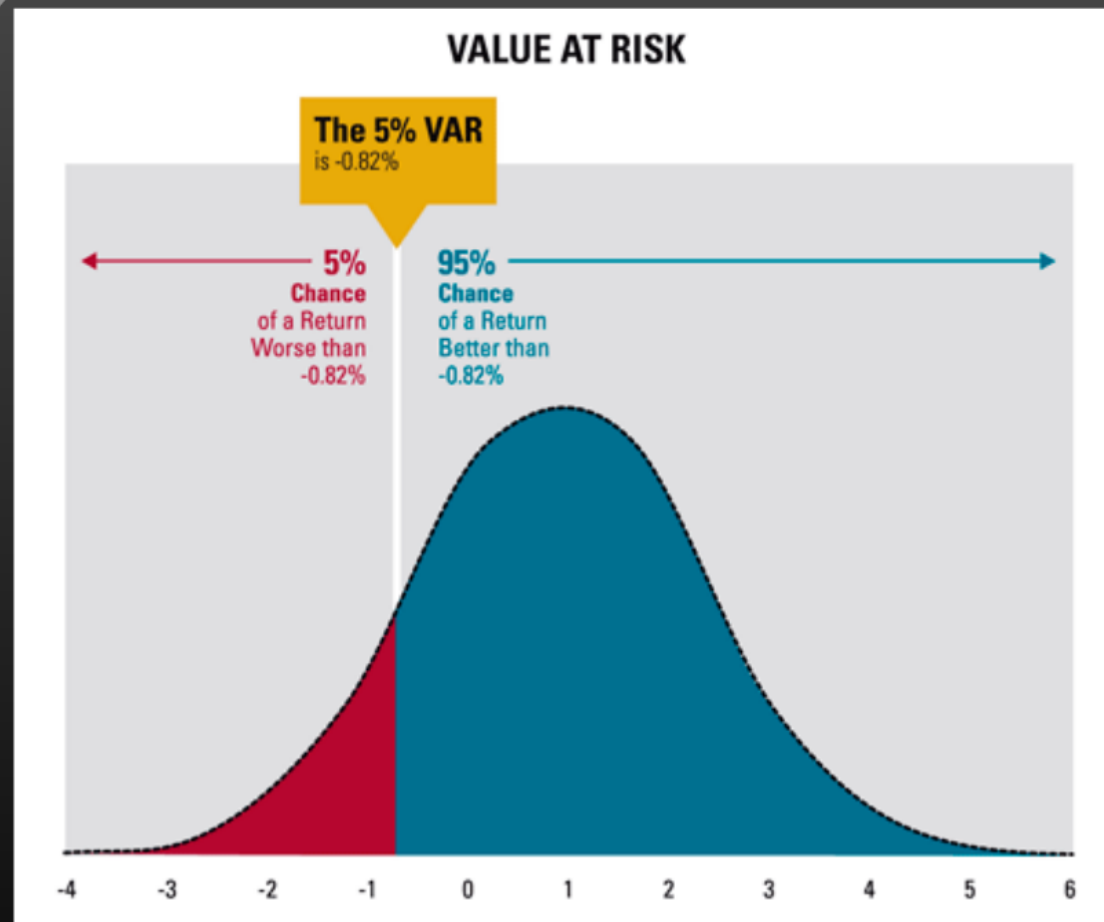
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For example



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Impact of fluctuations in interest rates on industries

Borrowers: are concerned about rising rates
Increased cost of funds =

- Decreased profitability = decrease in market value
- Decreased ability to undertake capital expenditure
- Decreased ability to pay dividends
- Increased chance of a breach of borrowing covenants
- Increased borrowing margins due to deterioration in financial ratios

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Investors – in general are concerned with falling rates

- Reduced cost of funds
- Decreased profitability = decrease in market value
- Decreased ability to pay returns to stakeholders
- Decreased competitive returns = decreased ability to attract investors
- Decreased ability to meet future outgoings

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