AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – INDIA BRANCHES
Basel III: Pillar 3 Disclosures as at 30 June 2016

1. Background

Australia and New Zealand Banking Group Limited, India ('ANZ India' or 'the Bank') is a branch of Australia and New Zealand Banking Group Limited ('ANZ'), which is incorporated in Australia with Limited Liability. Indian branch operations are conducted in accordance with the banking license granted by the Reserve Bank of India (RBI) under the Banking Regulation Act 1949. The Bank has two branches in India as on 30 June 2016.

Disclosures made hereunder are in accordance with Basel III Capital Regulations – Market Discipline (Pillar 3).

2. Key Management Committees, Functions and Frameworks

India Executive Committee ('India EXCO')

India EXCO is the apex committee of the Bank and has the authority to exercise all of the powers and discretions of the Board at the country level. India EXCO takes ownership of the Bank's business in India and fulfils the regulatory responsibility of conducting periodic reviews/ approvals as specified by RBI from time to time. The committee is chaired by Chief Executive Officer India. India EXCO is an in-country committee.

Key responsibilities of the India EXCO are:

- Approving all key business policies.
- Investigating and reviewing policy breaches for credit, operational and market risks; and approving remediation actions.
- Monitoring governance and compliance with Credit, Operational and Market risk management policies, procedures and systems (including risk models) in India and instigating any necessary corrective actions to address deviations.
- Undertaking activities to support the development of new products to be introduced by the Bank.
- Reviewing of MIS as required by the RBI in different circulars.

India Assets and Liabilities Committee ('India ALCO')

India ALCO is a sub-committee of the Institutional Banking ALCO ('IB ALCO') and is responsible for the oversight and strategic management of the India Balance Sheet, liquidity and funding positions and capital management activities.

India ALCO's mandate for managing Balance Sheet, liquidity and funding and capital activities include, but are not limited to:

- Liquidity and funding.
- Capital (book, regulatory and economic).
- Non-traded Interest Rate Risk, including the investment of capital and other non-interest bearing products.
- Balance sheet structure including capital and revenue flows, but excluding traded foreign exchange exposures.
- Funds transfer pricing
- Approval and oversight of traded market risk.
- Policy, control and compliance activities for all balance sheet, liquidity and funding and capital related risks.
- Recommendations / noting to I&IB ALCO for any key local decision taken at the ALCO.

Risk Management Committee ('India RMC')

India RMC maintains responsibility to review and address credit risk, markets risk, operational risk and compliance related issues/activities that have the potential to result in a material event or loss to ANZ in India within the Institutional Banking division, and instigate necessary actions and controls to address these concerns. These include:

- Evaluate India's Risk Appetite Statement (RAS) and escalate any material concerns in accordance with the RAS Governance Framework
- Oversee credit and markets portfolio composition including large exposures, risk grade migration, risk concentrations, provisions and monitoring actual exposure vs limits.
- Oversight of the below risks, including any material events/incidents:
    - Operational risk, including Operational Risk Measurement & Management Framework (ORMMF)
    - Compliance, including material regulator related matters
    - Reputational risk
    - Technology risk
- Ensure material Internal Audit, Credit Assurance and regulatory issues (including Annual Financial Inspection, Concurrent Audit and financial metrics) are monitored, understood and remediation progress and completion overseen.
- Review stress test results on a six monthly basis.
- Review Business Continuity & Crisis Management capability
- Address key emerging credit, markets risks, operational risk and compliance related issues across the industry
- Material risks to be escalated to the following Risk Committees:
    - Asia Risk Management Committee
    - Institutional Credit and Markets Risk Committee
    - Institutional Operational Risk and Compliance Committee
    - Divisional Product Committees
    - Group Reputational Risk Committee

In carrying out its responsibilities and duties, the Committee will aim to seek fair customer outcomes and financial market integrity in its deliberations.

3. Regulatory Framework

The Bank operates as a scheduled commercial bank and is required to maintain capital ratios at par with locally incorporated banks.

Capital Adequacy requirements are outlined in the following circulars:

- Master Circular – Prudential Guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework ('NCAF')
- Master Circular - Basel III Capital Regulations.

As per Basel III guidelines, currently banks should adopt Standardised Approach (SA) for credit risk, Basic Indicator Approach (BIA) for operational risk and Standardised Duration Approach (SDA) for computing capital requirement for market risks.

Basel III guidelines are structured around three 'Pillars' which are outlined below:

- Pillar 1 sets out minimum regulatory capital requirements.
- Pillar 2 sets out key principles for supervisory review of Bank's risk management framework and its capital adequacy.
- Pillar 3 aims to encourage market discipline by developing set of disclosure requirements by banks that allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes and hence the capital adequacy of the bank. Further, providing disclosures that are based on a common framework is an effective means of informing the market about exposure to those risks and provides a consistent and comprehensive disclosure framework that enhances comparability.

Basel III introduced a much stricter definition of capital. The predominant form of Tier 1 capital will be Common Equity, since it is critical that banks' risk exposures are backed by high quality capital base. Further, Basel III introduced Capital Conservation Buffer (CCB) and Countercyclical buffer with a view to ensure that banks maintain a cushion of capital that can be used to absorb losses during periods of financial and economic stress and to increase capital requirements in good times and decrease the same in bad times.

4. DF-2 Capital Adequacy

The Bank aims to hold sufficient capital to meet the minimum regulatory requirements at all times. The Bank's capital management strategy is two fold:

- To satisfy the Basel III Regulatory Capital requirements set out by RBI in the Master Circular and
- To minimise the possibility of the Bank'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 a moderate (1 in 7 years) or a severe (1 in 25 years) stress scenario over a 1 year horizon.

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

Under the Basel III framework, on an on-going basis, the Bank has to maintain a minimum total capital of 9.625% (Previous Year 9.00%) including Capital Conversion Buffer (CCB) at 0.625% (Previous Year Nil) for credit risk, market risk and operational risk. The Minimum Total Capital should include minimum Common Equity Tier I (CET 1) ratio of 6.125% (Previous Year 5.50%), including 0.625% (Previous Year Nil) towards CCB and minimum Tier 1 capital ratio of 7.00% (Previous Year 7.00%).

As at 30 June 2016 CRAR was 18.56% and Common Equity Tier I ratio was 18.27% as per BASEL III norms. The Bank is adequately capitalised presently. Summary of the Bank's capital requirement for credit, market and operational risk and CRAR as at 30 June 2016 is presented below.

(Amount in ₹ '000)

Minimum Regulatory Capital Requirements	
Capital requirements for Credit risk (a)	**4,394,327**
Portfolios subject to standardised approach	4,394,327
Securitisation exposures.	-
Capital requirements for Market risk (b)	**986,890**
Standardised duration approach	
- Interest rate risk	751,077
- Foreign exchange risk (including gold)	235,813
- Equity risk	-
Capital requirements for Operational risk (c)	**345,318**
Basic indicator approach	345,318
Total Minimum Regulatory Capital at 9% (a+b+c)	**5,726,535**
Minimum CRAR + CCB at 9.625%	**6,124,211**
Risk Weighted Assets and Contingents	
Credit Risk	49,673,248
Market Risk	12,336,121
Operational Risk	4,316,478
Capital Ratios	
CET 1 Capital	18.27%
Tier I Capital	18.27%
Total Capital	18.56%

5. DF-3 Credit Risk: General Disclosures for all Bank

Structure and organisation of credit risk management

India RMC is responsible for all aspects of risk management, including credit risk. It approves the credit exposure/ concentration limits and credit risk management policy (involving risk identification, risk measurement/ grading, risk mitigation and control) in accordance with the extant regulatory guidelines. RMC also oversees the credit risk management structure.

India EXCO is apprised of key risks affecting the business. It sets the risk appetite for the country and ensures alignment with Group strategy and risk appetite.

The Bank takes credit risk within a well defined framework that lays out the fundamental principles and guidelines for its management. Primary objective is management of risk within risk appetite and within regulator defined prudential limits. This framework has four main components:

- Credit principles.
- Credit policies.
- Line of Business/ Segment Specific Procedures.
- Organisation and People.

Key aspects of the Bank's Credit Risk Management Policy are

- Analysis of customer risk.
- Approval of limits and transactions.
- Managing and monitoring customers.
- Working out problem loans.

Credit is extended on the basis of the Bank's independent credit risk assessment and credit approval requirements. All legal entities, with which the Bank has or is considering having, a credit relationship, is assigned a credit rating reflecting the probability of default and each facility is assigned a security indicator reflecting the 'loss given default'. Each country to which the Bank has or is considering having, a credit exposure, is assigned a country rating reflecting the risk of economic or political events detrimentally impacting a country's willingness or capacity to secure foreign exchange to service its external debt obligations.

Risk grade assignment and risk grade reviews are subject to approval by the appropriate independent risk representative. Each assigned risk grade is reviewed at an interval (never greater than 1 year) and whenever new material information relating to the customer or facility is obtained or becomes known. The Bank has an effective credit risk management system and clearly documented credit delegations which define levels of authority for credit approval. The quality of all credit relationships is monitored to provide for timely identification of potential problem credits and prompt application of remedial actions. Problem credits are managed to minimise losses, maximise recoveries and preserve the Bank's reputation. A specialist high risk account management team with specialist skills will be involved in the management of all problem credits in line with the bank's credit policy.

Collateral is a means of mitigating the risk involved in providing credit facilities and will be taken where obtainable and necessary to meet risk appetite requirements. Main types of collateral accepted are property, plant & machinery, current assets, cash and stand-by letters of credit. Reliance on collateral is not a substitute for appropriate credit assessment of a customer or be used to compensate for inadequate understanding of the risks. Collateral arrangements for each facility are reviewed annually to confirm the fair value of collateral and to ensure there is no impediment to realisation. The fair value of collateral will be its realisable value net of realisation costs.

6.1. Total gross credit risk exposures as at 30 June 2016

(Amount in ₹ '000)

Fund Based	
Claims on Banks	12,951,641
Investments (HTM)	-
Loans and Advances	16,974,189
Other Assets and Fixed Assets	10,780,951
Non Fund Based	
Non Market Related Off Balance sheet items (Contingent Credits and Exposures)	11,191,753
Market Related (Foreign Exchange (Fx) and Derivative contracts)	22,637,057

Notes:

Non Fund Based credit risk exposure has been computed as under:

- In case of exposures other than FX and derivative contracts, credit equivalent is arrived at by multiplying the underlying contract or notional principal amounts with the credit conversion factors prescribed by RBI under the Basel II capital framework.
- In case of Foreign exchange and derivative contracts, credit equivalents are computed using the current exposure method as prescribed by RBI.

6.2. Geographic distribution of exposures, Fund based and Non-fund based separately

Since all the exposures provided under Para 6.1 above are domestic, the disclosures on geographic distribution of exposures, both fund and non-fund based has not been made.

6.3. Industry type distribution of exposures as at 30 June 2016

(Amount in ₹ '000)

Industry Name	Fund Based	Non Fund Based
Food Processing	1,083,762	-
Beverages (excluding Tea & Coffee) and Tobacco	-	-
Textiles	8,208	22,156
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	-	-
Chemicals and Chemical Products (Dyes, Paints, etc.)	2,528,392	31,863
Rubber, Plastic and their Products	332,070	-
Glass & Glassware	300,000	-

Basic Metal and Metal Products	2,226,162	108,546
All Engineering	1,352,829	2,101,505
Vehicles, Vehicle Parts and Transport Equipments	-	292,000
Gems & Jewellery	156,657	-
Infrastructure	-	689,025
Other Industries	672,485	628,358
Residuary Other Advances	-	1,765,673
Total Loans & Advances	**16,974,189**	**5,639,126**
Claims on Banks	12,951,641	5,552,627
Investments (HTM)	-	**-**
Other Assets and Fixed Assets	10,780,951	**-**
Total Exposure	**40,706,781**	**11,191,753**

Notes:

Fund Based Exposure comprises of Loans & Advances, Claims on Banks and Investment in HTM & Other Assets (including fixed Assets).

Non Fund Based Exposure comprises of Non Market Related Off-Balance sheet items (Contingent Credits and Exposures) and is reported in terms of Credit Equivalent.

6.4. Residual contractual maturity breakdown of assets as at 30 June 2016

(Amount in ₹ '000)

	Cash and Bank balances with RBI	Balances with Banks and money at call and short notice	Investments	Advances	Fixed Assets	Other Assets	Total Assets
Day 1	1,513,822	12,948,006	8,061,456	753,610	-	8,077	**23,284,971**
2 to 7 days	133,596	-	709,728	1,,311,298	-	31,425	**2,186,047**
8 to 14 days	26,887	-	142,837	1,266,756	-	2,757	**1,439,237**
15 to 30 days	262,821	-	1,396,235	4,437,392	-	96,708	**6,193,156**
31 days and upto 2 months	213,144	-	1,132,326	2,838,126	-	34,710	**4,218,306**
2 months and upto 3 months	111,428	-	591,963	1,212,994	-	56,173	**1,972,558**
Over 3 months and upto 6 months	328,910	-	1,747,333	1,380,224	-	110,415	**3,566,882**
Over 6 months and upto 1 year	167,706	-	890,939	1,109,178	-	7,328,065	**9,495,888**
Over 1 year and upto 3 years	5,702	-	30,292	2,664,611	-	961,916	**3,662,521**
Over 3 years and upto 5 years	1	-	6	-	-	183,215	**183,222**
Over 5 years	81	**-**	431	**-**	811,845	1,523,249	**2,335,605**
Total	**2,764,098**	**12,948,006**	**14,703,546**	**16,974,189**	**811,845**	**10,336,710**	**58,538,393**

6.5. Details of Non-Performing Assets (NPAs) - Gross and Net

(Amount in ₹ '000)

	As at 30 Jun 2016
Substandard	-
Doubtful 1	-
Doubtful 2	-
Doubtful 3	-
Loss	-
Gross NPAs	-
Provisions for NPAs	-
Net NPAs	-

6.6. NPA Ratios

(Amount in ₹ '000)

	As at 30 Jun 2016
Gross NPAs to gross advances	-
Net NPAs to net advances	-

6.7. Movement of NPAs (Gross)

(Amount in ₹ '000)

	For the quarter ended 30 Jun 2016
Opening balance	-
Additions	-
Reductions	-
Closing balance	-

Note: YTD movement has been reported above

6.8. Movement of provisions

(Amount in ₹ '000)

Particulars	Specific Provision[1]	General Provision[2]
Opening balance	-	190,952
Provisions made during the period	-	7,800
Write-off	-	-
Write-back of excess provisions	-	(3,779)
Closing balance	-	194,973

[1] Specific provision relating to NPAs
[2] General provisions includes Standard assets and Country risk provision

Note: YTD movement has been reported above

6.9. Amount of Non-Performing Investments

There are no non-performing investments as at 30 June 2016.

6.10. Amount of provisions held for Non-Performing Investments

There are no provisions held for non-performing investments as at 30 June 2016 as there are no non performing investments.

Movement of provisions for depreciation on Investments

(Amount in ₹ '000)

	For the quarter ended 30 June 2016
Opening balance	-
Provisions made during the period	-
Write-off	-
Write-back of excess provisions	-
Closing balance	-

Note: YTD movement has been reported above

6. DF-4 Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach

The Bank uses short term / long term issuer rating instruments of the accredited rating agencies viz. Credit Rating Information Services of India Limited, ICRA Limited, India Ratings and Research Private Limited (India Ratings), Credit Analysis and Research Limited, SME Rating Agency of India Limited and Brickworks Ratings India Pvt Limited to assign risk weights as per RBI guidelines. For Non resident corporate and foreign banks ratings issued by the international rating agencies like Moody's and Standard and Poor's are used for assigning risk weights.

For assets having a contractual maturity of more than a year long term credit ratings assigned by the above mentioned rating agencies are used.

Below attached is the summary as at 30 June 2016

(Amount in ₹ '000)

Nature Of exposure	Gross Credit Exposure	Credit Risk Mitigation	Net Exposure (Before Provision)	Credit Risk weight bucket summary			Deduction from Capital
				< 100%	100%	>100%	
Fund Based							
Claims on Banks	12,951,641	-	12,951,641	12,951,641	-	-	
Investments (HTM)	-	-	-	-	-	-	
Loans and Advances	16,974,189	-	16,974,189	2,155,528	5,585,711	9,232,950	
Other Assets and Fixed Assets	10,780,951	-	10,780,951	8,846,231	1,915,673	19,047	
Non Fund Based							
Non Market Related Off Balance sheet items (Contingent Credits and Exposures)	11,191,753	-	11,191,753	5,572,627	404,163	5,214,963	
Market Related (Foreign Exchange (FX) and derivative contracts)	22,637,057	-	22,637,057	16,976,270	2,417,669	3,243,118	

7. Leverage Ratio

The Basel III leverage ratio is a simple, transparent, non-risk based measure which is calibrated to act as a credible supplementary measure to the risk based capital requirements. The Bank's leverage ratio calculated in accordance with extant RBI guidelines is as follows:

DF-18 Leverage Ratio Common Disclosure as at 30 June 2016

	Leverage Ratio	
	Item	(Amount in ₹'000)
	On-balance sheet exposures	
1.	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	52,096,675
2.	(Asset amounts deducted in determining Basel III Tier 1 capital)	(662,181)
3.	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	51,434,494
	Derivative exposures	
4.	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	6,441,718
5.	Add-on amounts for PFE associated with all derivatives transactions	16,195,339
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)	22,637,057
	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	54,044,016
18.	(Adjustments for conversion to credit equivalent amounts)	(39,657,570)
19.	Off-balance sheet items (sum of lines 17 and 18)	14,386,446
	Capital and total exposures	

20.	**Tier 1 capital**	12,117,488
21.	**Total exposures (sum of lines 3, 11, 16 and 19)**	88,457,997
	Leverage ratio	
22.	**Basel III leverage ratio (per cent)**	13.70%