**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – INDIA BRANCHES**
**Basel III: Pillar 3 Disclosures as at 31 December 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 three branches in India as on 31 December 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.

### 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.

### Risk Management Committee ('India RMC')

India RMC maintains responsibility to oversee all aspects of risk management in the country including credit risk, markets risk, operational risk and compliance related issues/activities. RMC also sets India's Risk Appetite.

## 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 31 December 2016 CRAR was 19.87% and Common Equity Tier I ratio was 19.63% 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 31 December 2016 is presented below.

(Amount in ₹ '000)

| | |
|---|---|
| **Minimum Regulatory Capital Requirements** | |
| | |
| **Capital requirements for Credit risk (a)** | **3,873,660** |
| Portfolios subject to standardised approach | 3,873,660 |
| Securitisation exposures. | - |
| **Capital requirements for Market risk (b)** | **1,105,167** |
| Standardised duration approach | |
| - Interest rate risk | 811,604 |
| - Foreign exchange risk (including gold) | 293,563 |
| - Equity risk | - |
| **Capital requirements for Operational risk (c)** | **345,318** |
| Basic indicator approach | 345,318 |
| | |
| **Total Minimum Regulatory Capital at 9% (a+b+c)** | **5,324,145** |
| **Minimum CRAR + CCB at 9.625%** | **5,693,877** |
| | |
| **Risk Weighted Assets and Contingents** | |
| Credit Risk | 43,792,907 |
| Market Risk | 13,814,576 |
| Operational Risk | 4,316,478 |
| | |
| **Capital Ratios** | |
| CET 1 Capital | 19.63% |
| Tier I Capital | 19.63% |
| **Total Capital** | 19.87% |

## 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 31 December 2016

(Amount in ₹ ‘000)

| **Fund Based** | |
|---|---|
| Claims on Banks | 2,522,520 |
| Investments (HTM) | - |
| Loans and Advances | 12,480,609 |
| Other Assets and Fixed Assets | 11,881,752 |

| | |
|---|---|
| **Non Fund Based** | |
| Non Market Related Off Balance sheet items (Contingent Credits and Exposures) | 13,646,541 |
| Market Related (Foreign Exchange (Fx) and Derivative contracts) | 25,092,253 |

**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 31 December 2016

(Amount in ₹ '000)

| Industry Name | Fund Based | Non Fund Based |
|---|---:|---:|
| Food Processing | 500,000 | - |
| Beverages (excluding Tea & Coffee) and Tobacco | - | - |
| Textiles | 16,916 | 13,260 |
| Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels | - | - |
| Chemicals and Chemical Products (Dyes, Paints, etc.) | 2,008,725 | 44,105 |
| Rubber, Plastic and their Products | - | - |
| Glass & Glassware | - | - |
| Basic Metal and Metal Products | - | 147,923 |
| All Engineering | 730,697 | 1,815,005 |
| Vehicles, Vehicle Parts and Transport Equipments | - | 292,000 |
| Gems & Jewellery | 160,666 | - |
| Infrastructure | 900,000 | 1,888,164 |
| Other Industries | 628,878 | 138,034 |
| Residuary Other Advances | - | 3,059,264 |
| **Total Loans & Advances** | **12,480,609** | **7,397,755** |
| Claims on Banks | 2,522,520 | 6,248,786 |
| Investments (HTM) | - | **-** |
| Other Assets and Fixed Assets | 11,881,752 | **-** |
| **Total Exposure** | **26,884,881** | **13,646,541** |

**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 31 December 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 | 2,962,469 | 1,198,303 | 13,697,440 | 189,830 | - | 4,437 | **18,052,479** |
| 2 to 7 days | 105,565 | 1,324,217 | 547,616 | 1,040,950 | - | 135,460 | **3,153,808** |
| 8 to 14 days | 47,754 | - | 247,722 | 1,476,505 | - | 5,094 | **1,777,075** |
| 15 to 30 days | 193,292 | - | 1,002,703 | 2,577,577 | - | 53,543 | **3,827,115** |
| 31 days and upto 2 months | 84,773 | - | 439,760 | 2,129,343 | - | 78,275 | **2,732,151** |
| 2 months and upto 3 months | 186,820 | - | 969,127 | 115,056 | - | 55,723 | **1,326,726** |
| Over 3 months and upto 6 months | 163,732 | - | 849,358 | 2,493,335 | - | 110,376 | **3,616,801** |
| Over 6 months and upto 1 year | 82,499 | - | 427,965 | 1,504,753 | - | 8,464,508 | **10,479,725** |
| Over 1 year and upto 3 years | 45,135 | - | 229,473 | 666,997 | - | 967,233 | **1,908,838** |
| Over 3 years and upto 5 years | 1,862 | - | 9,660 | 286,263 | - | 92,239 | **390,024** |
| Over 5 years | 73 | - | 383 | - | 757,631 | 1,447,072 | **2,205,159** |
| **Total** | **3,873,974** | **2,522,520** | **18,421,207** | **12,480,609** | **757,631** | **11,413,960** | **49,469,901** |

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

(Amount in ₹ '000)

| | **As at 31 Dec 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 31 Dec 2016 |
|---|---|
| Gross NPAs to gross advances | - |
| Net NPAs to net advances | - |

### 6.7. Movement of NPAs (Gross)

(Amount in ₹ '000)

| | For the quarter ended 31 Dec 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 | - | 1,265 |
| Write-off | - | - |
| Write-back of excess provisions | - | (41,144) |
| Closing balance | - | 151,073 |

[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 31 December 2016.

### 6.10. Amount of provisions held for Non-Performing Investments

There are no provisions held for non-performing investments as at 31 December 2016 as there are no non performing investments.

**Movement of provisions for depreciation on Investments**

(Amount in ₹ '000)

| | For the quarter ended 31 Dec 2016 |
|---|---|
| Opening balance | - |
| Provisions made during the period | 4,664 |
| Write-off | - |
| Write-back of excess provisions | - |
| Closing balance | 4,664 |

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 31 December 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 | 2,522,520 | - | 2,522,520 | 2,522,520 | - | - | |
| Investments (HTM) | - | - | - | - | - | - | |
| Loans and Advances | 12,480,609 | - | 12,480,609 | 1,969,904 | 4,383,665 | 6,127,040 | |
| Other Assets and Fixed Assets | 11,881,752 | - | 11,881,752 | 10,117,051 | 1,301,943 | 462,758 | |
| | | | | | | | |
| **Non Fund Based** | | | | | | | |
| Non Market Related Off Balance sheet items (Contingent Credits and Exposures) | 13,646,541 | - | 13,646,541 | 6,336,916 | 1,216,169 | 6,093,456 | |
| Market Related (Foreign Exchange (FX) and derivative contracts) | 25,092,253 | - | 25,092,253 | 20,057,451 | 326,658 | 4,708,144 | |

## 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 31 December 2016**

| Leverage Ratio |
|---|

| | Item | (Amount in ₹'000) |
|---|---|---|
| | **On-balance sheet exposures** | |
| 1. | On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 41,794,174 |
| 2. | (Asset amounts deducted in determining Basel III Tier 1 capital) | (626,592) |
| 3. | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2) | 41,167,582 |
| | **Derivative exposures** | |
| 4. | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 7,680,391 |
| 5. | Add-on amounts for PFE associated with all derivatives transactions | 17,411,862 |
| 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) | 25,092,253 |
| | **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 | 58,684,471 |
| 18. | (Adjustments for conversion to credit equivalent amounts) | (41,206,581) |
| 19. | Off-balance sheet items (sum of lines 17 and 18) | 17,477,890 |
| | Capital and total exposures | |
| **20.** | **Tier 1 capital** | 12,153,077 |
| **21.** | **Total exposures (sum of lines 3, 11, 16 and 19)** | 83,737,725 |
| | Leverage ratio | |
| **22.** | **Basel III leverage ratio (per cent)** | 14.51% |