AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – MUMBAI BRANCH
Basel III: Pillar 3 Disclosures as at 31 December 2014

1. Background

Australia and New Zealand Banking Group Limited – Mumbai Branch ('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.

In October 2010, ANZ received the final approval from the Reserve Bank of India ('RBI') to open a branch in Mumbai to carry out banking business. The Bank commenced its banking business in India from 2 June, 2011. The Bank has only one branch in India as on 31 December 2014.

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.

India Assets and Liabilities Committee ('India ALCO')

India ALCO is a sub-committee of the International and Institutional Banking ALCO ('I&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.
- 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 is a sub-committee of regional RMC and acts as a forum to ensure adequate awareness and debate of all significant risk issues that the Bank faces. India RMC has management oversight and presides over credit, operational and market risk within the Bank.

Key responsibilities of the India RMC are:

- Acting as the ultimate point of escalation against agreed Risk/Return standards across division.
- Overseeing Country/Business Level Credit, Operational and Market Risk strategies.
- Recommending country risk strategies.
- Identifying actions and mandating requirements into the resolution of country risk issues.
- Reviewing and approving (for in-country adoption of regionally / globally approved products) country new and amended products/programs, and ensuring that they meet Group Policy parameters.
- Consider key activities across the Bank and their risk implications, and action accordingly.

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') commonly referred as Basel II guidelines.
- 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. India ALCO and India EXCO emphasises on the growth opportunities supported by cost effective capital.

As at 31 December 2014 CRAR was 22.85% and Common Equity Tier I ratio was 22.45% 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 2014 is presented below.

(Amount in ₹ '000)

Minimum Regulatory Capital Requirements	
Capital requirements for Credit risk (a)	**3,694,049**
Portfolios subject to standardised approach	3,694,049
Securitisation exposures.	-

Capital requirements for Market risk (b)	**676,078**
Standardised duration approach	
- Interest rate risk	455,578
- Foreign exchange risk (including gold)	220,500
- Equity risk	-
Capital requirements for Operational risk (c)	**252,919**
Basic indicator approach	252,919
Total Minimum Regulatory Capital (a+b+c)	**4,623,046**
Risk Weighted Assets and Contingents	
Credit Risk	41,044,991
Market Risk	7,511,972
Operational Risk	2,810,209
Capital Ratios	
CET 1 Capital	22.45%
Tier I Capital	22.45%
Total Capital	22.85%

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

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, risk management policy (involving risk identification, risk measurement/ grading, risk mitigation and control), credit risk management structure, credit pricing policy, etc. in accordance with extant regulatory guidelines. India EXCO is apprised of key risks affecting the business. It ensures country's risk profile remains within the agreed group 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 concentration within risk appetite and within regulator defined prudential limits. This framework is top down and 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 credit risk assessment and credit approval requirements and is not subject to any influences external to these 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 problem credits and prompt application of remedial actions. Problem credits are managed to minimise losses, maximise recoveries and preserve the Bank's reputation, with attention to measurement of extent of impairment, exposure and security cover, provisioning, remediation, workout & losses. Specialist remediation and workout skills will be applied to the management of all problem credits.

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 2014

(Amount in ₹ '000)

Fund Based	
Claims on Banks	8,922,779
Investments (HTM)	-
Loans and Advances	19,058,584
Other Assets and Fixed Assets	8,619,473
Non Fund Based	
Non Market Related Off Balance sheet items (Contingent Credits and Exposures)	9,809,738
Market Related (Foreign Exchange (Fx) and Derivative contracts)	15,391,034

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 2014

(Amount in ₹ '000)

Industry Name	Fund Based	Non Fund Based
Food Processing	1,086,532	1,076,843
Beverages (excluding Tea & Coffee) and Tobacco	705,919	6,736
Textiles	-	235,570
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	945,525	2,421,473
Chemicals and Chemical Products (Dyes, Paints, etc.)	3,896,764	141,341
Rubber, Plastic and their Products	1,470,305	-
Glass & Glassware	716,902	-
Basic Metal and Metal Products	2,082,524	65,967
All Engineering	775,259	501,356
Vehicles, Vehicle Parts and Transport Equipments	276,027	1,612,720
Gems and Jewellery	20,266	-
Infrastructure	185,290	1,256,488

Other Industries	1,136,519	-
Residuary Other Advances	5,760,752	1,222,832
Total Loans & Advances	**19,058,584**	**8,541,326**
Claims on Banks	8,922,779	8,250,966
Investments (HTM)	-	-
Other Assets and Fixed Assets	8,619,473	-
Total Exposure	**36,600,836**	**16,792,292**

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 notionals.

6.4. Residual contractual maturity breakdown of assets as at 31 Dec 2014

(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	548,044	4,379,088	8,913,434	1,612	-	158	**13,842,336**
2 to 7 days	61,472	715,121	338,096	1,221,055	-	8,135	**2,343,879**
8 to 14 days	63,133	200,000	347,229	3,273,127	-	11,387	**3,894,876**
15 to 28 days	224,995	550,000	1,237,473	2,999,030	-	13,056	**5,024,554**
29days and upto 3 months	546,274	3,000,000	3,004,509	4,359,155	-	121,863	**11,031,801**
Over 3 months and upto 6 months	175,390	-	964,647	5,803,361	-	68,669	**7,012,067**
Over 6 months and upto 1 year	191,542	-	1,053,481	161,941	-	6,234,144	**7,641,108**
Over 1 year and upto 3 years	77,762	-	427,691	1,054,013	-	431,945	**1,991,411**
Over 3 years and upto 5 years	1	-	6	-	-	342,063	**342,070**
Over 5 years	5,350	-	29,420	-	268,132	1,408,106	**1,711,008**
Total	**1,893,963**	**8,844,209**	**16,315,986**	**18,873,294**	**268,132**	**8,639,526**	**54,835,110**

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

(Amount in ₹ '000)

	As at 31 Dec 2014
Substandard	-
Doubtful 1	-
Doubtful 2	-
Doubtful 3	185,290
Loss	-

Gross NPAs	185,290
Provisions for NPAs	185,290
Net NPAs	-

6.6. NPA Ratios

(Amount in ₹ '000)

	As at 31 Dec 2014
Gross NPAs to gross advances	0.97%
Net NPAs to net advances	-

6.7. Movement of NPAs (Gross)

(Amount in ₹ '000)

	For the quarter ended 31 Dec 2014
Opening balance	185,290
Additions	-
Reductions	-
Closing balance	185,290

Note: YTD movement has been reported above

6.8. Movement of provisions for NPAs

(Amount in ₹ '000)

	For the quarter ended 31 Dec 2014
Opening balance	185,290
Provisions made during the period	-
Write-off	-
Write-back of excess provisions	-
Closing balance	185,290

Note: YTD movement has been reported above

6.9. Amount of Non-Performing Investments

There are no non-performing investments as at 31 December 2014.

6.10. Amount of provisions held for Non-Performing Investments

There are no provisions held for non-performing investments as at 31 December 2014 as there are no non performing investments.

Movement of provisions for depreciation on Investments

(Amount in ₹ '000)

	For the quarter ended 31 Dec 2014
Opening balance	111
Provisions made during the period	12,440
Write-off	-
Write-back of excess provisions	12,551
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 Standard and Poor's and Moody'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 2014

(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	8,922,779	-	8,922,779	8,922,779	-	-	-
Investments (HTM)	-	-	-	-	-	-	-
Loans and Advances	19,058,584	-	19,058,584	2,411,742	12,694,324	3,952,517	-
Other Assets and Fixed Assets	8,619,473	-	8,619,473	7,108,149	605,350	905,974	-
Non Fund Based							
Non Market Related Off Balance sheet items (Contingent Credits and Exposures)	9,809,738	-	9,809,738	5,100,626	864,234	3,844,878	-
Market Related (Foreign Exchange (FX) and derivative contracts)	15,391,034	-	15,391,034	11,283,453	2,261,354	1,846,228	-