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

ANZ

- 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. Scope of Application

In terms of RBI circular dated 12 December, 2006 on Financial Regulation of Systemically Important NBFCs and Banks Relationship with them, NBFCs promoted by the parent / group of a foreign bank having presence in India, which is a subsidiary of the foreign bank’s parent / group or where the parent / group is having management control would be treated as part of that foreign bank’s operations in India and brought under the ambit of consolidated supervision. As at 31 March 2014 no such group owned NBFC is in operations in India, accordingly framework for consolidated supervision does not apply to the Bank.

The bank does not have any subsidiaries in India and consequently not required to prepare Consolidated Financial Statements. The Bank does not have any interest in insurance entities.

5. 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 March 2014 CRAR was 30.82% and Common Equity Tier I ratio was 30.96% 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 March 2014 is presented below.

(Amount in ₹ '000)

Minimum Regulatory Capital Requirements	
Capital requirements for Credit risk (a)	**2,629,767**
Portfolios subject to standardised approach	2,629,767
Securitisation exposures.	-
Capital requirements for Market risk (b)	**515,475**
Standardised duration approach	
- Interest rate risk	294,975
- 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)	**3,398,161**
Risk Weighted Assets and Contingents	
Credit Risk	29,219,635
Market Risk	5,727,501
Operational Risk	2,810,209
Capital Ratios	
CET 1 Capital	30.43%
Tier I Capital	30.43%
Total Capital	30.82%

6. 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 March 2014

(Amount in ₹ '000)

Fund Based	
Claims on Banks	9,923,316
Investments (HTM)	-
Loans and Advances	20,657,600
Other Assets and Fixed Assets	8,472,868
Non Fund Based	
Non Market Related Off Balance sheet items (Contingent Credits and Exposures)	7,195,905
Market Related (Foreign Exchange (Fx) and Derivative contracts)	16,286,174

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 March 2014

(Amount in ₹ '000)

Industry Name	Fund Based	Non Fund Based
Food Processing	1,330,183	1,032,396
Beverages (excluding Tea & Coffee) and Tobacco	476,214	2,360
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	1,081,952	-
Chemicals and Chemical Products (Dyes, Paints, etc.)	4,908,161	310,891
Rubber, Plastic and their Products	613,186	-
Basic Metal and Metal Products	2,565,289	220,084
All Engineering	554,629	-
Vehicles, Vehicle Parts and Transport Equipments	966,938	1,603,706
Infrastructure	285,518	41,814
Other Industries	1,559,237	-
Residuary Other Advances	6,316,293	2,090,096
Total Loans & Advances	**20,657,600**	**5,301,347**

Claims on Banks	9,923,316	8,261,426
Investments (HTM)	-	-
Other Assets and Fixed Assets	8,472,868	-
Total Exposure	**39,053,784**	**13,562,773**

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 March 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	687,618	803,316	8,056,961	61,385	-	-	**9,609,280**
2 to 7 days	161,802	-	930,362	1,551,277	-	28,385	**2,671,826**
8 to 14 days	52,245	-	300,409	514,213	-	2,523	**869,390**
15 to 28 days	128,996	-	741,726	3,641,129	-	59,025	**4,570,876**
29days and upto 3 months	670,693	3,420,000	3,856,487	7,172,441	-	122,886	**15,242,507**
Over 3 months and upto 6 months	104,751	5,700,000	602,315	4,521,460	-	77,829	**11,006,355**
Over 6 months and upto 1 year	169,653	-	975,507	755,625	-	7,556,918	**9,457,703**
Over 1 year and upto 3 years	28,060	-	161,345	2,254,780	-	209,690	**2,653,875**
Over 3 years and upto 5 years	-	-	-	-	-	-	**-**
Over 5 years	5,204	-	29,810	-	348,683	317,056	**700,753**
Total	**2,009,022**	**9,923,316**	**15,654,922**	**20,472,310**	**348,683**	**8,374,312**	**56,782,565**

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

(Amount in ₹ '000)

	As at 31 March 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 March 2014
Gross NPAs to gross advances	0.90%
Net NPAs to net advances	-

6.7. Movement of NPAs (Gross)

(Amount in ₹ '000)

	For the year ended 31 March 2014
Opening balance	280,775
Additions	-
Reductions	95,485
Closing balance	185,290

6.8. Movement of provisions for NPAs

(Amount in ₹ '000)

	For the year ended 31 March 2014
Opening balance	280,775
Provisions made during the period	-
Write-off	-
Write-back of excess provisions	95,485
Closing balance	185,290

6.9. Amount of Non-Performing Investments

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

6.10. Amount of provisions held for Non-Performing Investments

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

6.11. Movement of provisions for depreciation on Investments

(Amount in ₹ '000)

	For the year ended 31 March 2014
Opening balance	445
Provisions made during the period	-
Write-off	-
Write-back of excess provisions	334
Closing balance	111

7. 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 March 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	9,923,316	-	9,923,316	9,923,316	-	-	-
Investments (HTM)	-	-	-	-	-	-	-
Loans and Advances	20,657,600	-	20,657,600	5,704,046	14,953,554	-	-
Other Assets and Fixed Assets	8,472,868	-	8,472,868	7,844,968	627,900	-	-
Non Fund Based							
Non Market Related Off Balance sheet items (Contingent Credits and Exposures)	7,195,905	-	7,195,905	4,133,095	3,062,809	-	-
Market Related (Foreign Exchange (FX) and derivative contracts)	16,286,174	-	16,286,174	13,321,736	2,964,438	-	-

8. Credit Risk Mitigation: Disclosures for Standardised Approaches

RBI Basel III guidelines allow following credit risk mitigants to be recognized for regulatory capital purposes under the comprehensive approach.

- Eligible financial collateral which included cash (deposited with the Bank), 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.
- On balance sheet netting, which is confined to loans and advances and deposits where banks have legally enforceable netting arrangements, involving specific lien with proof of documentation.
- Guarantees where these are direct, explicit, irrevocable and unconditional. Further, the eligible guarantors would comprise :
  - Sovereigns, sovereign entities stipulated as per Basel II guidelines, banks and primary dealers with a lower risk weight than the counterparty.
  - other entities rated AA (-) or better.

These credit risk mitigation techniques are subject to specific conditions given in Basel III guidelines.

Main types of collateral accepted by the Bank are property, plant & machinery, current assets, cash and stand-by letters of credit. 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.

Credit Risk Mitigation details as at 31 March 2014 are as below

(Amount in ₹ '000)

Exposure covered by eligible financial collateral after application of haircuts	NIL
Exposure covered by guarantees	NIL

9. Securitisation Exposures: Disclosure for Standardised Approach

The Bank has not securitised any asset for the year under review hence no disclosures have been made.

10. Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market parameters. Bank's earnings are exposed to changes in interest rates, foreign currency exchange rates or fluctuations in bond prices. Market risk arises when changes in market rates, prices and volatilities lead to a decline in the value of assets and liabilities, including off-balance sheet positions viz financial derivatives. Market risk is generated through both trading and banking book activities.

The Bank conducts trading operations in interest rates, foreign exchange and fixed-income securities.

To facilitate the management, measurement and reporting of market risk, the Bank has classified market risk into two broad categories:

- Traded market risk:

  This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Trading positions arise from transactions where the Bank acts as principal with customers, financial exchanges or inter-bank counterparties.

- Non-traded market risk (or balance sheet risk).

  This comprises management of interest rate risk on banking book and liquidity risk.

The Bank has a detailed market risk management and control framework to support its trading and balance sheet activities. This framework incorporates a risk measurement approach, as outlined below, to quantify the magnitude of market risk within trading and balance sheet portfolios. The framework is supported by a comprehensive limit and policy framework to control the amount of risk that the Group is willing to accept. Market risk limits are allocated at various levels and are monitored and reported by Market Risk on a daily basis. While Value at Risk (VaR) and Stress limits provide a good overview of the consolidated risk on the Traded and Non-traded portfolios, the Detailed Control Limits (DCL) framework allocates limits to manage and control the risk of individual asset classes, risk factors and consolidated/trader-wise loss limits (to monitor and manage the performance of the trading portfolio).

Measurement of market risk

A key measure of market risk is Value at Risk (VaR). VaR is a statistical estimate of the potential loss which could occur due to a change in market risk factors for a given holding period and confidence interval.

The Bank measures VaR at a 99% confidence interval. Group's standard VaR approach, for both Traded as well as Non-traded risk, is historical simulation method. This method uses actual historical observations of changes in market rates, prices and volatilities over the previous 500 business days historical period (VaR window) to model P&L outcomes. Both Traded and Non-traded VaR are calculated, monitored and reported using a one-day (1D) holding period.

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Bank could experience from an extreme market event. As a result of this limitation, the Bank utilises a number of other risk measures (e.g. stress testing) and risk sensitivity limits to measure and manage market risk.

Stress Testing

Bank undertakes a wide range of stress tests to the individual trading portfolios. Standard stress tests are applied daily and measure the potential loss impact arising from applying the largest market movements during the previous seven years over specific holding periods. The worst stress losses observed during the month are reported to the RMC on a monthly basis.

VaR and stress tests are also supplemented by cumulative loss limits (CLL) and detailed control limits (DCL). Cumulative loss limits ensure that in the event of continued losses from a trading activity, the trading activity is stopped and senior management reviews before trading is resumed. Where necessary, detailed control limits such as sensitivity or position limits are also in place to ensure appropriate control is exercised over a specific risk or product.

Back-Testing

Back testing involves the comparison of calculated VaR exposures with actual profit and loss data to identify the frequency of instances when trading losses exceed the calculated VaR. The Bank uses actual and hypothetical profit and loss data for performing Back Testing. Back Testing is conducted daily and outliers are analysed to understand if the issues are the result of trading decisions, systemic changes in market conditions or issues related to the VaR model i.e. historical data or model calibration.

Capital requirement for Market Risk is provided in section 5 above.

11. Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations as they fall due across a wide range of operating circumstances, including repaying depositors or maturing debt, or that the Bank has insufficient capacity to fund increases in assets. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is recognized and closely monitored by the Bank.

The Bank maintains a portfolio of liquid assets to manage potential stresses in funding sources. The minimum level of liquidity portfolio assets to hold is based

on a range of the Bank specific and general market liquidity stress scenarios such that potential cash flow obligations can be met over the short to medium term.

The bank's liquidity and funding risks are governed by a set of principles which have been fixed by the Group. The core objective of the overall framework is to ensure that the bank has sufficient liquidity to meet obligations as they fall due, without incurring unacceptable losses.

Key principles of the Bank's approach to liquidity risk management include:

- Maintaining the ability to meet all payment obligations in the immediate (intraday/overnight) term.
- Ensuring that the bank has the ability to meet 'survival horizons' under a range of Bank specific and general market liquidity stress scenarios to meet cash flow obligations over a short to medium term horizon.
- Maintaining strength in the bank's balance sheet structure to ensure long term resilience in the liquidity and funding risk profile.
- Limiting the potential earnings at risk implications associated with unexpected increases in funding costs or the liquidation of assets under stress.
- Preparation of daily liquidity reports and scenario analyses, quantifying the bank's positions.
- Targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.
- Holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations.
- Establishing detailed contingency plan to cover liquidity crisis events.
- Ensuring the liquidity risk management framework is compatible with local regulatory requirements.

Management of liquidity and funding risks are locally overseen by India ALCO.

Scenario modeling

A key component of the Group's liquidity management framework is scenario modeling. The Bank mainly assesses liquidity under different scenarios, including the 'going-concern' and 'name-crisis'. Liquidity scenario modeling stresses cash flow projections against multiple 'survival horizons' over which the Bank is required to remain cash flow positive.

12. Operational Risk

The Bank understands and manages operational risk efficiently and effectively, allocating appropriate capital to cover expected and unexpected losses to protect depositors, customers and shareholders. Further, ANZ Group has introduced a revised Operational Risk Measurement and Management Framework (ORMMF), including new policies and procedures, which will enable globally consistent and comparable management of operational risk. The framework sets out the minimum requirements to identify, assess, measure,

monitor, control and manage operational risk. ANZ India has implemented this operational risk framework since 30-June-2013.

An effective and embedded governance structure is also built for managing operational risk in line with the bank's values, culture, strategy and appetite. The oversight of operational risk management is conducted via three clearly articulated layers of risk management – Three lines of defence:

- The area where the risk originates is responsible for managing the risk. This is defined as 'the First Line of Defence'.
- To ensure appropriate challenge and oversight, there is a dedicated and independent operational risk management function. This is 'the Second Line of Defence'.

  The first and second lines of defence have defined roles, responsibilities and escalation paths to support effective two way communication and management of operational risk. There are also on-going review mechanisms in place to ensure the framework continues to meet organisational needs and regulatory requirements.
- 'The Third Line of Defence' has an independent oversight role within the governance structure and is performed by Internal Audit. Internal Audit provides independent and objective assurance to management that the first and second lines of defence are functioning as intended.

The Bank periodically identifies and assesses its exposure to material operational risk within all existing and new products, processes, projects and systems, and assesses the key controls in place to manage these risks. Compliance to the operational risk measurement and management framework is monitored using one or more of the following mechanisms, but is not limited to:

- Half yearly Risk Certification
- Periodic Control Testing
- Internal Audit Reviews
- Periodic External Reviews
- Compliance Monitoring

The Bank uses the Basic Indicator Approach to estimated Operational RWAs. At 31 March 2014, Operational RWAs were ₹ 2,810,209.

13. Interest Rate Risk in the Banking Book (IRRBB)

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short (next 12 months) and long term. Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the bank's future net interest income. This risk arises from two principal sources: mismatches between the re-pricing dates of interest bearing assets and liabilities, and the investment of capital and other non-interest bearing liabilities in interest bearing assets.

Interest rate risk on the Banking Book is measured and monitored by using VaR (Value at Risk), EaR (Earnings at Risk) and MVE (Market Value of Equity). VaR is an estimate of the impact of interest rate changes on the banking book's market value, expressed to a 99.0% level of statistical confidence and using a 1 day holding period.

The Bank also uses Earnings at Risk (EaR) as an estimate of the amount of the next 12 months' income that is at risk from interest rate movements over a 1 month holding period, expressed to a 97.5% level of statistical confidence. It is calculated by applying a statistically derived interest rate shock to static repricing gaps over the first 12 months.

Impacts on earnings for upward and downward rate shocks of 200 bps broken down by currency are:

Impacts on earnings for upward and downward rate shocks of 200 bps broken down by currency are:

As at 31 March 2014:

(Amount in '000)

Currency	Interest Rate Risk Shocks	
	200bp up	200bp down
Rupees	(47,025)	47,053
USD	273	(274)

Change in Market Value of Equity (MVE) due to interest rate movements directly impacts capital requirements. Bank uses Duration Gap approach to measure the impact on Market Value of Equity (MVE) for upward and downward rate shocks. This measures the potential change in MVE of the Bank for a 200 bps change in interest rates. The change in MVE due to 200 bps change in interest rate is:

Change in MVE due to 200 bps change in interest rate	Amount in ₹ '000
31 March 2014	(290,938)

14. Counter Credit Risk

Counterparty credit risk in derivative transactions arises from the risk of counterparty default before settlement date of the derivative contracts and the counterparty will not be able to fulfill present and future contractual payment obligations. The amount at risk may change over time as a function of the underlying market parameters up to the positive value of the contract in favor of ANZ India.

Counterparty credit risk is present in market instruments (derivatives and forward contracts), and comprises:

- Settlement risk, which arises where one party makes payment or delivers value in the expectation but without certainty that the counterparty will perform the corresponding obligation in a bilateral contract at settlement date.

- Market replacement risk (pre-settlement risk), which is the risk that a counterparty will default during the life of a derivative contract and that a loss will be incurred in covering the position.

Counterparty credit risk requires a different method to calculate exposure at default because actual and potential market movements impact Bank's exposure or replacement cost.

Counterparty credit risk governance

Bank's counterparty credit risk management is governed by its credit principles, policies and procedures. The Counterparty Credit Risk function is responsible for determining the counterparty credit risk exposure methodology applied to market instruments, in the framework for counterparty credit limit management, measurement and reporting.

Counterparty credit limits are approved by the appropriate credit delegation holders.

Counterparty credit risk measurement and reporting

The approach to measure counterparty credit risk exposure is based on internal models. These measures are referred to as potential credit risk exposure (PCRE) and potential future exposure (PFE) and measure the worst case exposure of derivative transactions at future time points.

PCRE factors recognise that prices may change over the remaining period to maturity, and that risk decreases as the contract's remaining term to maturity decreases. In general terms PCRE is calculated by applying a risk weighting or volatility factor to the face value of the notional principal of individual trades.

PFE simulates relevant risk factors in a portfolio by taking into account the relevant volatilities and correlations calibrated to historical market data.

PFE and PCRE models are also used by credit officers to establish credit limits on an uncommitted and unadvised basis, to ensure the potential volatility of the transaction value is recognised. Counterparty credit risk exposure is calculated daily and excesses above approved limits are reported to account controllers and risk officers for action.

Credit value adjustment (CVA)

Over the life of a derivative instrument, ANZ uses a CVA model to adjust fair value to take into account the impact of counterparty credit quality. The methodology calculates the present value of expected losses over the life of the financial instrument as a function of PD, LGD, expected credit risk exposure and an asset correlation factor.

Impaired derivatives are also subject to a CVA.

Wrong way risk

Bank's management of counterparty credit risk also considers the possibility of wrong way risk, which emerges when PD is adversely correlated with counterparty credit risk exposures. Bank's credit policies and independent transaction evaluation by Credit Risk are central to managing wrong way risk.

Counterparty Credit Risk in FX and Derivatives

(Amount in ₹ '000)

	31 Mar 2014
Gross positive fair value of contracts	7,416,770
Netting benefits	-
Netted current credit exposure	**7,416,770**
Collateral held (including type e.g. cash, government securities etc.)	-
Net derivatives credit exposure	**7,416,770**
Potential future exposure	8,869,404
Measures for exposure at default, or exposure amount, under CEM	**16,286,174**
The notional value of credit derivative hedges	-
Distribution of current credit exposure by types of credit exposure	
- Interest Rate	7,233,838
- Fx	9,052,337

15. Basel III common disclosure template

(Amount in ₹ '000)

	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2017)	**Basel III Amounts**	**Amounts Subject to Pre-Basel III Treatment**
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus (share premium)	11,311,074	-
2	Retained earnings	-	-
3	Accumulated other comprehensive income (and other reserves)	428,728	-
4	*Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies1)*	-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**11,739,802**	-
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	-
8	Goodwill (net of related tax liability)	-	-
9	Intangibles (net of related tax liability)	40,513	162,052
10	Deferred tax assets2	9,513	38,050

11	Cash-flow hedge reserve	-	-
12	Shortfall of provisions to expected losses	-	-
13	Securitization gain on sale	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-
15	Defined-benefit pension fund net assets	-	-
16	Investments in own shares (if not already netted off paid-up capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)3	-	-
20	Mortgage servicing rights4 (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences5 (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold6	-	-
23	*of which: significant investments in the common stock of financial entities*	-	-
24	*of which: mortgage servicing rights*	-	-
25	*of which: deferred tax assets arising from temporary differences*	-	-
26	National specific regulatory adjustments7 (26a+26b+26c+26d)	-	-
26a	*of which: Investments in the equity capital of unconsolidated insurance subsidiaries*	-	-
26b	*of which: Investments in the equity capital of unconsolidated non - financial subsidiaries8*	-	-
26c	*of which: Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank9*	-	-
26d	*of which: Unamortized pension funds expenditures*	-	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	200,102	-
28	**Total regulatory adjustments to Common equity Tier 1**	**250,128**	-
29	**Common Equity Tier 1 capital (CET1)**	**11,489,674**	-
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (share premium) (31+32)	-	-
31	of which: classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares)	-	-
32	of which: classified as liabilities under applicable accounting standards (Perpetual debt Instruments)	-	-
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-	-

34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-	-
36	**Additional Tier 1 capital before regulatory adjustments**	-	-
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)10	-	-
41	National specific regulatory adjustments (41a+41b)	-	-
41a	*of which: Investments in the Additional Tier 1 capital of unconsolidated insurance subsidiaries*	-	-
41b	*of which: Shortfall in the Additional Tier 1 capital of majority owned financial entities which have not been consolidated with the bank*	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	-	-
44	**Additional Tier 1 capital (AT1)**	-	-
44a	**Additional Tier 1 capital reckoned for capital adequacy11**	-	-
45	**Tier 1 capital (T1 = CET1 + Admissible AT1) (29 + 44a)**	**11,489,674**	-
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
47	*Directly issued capital instruments subject to phase out from Tier 2*	-	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-	-
50	Provisions	147,314	-
51	**Tier 2 capital before regulatory adjustments**	-	-
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-
55	Significant investments13 in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-

56	National specific regulatory adjustments (56a+56b)	-	-
56a	*of which: Investments in the Tier 2 capital of unconsolidated subsidiaries*	-	-
56b	*of which: Shortfall in the Tier 2 capital of majority owned financial entities which have not been consolidated with the bank*	-	-
57	**Total regulatory adjustments to Tier 2 capital**		-
58	**Tier 2 capital (T2)**	**147,314**	-
58a	**Tier 2 capital reckoned for capital adequacy14**	**147,314**	-
58b	**Excess Additional Tier 1 capital reckoned as Tier 2 capital**	-	-
58c	**Total Tier 2 capital admissible for capital adequacy (58a + 58b)**	**147,314**	-
59	**Total capital (TC = T1 + Admissible T2) (45 + 58c)**	**11,636,988**	-
60	**Total risk weighted assets (60a + 60b + 60c)**	**37,757,345**	-
60a	*of which: total credit risk weighted assets*	29,219,635	-
60b	*of which: total market risk weighted assets*	5,727,501	-
60c	*of which: total operational risk weighted assets*	2,810,209	-
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	30.43%	-
62	Tier 1 (as a percentage of risk weighted assets)	30.43%	-
63	Total capital (as a percentage of risk weighted assets)	30.82%	-
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	-	-
65	*of which: capital conservation buffer requirement*	-	-
66	*of which: bank specific countercyclical buffer requirement*	-	-
67	*of which: G-SIB buffer requirement*	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	-	-
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	-	-
70	National Tier 1 minimum ratio (if different from Basel III minimum)	-	-
71	National total capital minimum ratio (if different from Basel III minimum)	-	-
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financial entities	-	-
73	Significant investments in the common stock of financial entities	-	-
74	Mortgage servicing rights (net of related tax liability)	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-	-
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-	-

78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-
Capital instruments subject to phase-out arrangements (only applicable between March 31, 2017 and March 31, 2022			
80	*Current cap on CET1 instruments subject to phase out arrangements*	-	-
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-	-
82	*Current cap on AT1 instruments subject to phase out arrangements*	-	-
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-	-
84	*Current cap on T2 instruments subject to phase out arrangements*	-	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-	-