

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – INDIA BRANCHES

Basel III: Pillar 3 Disclosures as at 30 June 2018

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 30 June 2018.

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')

The India Asset and Liability Committee (ALCO) is a Sub-Committee of the Group Asset and Liability Committee (GALCO), and is responsible for the oversight and strategic management of the India balance sheet activities including balance sheet structure, liquidity, funding, capital management, non-traded interest rate risk, and non-traded FX risks and exposures.

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 approves India's Risk Appetite statement.

Risk Management Framework

The oversight of risk management is conducted via three clearly articulated layers of risk management – Three lines of defense:

- 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 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 risk.

- 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.

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. India ALCO and India EXCO emphasises on the growth opportunities supported by cost effective capital.

Under the Basel III framework, on an on-going basis, the Bank has to maintain a minimum total capital of 10.875% including Capital Conversion Buffer (CCB) at 1.875% for credit risk, market risk and operational risk. The Minimum Total Capital should include minimum Common Equity Tier I (CET 1) ratio of 5.50%, minimum Tier 1 capital ratio of 7.00%. The minimum total capital requirement includes a capital conservation buffer of 1.875% (Previous Year 1.25%).

As at 30 June 2018 CRAR was 21.89% and Common Equity Tier I ratio was 21.35% 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 2018 is presented below.

(Amount in ₹ '000)

Minimum Regulatory Capital Requirements	
Capital requirements for Credit risk (a)	3,753,774
Portfolios subject to standardised approach	3,753,774
Securitisation exposures.	-
Capital requirements for Market risk (b)	1,204,300
Standardised duration approach	
- Interest rate risk	841,631
- Foreign exchange risk (including gold)	362,669
- Equity risk	-
Capital requirements for Operational risk (c)	347,558
Basic indicator approach	347,558
Total Minimum Regulatory Capital at 9% (a+b+c)	5,305,632
Minimum CRAR + CCB at 10.875%	6,410,972
Risk Weighted Assets and Contingents	
Credit Risk	42,466,680
Market Risk	15,053,748

Operational Risk	4,344,476
Capital Ratios	
CET 1 Capital	21.35%
Tier I Capital	21.35%
Total Capital	21.89%

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, risk management policy (involving risk identification, risk measurement/ grading, risk mitigation and control), credit risk management structure, etc. in accordance with extant regulatory guidelines. India EXCO is apprised of key risks affecting the business. RMC 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 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 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. A specialist remediation team with work out 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.

5.1. Total gross credit risk exposures as at 30 June 2018

(Amount in ₹ '000)

Fund Based	33,364,143
Claims on Banks	3,876,633
Investments (HTM)	-
Loans and Advances (including Interbank Loans)	26,395,581
Other Assets and Fixed Assets	3,091,929
Non Fund Based	44,588,794
Non Market Related Off Balance sheet items (Contingent Credits and Exposures and undrawn committed lines of credit)	11,535,864
Market Related (Foreign Exchange (Fx) and Derivative contracts)	33,052,931

Notes:

Fund based credit exposure is the outstanding amount.

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.

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

Since all the exposures provided under Para 5.1 above are domestic, the disclosures on geographic distribution of exposures, both fund and non-fund based has not been made.

5.3. Industry type distribution of exposures as at 30 June 2018

(Amount in ₹ '000)

Industry Name	Fund Based	Non Fund Based
Banking & Finance*	3,876,633	30,775,680
Food Processing	2,503,000	113,739
Petroleum (non-infra) Coal Products (non-mining) and Nuclear Fuels	-	173,389
Chemicals and Chemical Products (Dyes, Paints, etc.)	3,412,267	1,493,994
Glass & Glassware	800,000	12,761
Iron and Steel	958,582	25,200
Metal and Metal Products	36,567	453,129
All Engineering	8,233	1,823,623
Vehicles, Vehicle Parts and Transport Equipment's	477,926	579,653
Gems and Jewellery	100,589	-
Construction	-	124,888
Infrastructure – Telecommunications	5,900,873	1,151,962
	3,310	-
Other Industries	580,000	22,230
Residuary Exposure		
- Other assets	3,091,929	
- Exposure to Other Sectors	11,614,234	7,838,547
Total Exposure	33,364,143	44,588,794

* Includes Cash, Balances with RBI, Balances with banks and money at call and short notice.

Notes:

Fund Based Exposure comprises of outstanding 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.

As on 30th June 2018, the Bank's exposure to the industries stated below was more than 5% of the total gross credit exposure (outstanding):

Sr. No.	Industry Classification	Percentage of the total gross credit exposure
1	Banking & Finance	44.45%
2	Infrastructure - Telecommunications	9.05%
3	Chemicals and Chemical Products (Dyes,	6.29%

5.4. Residual contractual maturity breakdown of assets as at 30 June 2018

(Amount in ₹ '000)

	Cash and Bank balances with RBI	Balances with Banks and money at call and short notice	Net Investments	Advances	Fixed Assets	Other Assets	Total Assets
Day 1	694,910	1,862,538	16,170,677	729,986	-	486,150	19,944,261
2 to 7 days	251,706	-	1,227,065	2,653,812	-	5,271	4,137,854
8 to 14 days	27,707	-	135,073	5,193,409	-	575	5,356,764
15 to 30 days	233,949	-	1,140,500	6,054,304	-	163,533	7,592,286
31 days and upto 2 months	32,710	-	159,460	3,119,705	-	112,241	3,424,116
Over 2 months and upto 3 months	99,614	-	485,617	2,211,913	-	87,360	2,884,504
Over 3 months and upto 6 months	187,560	-	914,354	3,826,432	-	163,990	5,092,336
Over 6 months and upto 1 year	415,688	-	2,026,479	440,262	-	291,024	3,173,453
Over 1 year and upto 3 years	69,363	-	335,871	1,696,253	-	8,937,552	11,039,039
Over 3 years and upto 5 years	888	-	4,331	469,505	-	270,930	745,654
Over 5 years	-	-	-	-	596,644	1,703,214	2,299,858
Total	2,014,095	1,862,538	22,599,427	26,395,581	596,644	12,221,840	65,690,125

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

(Amount in ₹ '000)

	As at 30 June 2018
Substandard	-
Doubtful 1	-
Doubtful 2	-
Doubtful 3	-
Loss	-
Gross NPAs	-
Provisions for NPAs	-
Net NPAs	-

5.6. NPA Ratios

(Amount in ₹ '000)

	As at 30 June 2018
Gross NPAs to gross advances	-
Net NPAs to net advances	-

5.7. Movement of NPAs (Gross)

(Amount in ₹ '000)

	For the period ended 30 June 2018
Opening balance	-
Additions	-
Reductions	-
Closing balance as at 30th June 2018	-

Note: YTD movement has been reported above

5.8. Movement of provisions

(Amount in ₹ '000)

Particulars	Specific Provision¹	General Provision²
Opening balance as at 1 st April 2018	-	146,138
Provisions made during the period	-	186,428
Write-off	-	-
Write-back of excess provisions	-	-
Closing balance as at 30th June 2018	-	332,566

¹ Specific provision relating to NPAs

² General provisions includes Standard assets provision (including Unhedged Foreign Currency Exposure).

Note: YTD movement has been reported above

5.9. Amount of Non-Performing Investments

There are no non-performing investments as at 30 June 2018.

5.10. Amount of provisions held for Non-Performing Investments

There are no provisions held for non-performing investments as at 30 June 2018 as there are no non-performing investments.

Movement of provisions for depreciation on Investments

(Amount in ₹ '000)

	For the period ended 30 June 2018
Opening balance as at 1 April 2018	-
Provisions made during the period	2,275
Write-off	-
Write-back of excess provisions	-
Closing balance as at 30th June 2018	2,275

Note: YTD movement has been reported above

5.11. Geographic and industry wise distribution and ageing of NPA, Specific provision separately

There are no NPA's as at 30th June 2018 and hence disclosures on geographic distribution, industry wise distribution and ageing of NPA has not been made.

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 2018

(Amount in ₹ '000)

Nature Of exposure	Gross Credit Exposure	Credit Risk Mitigation	Net Exposure (Before Provision)	Credit Risk weight bucket summary			Deduction
				< 100%	100%	>100%	
Fund Based	33,364,143		33,364,143	23,351,390	10,000,588		
Claims on Banks	3,876,633	-	3,876,633	3,875,212	1,421	-	
Investments (HTM)	-	-	-	-	-	-	
Loans and Advances	26,395,581	-	26,395,581	17,425,734	8,969,847	-	
Other Assets and Fixed Assets	3,091,929	-	3,091,929	2,050,444	1,029,321	12,164	
Non Fund Based	44,588,794		44,588,794	39,479,196	5,109,598	-	
Non Market Related Off Balance sheet items (Contingent Credits and Exposures)	11,535,864	-	11,535,864	7,567,656	3,968,208	-	
Market Related (Foreign Exchange (FX) and derivative contracts)	33,052,931	-	33,052,931	31,911,540	1,141,390	-	

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 2018

Leverage Ratio		(Amount in ₹'000)
	Item	
	On-balance sheet exposures	
1.	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	57,793,803
2.	(Asset amounts deducted in determining Basel III Tier 1 capital)	(522,160)
3.	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	57,271,643
	Derivative exposures	
4.	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	7,898,597
5.	Add-on amounts for PFE associated with all derivatives transactions	25,154,334
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)	33,052,931
	Securities financing transaction exposures	
12.	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	6,555,132
13.	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(6,446,706)
14.	CCR exposure for SFT assets	-
15.	Agent transaction exposures	-
16.	Total securities financing transaction exposures (sum of lines 12 to 15)	108,426
	Other off-balance sheet exposures	
17.	Off-balance sheet exposure at gross notional amount	20,600,454
18.	(Adjustments for conversion to credit equivalent amounts)	(9,064,591)
19.	Off-balance sheet items (sum of lines 17 and 18)	11,535,864
	Capital and total exposures	
20.	Tier 1 capital	13,210,393
21.	Total exposures (sum of lines 3, 11, 16 and 19)	101,968,863
	Leverage ratio	
22.	Basel III leverage ratio (per cent)	12.96%

