Australia and New Zealand Banking Group Limited – Mumbai Branch

(Incorporated in Australia with limited liability)

Auditor's report on the financial statements of Australia and New Zealand Banking Group Limited, Mumbai Branch under section 30 of the Banking Regulation Act, 1949 of India

1. We have audited the attached Balance Sheet of Australia and New Zealand Banking Group Limited, Mumbai Branch ('the Bank') as at March 31, 2012 and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Management of the Bank. Our responsibility is to express an opinion on these financial statements, based on our audit.

2. We conducted the audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

3. The Balance sheet and Profit and Loss account have been drawn up in accordance with provisions of section 29 of the Banking Regulation Act, 1949, of India read with provision of sub-section (1), (2) and (5) of section 211 and sub-section (5) of section 227 of the Companies Act, 1956, of India.

4. We report that:

   a) We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit and have found them to be satisfactory.

   b) The transactions of the Bank, which have come to our notice, have been within the powers of the Bank.

   c) In our opinion, proper books of accounts as required by law have been kept by the Bank so far as it appears from our examination of those books.

   d) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account and returns.

   e) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required for banking companies and guidelines issued by Reserve Bank of India from time to time; and

   f) The requirements of section 274 (1) (g) of the Companies Act, 1956 of India are not applicable, considering the Bank is a branch of Australia and New Zealand Banking Group Limited, which is incorporated with limited liability in Australia.

5. We further report that in our opinion, the Financial Statements comply with the Accounting Standards, referred to in sub-section 3 (c) of section 211 of the Companies Act, 1956 of India to the extent they are not inconsistent with the accounting policies prescribed by the Reserve Bank of India.

6. In our opinion and to the best of our information and according to the explanation given to us, the financial statements together with notes thereon and thereto given in the prescribed manner the information required under Companies Act, 1956, in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India;

   a. in the case of the balance sheet, of the state of affairs of the Bank as at March 31, 2012;

   b. in the case of the profit and loss account, of the profit for the year ended March 31, 2012; and

   c. in the case of cash flow statement, of the cash flows for the year ended March 31, 2012.

For **HARIBHAKTI & CO.,**
Chartered Accountants,
Firm Registration No.103523W

Sd/-
Rakesh Rathi
Partner
Membership No: 45228

Place: Mumbai
Date: 20th June, 2012

Australia and New Zealand Banking Group Limited – Mumbai Branch

(Incorporated in Australia with limited liability)

Balance Sheet as at 31 March 2012

	Schedule	As at 31 March 2012 (₹ 000s)	As at 31 March 2011 (₹ 000s)
CAPITAL & LIABILITIES			
Capital	1	5,854,184	5,854,184
Reserves and surplus	2	2,237	–
Deposits	3	17,349,574	–
Borrowings	4	5,947,294	–
Other liabilities and provisions	5	2,112,188	125,033
Total Capital and liabilities		**31,265,477**	**5,979,217**
ASSETS			
Cash and Balances with Reserve Bank of India	6	1,399,819	100
Balances with banks and money at call and short notice	7	9,303,893	5,543,126
Investments	8	4,519,748	–
Advances	9	13,187,239	–
Fixed assets	10	399,365	116,545
Other assets	11	2,455,413	319,446
Total Assets		**31,265,477**	**5,979,217**
Contingent liabilities	12	147,695,684	–
Bills for collection	–	11,319	–
Significant accounting policies and notes to financial statements	17, 18		

The accompanying schedules form an integral part of the Balance Sheet.

Profit and Loss Account for the year ended 31 March 2012

	Schedule	For the year ended 31 March 2012 (₹ 000s)	For the Period ended 31 March 2011 (₹ 000s)
INCOME			
Interest earned	13	943,864	21,888
Other income	14	704,790	–
Total		**1,648,654**	**21,888**
EXPENDITURE			
Interest expended	15	405,353	–
Operating expenses	16	1,105,894	141,201
Provisions and contingencies	–	128,460	9,244
Total		**1,639,707**	**150,445**
Net Profit/(Loss)		**8,947**	**(128,557)**
APPROPRIATIONS			
Net Profit/(Loss) for the year		8,947	–
Profit/(Loss) brought forward		(128,557)	–
Transfer to statutory reserves	2	2,237	–
Balance carried over to balance sheet		(121,847)	(128,557)
Total		**(121,847)**	**(128,557)**
Significant accounting policies and notes to financial statements	17, 18		

The accompanying schedules form an integral part of the Profit and Loss Account.

As per our report of even date

For **Haribhakti & Co.**
Chartered Accountants
Firm Registration No. 103523W

Sd/-
Rakesh Rathi
Partner
Membership No. 45228

For **Australia and New Zealand Banking Group Limited – Mumbai Branch**

Sd/-
Subhas DeGamia
Chief Executive Officer

Sd/-
S V Venkataraman
Chief Operating Officer

Place : Mumbai
Date: 20th June, 2012

Australia and New Zealand Banking Group Limited – Mumbai Branch

(Incorporated in Australia with limited liability)

Cash Flow Statement for the year ended 31 March 2012

		For the Year ended 31 March 2012 (₹ 000s)	For the Period ended 31 March 2011 (₹ 000s)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit/(Loss) Before Taxation		64,505	(119,313)
Adjustments for:			
Depreciation on Bank's property		83,765	85
Provision in respect of non–performing assets (including prudential provision on standard assets and country risk exposure)		72,902	–
(Profit)/Loss on sale of fixed assets		167	–
Operating profit before working capital changes		221,339	(119,228)
Adjustments for:			
Decrease /(Increase) in investments (excluding HTM investments)		(4,519,748)	–
Decrease /(Increase) in advances		(13,187,239)	–
Decrease/(Increase) in other assets		(2,094,150)	(190,889)
Increase/(Decrease) in borrowings		5,947,294	–
Increase/(Decrease) in deposits		17,349,574	–
Increase/(Decrease) in other liabilities and provisions		1,914,253	124,473
		5,631,323	(185,644)
Direct taxes paid		(104,086)	(8,684)
Net cash used in operating activities	**(A)**	5,527,237	(194,328)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets (Including Capital WIP)		(366,751)	(116,630)
Net cash generated from investing activities	**(B)**	(366,751)	(116,630)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from capital infusion		–	5,854,184
Net cash generated from financing activities	**(C)**	–	5,854,184
Net increase in cash and cash equivalents (A+B+C)		5,160,486	5,543,226
Cash and cash equivalents at the beginning of the year/period	(D)	5,543,226	–
Cash and cash equivalents at the end of the year/period	(E)	10,703,712	5,543,226
Net increase in cash and cash equivalents (E–D)	**(F)**	**5,160,486**	**5,543,226**

Notes: Cash and Cash Equivalent represents	**Schedule**	**As at 31 March 2012**	**As at 31 March 2011**
Cash and Balance with Reserve Bank of India	6	1,399,819	100
Balance with banks and Money at call and short notice	7	9,303,893	5,543,126
Total		**10,703,712**	**5,543,226**

As per our report of even date

For **Haribhakti & Co.**
Chartered Accountants
Firm Registration No. 103523W

Sd/-
Rakesh Rathi
Partner
Membership No. 45228

For **Australia and New Zealand Banking Group Limited – Mumbai Branch**

Sd/-
Subhas DeGamia
Chief Executive Officer

Sd/-
S V Venkataraman
Chief Operating Officer

Place : Mumbai
Date: 20th June, 2012

Australia and New Zealand Banking Group Limited – Mumbai Branch

(Incorporated in Australia with limited liability)

Schedules annexed to and forming part of the Balance Sheet

	As at 31 March 2012 (₹ 000s)	As at 31 March 2011 (₹ 000s)
1. **CAPITAL**		
Amount of Deposit kept with Reserve Bank of India under Section 11 (2) (b) of the Banking Regulation Act, 1949	2,000	–
Head Office Account		
Capital remitted by Head Office		
Opening balance	5,854,184	–
Additions during the year	–	5,854,184
Total	**5,854,184**	**5,854,184**
2. **RESERVES AND SURPLUS**		
a **Statutory Reserves**		
Balance, beginning of the year	–	–
Transfer from Profit and Loss Account	2,237	–
Balance, end of the year	2,237	–
Total	2,237	–
3. **DEPOSITS**		
a I. **Demand Deposits**		
From banks	8,974	–
From others	449,363	–
Total Demand Deposits	458,337	–
II. **Savings Bank Deposits**		
Total Savings Bank Deposits	–	–
III. **Term Deposits**		
From banks	3,000,000	–
From others	13,891,237	–
Total Term Deposits	16,891,237	–
Total	**17,349,574**	–
b I. Deposits of branches in India	17,349,574	–
II. Deposits of branches outside India	–	–
Total	**17,349,574**	–

	As at 31 March 2012 (₹ 000s)	As at 31 March 2011 (₹ 000s)
4. **BORROWINGS**		
a **Borrowings in India from**		
(i) Reserve Bank of India	–	–
(ii) Other banks	–	–
(iii) Other institutions and agencies	–	–
b **Borrowings outside India**	5,947,294	–
Total	**5,947,294**	–
Secured Borrowings included in a and b above	–	–
5. **OTHER LIABILITIES AND PROVISIONS**		
Bills payable	4,556	–
Inter Office Adjustment (net)	–	–
Interest accrued	287,627	–
Contingent provision against standard assets	72,313	–
Others (including provisions)	1,747,692	125,033
Total	**2,112,188**	**125,033**
6. **CASH AND BALANCES WITH RESERVE BANK OF INDIA**		
Cash in hand (including foreign currency notes)	266	–
Balance with Reserve Bank of India in current account	1,399,553	100
Total	**1,399,819**	**100**
7. **BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE**		
I. **In India**		
(i) Balances with banks		
(a) In current accounts	3,023,946	69,426
(b) In other deposit accounts	5,150,000	5,473,700
(ii) Money at call and short notice		
(a) with banks	–	–
(b) with other institutions	–	–
	8,173,946	5,543,126
II. **Outside India**		
(i) In current accounts	1,129,947	–
(ii) In other deposit accounts	–	–
(iii) In Money at call and short notice	–	–
	1,129,947	–
Total	**9,303,893**	**5,543,126**

Australia and New Zealand Banking Group Limited – Mumbai Branch

(Incorporated in Australia with limited liability)

Schedules annexed to and forming part of the Balance Sheet

	As at 31 March 2012 (₹ 000s)	As at 31 March 2011 (₹ 000s)
8. INVESTMENTS		
I. Investments in India in		
(i) Government securities	4,519,748	–
(ii) Other approved securities	–	–
(iii) Shares	–	–
(iv) Debentures and bonds	–	–
(v) Subsidiaries	–	–
(vi) Others	–	–
Less: Diminution in the value of investments	–	–
	4,519,748	–
II. Investments outside India in		
(i) Government securities (including local authorities)	–	–
(ii) Subsidiaries and/or Joint venture abroad	–	–
(iii) Other Investments	–	–
	–	–
Total	**4,519,748**	–
9. ADVANCES		
a. I. Bills purchased and discounted		
II. Cash credits, overdrafts and loans repayable on demand	241,600	–
III. Term loans	12,945,639	–
	13,187,239	–
b. I. Secured by tangible assets	2,182,438	–
II. Covered by bank/ government guarantees	–	–
III. Unsecured	11,004,801	–
	13,187,239	–
c. I. Advances in India		
Priority sector	3,675,639	–
Public sector	–	–
Banks	–	–
Others	9,511,600	–
	13,187,239	–
II. Advances outside India		
Due from Banks	–	–
Due from others	–	–
	13,187,239	–
Total	**13,187,239**	–

	As at 31 March 2012 (₹ 000s)	As at 31 March 2011 (₹ 000s)
10. FIXED ASSETS		
I. Premises		
II. Other Fixed Assets (Including furniture and fixtures)		
Balance, beginning of the year	4,204	–
Additions during the year	381,884	4,204
Deductions during the year	414	–
Less : Depreciation to date	83,602	85
Net book value of other fixed assets	302,072	4,119
Capital work in progress	97,293	112,426
Total Net Book Value of Fixed Assets	**399,365**	**116,545**
11. OTHER ASSETS		
Inter Office Adjustment (net)	–	–
Interest accrued	148,683	20,454
Tax paid in advance/tax deducted at source (net of provision for taxation)	58,026	–
Deferred tax asset	–	–
Stationery and stamps	–	–
Others	2,126,857	170,435
Debit balance in Profit and Loss Account	121,847	128,557
Total	**2,455,413**	**319,446**
12. CONTINGENT LIABILITIES		
Claims against the Bank not acknowledged as debts	–	–
Liability for partly paid investments in shares	–	–
Liability on account of outstanding foreign exchange contracts	115,680,000	–
Liability on account of derivative contracts	26,151,205	–
Guarantees given on behalf of constituents	–	–
– In India	5,148,822	–
– Outside India	–	–
Acceptances, endorsements and other obligations	715,657	–
Other items for which the Bank is contingently liable	–	–
Total	**147,695,684**	–

Schedules annexed to and forming part of the Profit and Loss account

	For the Year ended 31 March 2012 (₹ 000s)	For the Period ended 31 March 2011 (₹ 000s)
13. INTEREST EARNED		
Interest/discount on advances/bills	230,730	–
Income on investments	253,672	–
Interest on balances with Reserve Bank of India and other inter-bank funds	459,462	21,888
Others	–	–
Total	**943,864**	**21,888**
14. OTHER INCOME		
Commission, exchange and brokerage	279,433	–
Profit on sale of Investments (Net)	(26,761)	–
Profit on revaluation of Investments (Net)	–	–
Net profit on sale of premises and other assets	(167)	–
Net profit on exchange transactions	103,506	–
Miscellaneous income (including derivatives)	348,779	–
Total	**704,790**	**–**
15. INTEREST EXPENDED		
Interest on deposits	369,100	–
Interest on Reserve Bank of India and inter-bank borrowings	35,703	–
Others	550	–
Total	**405,353**	**–**

	For the Year ended 31 March 2012 (₹ 000s)	For the Period ended 31 March 2011 (₹ 000s)
16. OPERATING EXPENSES		
Payments to and provisions for employees	506,297	12,168
Rent, taxes and lighting	238,039	62,952
Printing and stationery	4,742	240
Advertisement and publicity	29,038	–
Depreciation on Bank's property	83,765	85
Auditors' fees and expense	1,053	375
Legal and professional charges	46,420	49,005
Postage, telegrams, telephones, etc.	6,337	470
Repairs and maintenance	1,751	192
Insurance	5,564	–
Other expenses (Refer Schedule 18 Note 26)	182,888	15,714
Total	**1,105,894**	**141,201**
PROVISIONS AND CONTINGENCIES		
Specific provisions against advances and claims (net)	–	–
General provision against standard assets	72,313	–
Provision towards country risk	589	–
Diminution in the value of Investments	–	–
Provision on account of tax		
– Current tax expense	55,558	9,244
Total	**128,460**	**9,244**

Schedule 17: Significant accounting policies for the financial statements for the year ended 31 March 2012

1. Background

The accompanying financial statements for the year ended 31 March 2012 comprise of the accounts of the Mumbai Branch of Australia and New Zealand Banking Group Limited ('the Bank') which is incorporated in Australia with limited liability. The Bank has only one branch in India as on 31 March 2012.

2. Basis of preparation

The accompanying financial statements have been prepared and presented under the historical cost convention on accrual basis of accounting, unless otherwise stated, and in accordance with the Generally Accepted Accounting Principles in India ('GAAP'), statutory requirements prescribed under the Banking Regulation Act, 1949, circulars and the guidelines issued by Reserve Bank of India ('RBI') from time to time, the Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI') and notified by Companies (Accounting Standards) Rules, 2006 and practices prevailing within the Banking industry in India.

The financial statements are presented in Indian Rupees rounded off to the nearest thousand, unless otherwise stated.

3. Use of Estimates

The preparation of financial statements in conformity with applicable GAAP requires management to make estimates and assumptions considered in the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the result of operations during the reporting period. Management believes that the estimates used in the preparation of financial statements are prudent and reasonable. Actual results could differ from those estimates. Any revision to accounting estimates and assumptions is recognized prospectively in current and future periods.

4. Significant accounting policies

4.1. Revenue recognition

a) Interest income is recognised in the Profit and Loss account on an accrual basis.

b) Interest income on discounted instruments is recognised over the tenor of the instrument on a constant effective yield basis (interest rate implied by the discounted purchased price).

c) Fees and Commission on guarantees, letters of credit, and loans are recognised at the inception of the transactions.

4.2. Fixed Assets and Depreciation

a) Fixed assets are carried at cost less accumulated depreciation.

b) Cost includes purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Subsequent expenditure incurred on assets put to use is capitalised only when it increases the future benefit/capacity of such asset.

c) Cost of motor vehicles acquired on finance lease is amortised using the straight-line method over the primary period of lease.

d) Assets individually costing up to Rs 5,000 and mobile instruments are written off in the month of acquisition.

e) Depreciation is provided on a straight-line basis over the estimated useful life of the asset at the rates mentioned below which are higher than the rates prescribed by Schedule XIV of the Companies Act, 1956.

Asset Type	Depreciation Rate (%) per annum
Furniture & Fixture	10.00
Office Equipment	33.33
Computers	33.33
Leasehold Improvements	11.89
Plant & Machinery	20.00

f) The Bank assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. If such recoverable amount of the asset is less than its carrying value, the carrying value is reduced to the recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account for the period. If at the balance sheet date there is an indication that previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

g) Capital work in progress includes cost of fixed assets that are not ready for their intended use and also includes advances paid to acquire fixed assets

4.3. Employee Benefits

a) Provident Fund – Defined Contribution Plan

The Bank contributes to provident fund which is a defined contribution retirement plan for eligible employees. These contributions are accounted on an accrual basis and are charged to the Profit and Loss Account.

b) Gratuity – Defined benefit Plan

Gratuity Liabilities are defined obligations and bank's contribution towards the same is determined by an independent actuary based on the projected unit credit method as at the balance sheet date as per requirements of AS -15 (Revised 2005) – Employee Benefits. Actuarial gains/losses are immediately taken to Profit and Loss Account and are not deferred.

c) Compensated absences – Short-term

The Bank provides for Short-term compensated absences, which is a defined benefit scheme, on the basis of an actuarial valuation on projected unit credit method at the end of the financial year as per requirements of AS -15 (Revised 2005) – Employee Benefits. Actuarial gains/losses are immediately taken to Profit and Loss Account and are not deferred.

4.4. Taxation

Income tax expense comprises of current tax and deferred tax charge.

a) Current taxes

The current charge for income tax is based on the estimated tax liability as computed after taking credit for allowances and exemptions in accordance with the Income tax Act, 1961 applicable for the year.

b) Deferred taxes

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences that result between the profit offered for income taxes and the profit as per the Bank's financial statements.

The deferred tax assets and liabilities are recognised using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised only to the extent that their future realisation is reasonably certain. However where there is unabsorbed depreciation and carry forward losses under taxation laws, deferred tax assets are recognised only if there is virtual certainty of realisation of such asset.

Deferred tax assets are reviewed as at each balance sheet date and appropriately adjusted to reflect the amount that is reasonably/virtual certain to be realised.

4.5. Accounting for leases

a) Operating Lease

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss account over the term of the lease on a straight-line basis.

b) Finance Lease

Leases where the lessee effectively retains substantially all the risks and benefits of ownership of the leased items are classified as finance leases. At the inception, lease is recognised as an asset and a liability at lower of fair value of leased asset and the present value of minimum lease payments. Lease payments are appropriated between finance charge and the reduction of outstanding liability so as to produce a constant periodic rate of interest on the balance of the liability. The costs identified as directly attributable to activities performed by the lessee for a finance lease are included as part of the amount recognised as an asset under the lease.

4.6. Provisions, contingent liabilities and contingent assets

a) The Bank creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources to settle the obligation and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

b) Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

c) Contingent assets are not recognised in the financial statements.

4.7. Foreign Exchange Transactions

a) Foreign currency assets, liabilities and Contingent liabilities on account of foreign exchange contracts, derivative transactions, guarantees, acceptances, endorsements and other obligations as at the balance sheet date are translated into Indian Rupee at the closing exchange rate notified by Foreign Exchange Dealers' Association of India (FEDAI) on that date. The resultant profit or losses on such revaluation is recognised in the profit and loss account and related assets and liabilities are accordingly restated in the balance sheet.

b) Transactions in foreign currency are recorded at the exchange rates prevailing on the date of transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognized in the profit and loss account.

4.8. Investments

Classification and valuation of the Bank's investments is carried out in accordance with extant RBI guidelines on Investment classification and valuation.

Investments are accounted on settlement date basis. Investments are classified as "Held for trading" (HFT) or "Available for Sale" (AFS) and "Held to Maturity" (HTM) in accordance with RBI guidelines. During the year ended 31 March 2012, the Bank has not classified any investments in HTM category. Under each of these classifications, investments are further categorized under i) Government securities, ii) Other approved securities, iii) Shares, iv) Debentures and bonds, v) Subsidiaries and vi) Others.

a) Acquisition cost

Cost of Investments excludes broken period interest paid on acquisition of investments. Brokerage, Commission etc paid at the time of acquisition are charged to the Profit and Loss account.

b) Sale of Investment

Profit/Loss on sale of investments under the HFT and AFS categories are taken to the Profit and Loss account. First in First out (FIFO) method is applied to arrive at the cost of investments.

c) Valuation of Investments

Investments under AFS category are marked to market on a quarterly basis and those classified under HFT are marked to market on a monthly basis. Investments classified under the HFT and AFS categories are valued at lower of acquisition cost or market value. Securities are valued scrip wise and depreciation/appreciation is aggregated for each category. Net depreciation per category is provided for while net appreciation is ignored. Book value of the individual security is not changed consequent to revaluation of the security.

Treasury bills being discounted instruments are valued at the carrying cost.

d) Transfer of securities between categories

Reclassification of investments from one category to other is done in accordance with RBI guidelines and any such transfer is accounted for at the lower of acquisition cost/book value/market value as on the date of transfer, and depreciation if any on such transfer is fully accounted for.

4.9. Accounting for repo/reverse repo

In accordance with the RBI guidelines, repurchase (repos) and reverse repurchase (reverse repos) transactions are accounted as collateralised borrowing and lending.

The Bank also follows aforesaid principle to account repo and reverse repo undertaken under Liquidity Adjustment Facility (LAF).

4.10. Advances

Classification and provisions of advances of the Bank are carried out in accordance with the extant RBI guidelines on Income Recognition and Asset Classification of Advances.

a) Classification

Advances are classified as performing and non performing based on the RBI's prudential norms on classification.

b) Provisioning

Advances are stated net of specific provisions made towards non performing advances. The Bank maintains a provision on standard assets at rates and as per norms prescribed by RBI.

4.11. Derivative Transactions

a) The Bank enters into derivative contracts such as interest rate swaps, cross currency swaps, foreign exchange contracts and forward rate agreements.

b) These derivatives are part of a trading book and are recognised at a fair value on a daily basis. The resultant gain/loss are recorded in the profit and loss account while the corresponding unrealised gain/loss are reflected in the balance sheet under the head Other Assets/Other Liabilities.

c) Provision for standard derivative exposure is calculated as per norms prescribed by RBI.

d) Overdue receivables under derivatives contracts are identified and reversed through profit and loss account in accordance with applicable RBI guidelines.

4.12. Cash and cash equivalents

Cash and cash equivalents include cash in hand, balances with RBI, balances with other banks and money at call and short notice.

Schedule 18: Notes to the financial statements for the year ended 31 March 2012

1. The Bank received a license from the RBI on 21 October 2010 to carry on banking business from its maiden branch in Mumbai. However the Bank commenced its Banking business in India only in the current financial year and hence disclosures required as per The Banking Regulation Act, 1949, circulars and guidelines issues by RBI, relating to corresponding period ended 31 March 2011 are not applicable.

2. Capital

During the year the Bank did not raise any capital from Head Office (Tier I capital raised during the period ended 31 March 2011 was 5,854,184 (₹'000s)).

3. Capital Ratios:

The Bank's Capital to Risk-weighted Asset Ratio ('CRAR') is calculated in accordance with the RBI's 'Prudential Guidelines on Capital Adequacy and Market Discipline - Implementation of the New Capital Adequacy Framework' ('Basel II guidelines'). Under the Basel II framework, the Bank is required to maintain a minimum capital adequacy ratio of 9% on an ongoing basis for credit risk, market risk and operational risk, with a minimum Tier I capital ratio of 6%. Further, the minimum capital maintained by the Bank as on 31 March 2012 is subject to a prudential floor, which is the higher of the following amounts:

a) Minimum capital required as per the Basel II framework.

b) 80% of the minimum capital required to be maintained under the Basel I framework.

The Bank's capital adequacy ratio, calculated in accordance with the RBI guidelines under both Basel I and Basel II frameworks, is as follows:

(Amount in ₹ '000)

Particulars	**31 March 2012**	
	As per Basel I Framework	**As per Basel II Framework**
Tier I capital	5,528,449	5,528,449
Tier II capital	72,901	72,901
Total capital	5,601,350	5,601,350
Risk weighted assets	19,603,159	21,967,058
CRAR		
Tier 1	28.20%	25.17%
Tier 2	0.37%	0.33%
Total	28.57%	25.50%

(Amount in ₹ '000)

Particulars	**31 March 2012**
Amount raised by issue of subordinated debt as Tier-II capital	Nil
Amount raised by issue of Innovative Perpetual Debt Instruments (IPDI) during the year	Nil
Amount raised by issue of Upper Tier II Instruments during the year	Nil
Amount raised by issue of Lower Tier II Instruments during the year	Nil

4. Investments

(Amount in ₹ '000)

Particulars	**31 March 2012**
1) **Value of Investments**	
(i) Gross Value of Investments	4,519,748
(a) In India	4,519,748
(b) Outside India	–
(ii) Provisions for Depreciation	–
(a) In India	–
(b) Outside India	–
(iii) Net Value of Investments	4,519,748
(a) In India	4,519,748
(b) Outside India	–
2) **Movement of provisions held towards depreciation on Investments**	
(i) Opening Balance	–
(ii) Add: Provisions made during the year	–
(iii) Less: Write-off/write back of excess provisions during the year	–
(iv) Closing balance	–

There are no non performing Investments as at 31 March 2012.

5. Repo/Reverse Repo Transactions (in face value terms)

(Amount in ₹ '000)

Particulars	**Minimum outstanding during the year**	**Maximum outstanding during the year**	**Daily Average outstanding during the year**	**Outstanding as on 31 March 2012**
Securities sold under repo	–	250,000	6,743	–
i. Government securities	–	250,000	6,743	–
ii. Corporate debt securities	–	–	–	–
Securities purchased under reverse repo	–	–	–	–
i. Government securities	–	–	–	–
ii. Corporate debt securities	–	–	–	–

The above disclosure includes LAF done with RBI.

All days have been considered while computing minimum, maximum and average outstanding.

6. Non SLR Investment Portfolio

During the year ended 31 March 2012, there was no investment in Non SLR securities.

7. Sale and Transfers to/from HTM category

No investments were classified under the category HTM during the year ended 31 March 2012, consequently there was no sale or transfer to/from HTM category.

8. Derivatives

Details of outstanding Forward Rate Agreements/Interest Rate Swaps

(Amount in ₹ ‘000)

Particulars		31 March 2012
i)	The notional principal of swap agreements[1]	20,736,264
ii)	Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements	30,386
iii)	Collateral required by the Bank upon entering into swaps	–
iv)	Concentration of credit risk arising from the swaps[2]	
	– Banks in India	46.43%
	– Others	53.57%
v)	The fair value of the swap book[3]	1,289

There were no Forward Rate agreements (FRAs) outstanding as at 31 March 2012.

1 The notional principal amount does not include Cross Currency Swaps.

2 The concentration is calculated on the basis of credit exposure.

3 The fair value denotes mark to market on the Interest Rate Swaps.

Exchange Traded Interest Rate Derivatives

The Bank has not done any transaction in Exchange Traded Derivatives during the year ended 31 March 2012.

9. Disclosures on risk exposure in derivative

Qualitative Disclosures

The Bank deals in derivatives for balance sheet management, market making purposes and also offers currency and interest rate derivatives to its customers.

Dealing in the derivatives is carried by the treasury front office team. Confirmation, settlement, accounting, risk monitoring, reporting and compliance are handled by independent teams who have clearly defined responsibilities.

Derivative financial instruments are carried at fair value.

The Bank has a detailed risk management and control framework to support its trading and balance sheet activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading and balance sheet portfolios.

Market risk limits are allocated at various levels and are reported and monitored by Market Risk on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes, risk factors and profit and loss limits (to monitor and manage the performance of the trading portfolios).

A key measure of market risk is Value at Risk (VaR). VaR is a statistical estimate of the possible daily loss and is based on historical market movements. The Bank measures VaR at a 97.5% and 99% confidence interval. The Bank’s standard VaR approach for both traded and non-traded risk is historical simulation. The Bank calculates VaR using historical changes in market rates/prices over the previous 500 business days. Traded and non-traded VaR is calculated using a one-day holding period. The bank also utilises a number of other risk measures (e.g. stress testing) and risk sensitivity limits to measure and manage market risk.

Credit risk is managed on the basis of detailed risk profile of the counterparty, related conditions and expectations. The Bank generally uses Master Agreements with its counterparties for derivatives activities. Generally, International Swaps and Derivatives Association (ISDA) Master Agreements will be used.

The Bank applies Current exposure methodology to manage credit risk associated with derivative transactions. This is computed by taking the sum of its mark-to-market value if positive and its potential future exposure which is calculated on based on its notional value and residual maturity.

The Bank has made provision on such credit exposures in accordance with RBI guidelines.

Quantitative Disclosures[1]

(Amount in ₹ '000)

Sr. No	Particulars	Currency Derivatives	Interest Rate Derivatives
1	Derivatives (Notional Principal Amount)		
	a) For hedging	–	–
	b) For trading	5,414,942	20,736,264
2	Marked to Market Positions (Net)		
	a) Asset (+)	20,524	1,289
	b) Liability (–)	–	–
3	Credit Exposure[2]	806,494	207,749
4	Likely impact of one percentage change in interest rate (100*PV01)		
	a) on hedging derivatives	–	–
	b) on trading derivatives	6	2
5	Maximum of 100*PV01 observed during the year[3]		
	a) on hedging	–	–
	b) on trading	6	2
6	Minimum of 100*PV01 observed during the year[3]		
	a) on hedging	–	–
	b) on trading	–	–

1 Disclosure excludes foreign exchange contracts

2 Represents Total Exposure based on Current Exposure Method as prescribed by vide RBI master circular on Exposure Norms.

3 The maximum/minimum calculation is based on the monthly PV01 data submitted to RBI.

10. Asset Quality

The Bank has no Non Performing Advances (NPA), accounts restructured, sale of financial assets to securitisation/Reconstruction Company, purchase/sale of NPAs during the year and hence the disclosures on NPAs, particulars of accounts restructured, details of financial assets sold to securitisation/Reconstruction Company and details of purchase/sale of NPAs etc. are not applicable.

11. Provisions on Standard Assets

(Amount in ₹ '000)

Particulars	31 March 2012
Standard Provision on Advances	52,749
Standard Provision on Credit Exposure on derivatives	19,564

12. Business Ratios

(Amount in ₹ '000)

Sr. No.	Particulars	For the year ended 31 March 2012
i.	Interest income as a % to working funds[1]	5.51%
ii.	Non-interest income as a % to working funds[1]	4.11%
iii.	Operating profit as a % to working funds[1]	0.80%
iv.	Return on assets[2]	0.05%
v.	Business per employee3 (₹ '000s)	362,208
vi.	Net Profit per employee (₹ '000s)	118
vii.	Percentage of Net NPA to Net Advances	–

1 Working fund is computed based on average of total assets (excluding accumulated losses) as reported to RBI in Form X under section 27 of the Banking Regulation Act, 1949 during the financial year

2 Return on assets is with reference to average working fund (i.e. total of assets excluding accumulated losses)

3 Business is calculated as deposits plus advances excluding interbank deposits

Above ratios are based on no of employees as at 31 March 2012

13. Maturity Patterns of Assets and Liabilities[1]

(Amount in ₹ ‘000)

Maturity Bucket	Deposits	Advances	Investments	Borrowings	Foreign Currency Assets[2]	Foreign Currency Liabilities[2]
Day 1	4,911	660	428,445	–	1,129,947	178,306
2 to 7 days	1,489,465	3,243,961	223,981	–	865	31,517
8 to 14 days	1,910,475	296,121	84,824	–	1,501	–
15 to 28 days	2,835,000	2,550,787	712,433	864,876	956,546	865,757
29 days to 3 months	5,230,000	3,104,644	672,895	1,088,726	1,109,070	1,091,742
3 to 6 months	2,130,044	3,370,925	757,585	3,993,692	1,610,195	4,008,492
6 months to 1 year	3,360,093	620,141	1,483,811	–	–	–
1 to 3 years	389,586	–	132,102	–	–	–
3 to 5 years	–	–	348	–	–	–
Over 5 years	–	–	23,324	–	152,626	–
Total	17,349,574	13,187,239	4,519,748	5,947,294	4,960,750	6,175,814

1 The maturity pattern has been compiled in the same manner as required for the RBI DSB returns.

2 Foreign currency assets/liabilities exclude off-balance sheet assets and liabilities.

14. Exposures to Real Estate Sector and Capital Market

The Bank has no direct or indirect exposure to Real Estate Sector and Capital Market hence the disclosure on Real Estate Sector and Capital Market is not applicable.

15. Risk category wise Country Exposure

Provision for country risk exposure in terms of RBI master guidelines is as follows:

(Amount in ₹ ‘000)

Risk Category	Funded Exposure (net) as at 31 March 2012	Provision held as at 31 March 2012
Insignificant	1,132,113	589
Low	2	–
Moderate	–	–
High	–	–
Very High	–	–
Restricted	–	–
Off-credit	–	–
Total	**1,132,115**	**589**

As per RBI guidelines, the provision is created for only those countries where the net funded exposure exceeded 1% of the total assets as at 31 March 2012. Further, lower provisions of 25% of the requirement has been created with respect to short term exposures (i.e. exposures with contractual maturity of less than 180 days)

16. Details of Single Borrower Limit (SBL)/Group Borrower Limit (GBL) exceeded by the Bank

During the year ended 31 March 2012, there was no instance of breach of the SBL or GBL. Further, during the year the Bank did not enhance SBL/GBL for any of its borrowers.

17. Unsecured Advances against intangible assets

During the year ended 31 March 2012 the Bank has not granted any advances against intangible securities such as charge over the rights, licenses, authority etc.

18. Amount of Provision made for Income Tax during the year

(Amount in ₹ ‘000)

Particulars	31 March 2012	31 March 2011
Provision for Income Tax	45,500	9,244

19. Disclosure of Penalties Imposed by RBI

During the financial year under review, no penalty was imposed by RBI on the Bank (Previous Year – Nil).

20. Employee Benefits

Provident Fund – Defined Contribution Plan

The Bank has recognised ₹ 15,599 (000s) in the Profit and Loss Account as employer's contribution to the provident fund.

Gratuity – Defined benefit Plan

The Company has adopted Accounting Standard 15 (Revised 2005) – Employee Benefits (AS 15) and determined the actuarial liability for gratuity as per the projected unit credit method using an independent actuary.

The principal actuarial assumptions used as at the balance sheet date are as follows:

(Amount in ₹ '000)

Particulars	**31 March 2012**	**31 March 2011**
Reconciliation of opening and closing balance of the present value of the defined benefit obligation		
Present value of obligation as at April 1	–	–
Interest cost	162	–
Current service cost	2,140	–
Acquisition cost*	2,495	–
Benefits paid	(127)	–
Actuarial (gain)/loss on obligation	1,965	–
Present value of obligation as at March 31	**6,635**	–
Reconciliation of opening and closing balance of the fair value of the plan assets		
Fair value of plan assets as at April 1	–	–
Expected return on plan assets	174	–
Contributions*#	3,939	–
Benefits paid	(127)	–
Actuarial gain/(loss) on plan assets	(31)	–
Fair value of plan assets as at March 31	**3,955**	–
Amount recognised in Balance sheet		
Fair value of plan assets as at March 31	3,955	–
Present value of obligation as at March 31	6,635	–
Asset/(Liability) as at March 31	(2,680)	–
Expenses recognised in Profit and Loss Account		
Interest Cost	162	–
Current Service cost	2,140	–
Expected return on plan assets	(174)	–
Net Actuarial (gain)/loss recognised in the year/period	1,996	–
Net Cost	**4,124**	–
Assumptions		
Valuation Method	Projected Unit Credit	Projected Unit Credit
Discount rate	8.60%	8.00%
Expected return on plan assets	9.15%	N/A
Mortality	LIC (1994-96) ultimate	LIC (1994-96) ultimate
Salary escalation rate	8.00%	8.00%
Withdrawal rate	8.00%	8.00%
Retirement age	60 years	60 years

Particulars	**31 March 2012**	**31 March 2011**
Experience History		
Defined Benefit Obligation at end of the period	(6,635)	–
Plan Asset at end of he period	3,955	–
Funded Status	(2,680)	–
Experience Gain/(Loss) adjustments on plan liabilities	(2,384)	–
Experience Gain/(Loss) adjustments on plan assets	(31)	–
Actuarial Gain/(Loss) due to change on assumptions	419	–

*During the year, employees are transferred from ANZ Capital Private Limited (ANZ Capital) and consequently gratuity corpus, containing assets of 3,131 (₹ '000s) and liability of 2,495 (₹ '000s), held with LIC by ANZ Capital is also transferred to Bank. On account of these there is difference in the gratuity liability as per books i.e. 3,315 (₹ '000s) and as per actuarial valuation i.e. 2,680 (₹ '000s).

Contribution includes corpus assets of 3,131 (₹ '000s) and Bank's contribution 808 (₹ '000s).

Compensated absences – Short-term

The actuarial liability of compensated absences of the employees of the Bank as of 31 March 2012 is Nil.

The principal actuarial assumptions used as at the balance sheet date are as follows:

Actuarial assumptions	**For the year ended 31 March 2012**	**For the year ended 31 March 2011**
Mortality	**L.I.C. (1994-96) Ultimate published table of Mortality rate**	**L.I.C. (1994-96) Ultimate published table of Mortality rate**
Discount rate	NA	8.00%
Expected salary increase rate	NA	8.00%
Withdrawal rate	NA	8.00%

The estimate of future salary increase, considered in the actuarial valuation, takes account of inflation, security, promotion and other relevant factors such as supply and demand in the employment market.

21. Segmental reporting

Part A: Business Segments

As per RBI guidelines Bank has recognised “Treasury”, “Corporate/Wholesale banking” and “Other Banking Operations” as the primary reporting segments. These segments are identified based on nature of services provided, risks and returns, organisational structure of the banks and the internal financial reporting system.

Treasury Operations comprises derivatives trading, money market operations, investments in bonds, treasury bills, government securities and foreign exchange operations. The revenue of this segment consists of interest earned on investments and gains on sale of securities, profit on exchange and derivative transactions. The principal expenses of this segment consist of interest expense on funds borrowed, occupancy expenses, personnel costs, other direct overheads and allocated expenses.

Corporate/Wholesale Banking primarily comprises funded and non-funded facilities, cash management activities and fee based activities. Revenues of this segment consist of interest earned on loans extended to clients and fees received from non-fund based activities like letter of credit, guarantee etc. The principal expenses of this segment consist of interest expense on deposits raised, occupancy expenses, personnel costs, other direct overheads and allocated expenses.

The Bank does not have retail and other banking operations, hence no segmental disclosure for retail and other banking operations have been made.

(Amount in ₹ ‘000)

Business Segments	**Treasury**	**Corporate/ Wholesale Banking**	**Total**
Segment Revenue	839,109	809,545	1,648,654
Segment Expenses	1,206,199	377,950	1,584,149
Unallocated Expenses	–	–	–
Operating Profit	**(367,090)**	**431,595**	**64,505**
Income Tax	–	–	55,558
Net Profit	**–**	**–**	**8,947**
Other Information			
Segment Asset	13,458,797	17,269,946	30,728,743
Unallocated Assets	–	–	536,734
Total Assets	**13,458,797**	**17,269,946**	**31,265,477**
Segment Liabilities	17,766,665	13,363,982	31,130,647
Unallocated Liabilities	–	–	134,830
Total Liabilities	**17,766,665**	**13,363,982**	**31,265,477**

Part B: Geographic segments

The Bank operates as a single unit in India and as such has no identifiable geographical segments subject to dissimilar risk and returns. Hence, no information relating to geographical segments are presented.

22. Related Party Disclosures

Related party disclosure as required in accordance with AS 18 – "Related Party Disclosures" and RBI Guidelines, is provided below:

A. List of Related parties[1]

Head Office and Branches

Australia and New Zealand Banking Group Limited, Australia
Australia and New Zealand Banking Group Ltd - Singapore
Australia and New Zealand Banking Group Ltd - New York
Australia and New Zealand Banking Group Ltd - Japan
Australia and New Zealand Banking Group Ltd - London
ANZ Bank (Vietnam) Limited
Australia and New Zealand Banking Group Ltd - Hong Kong

Other Group Entities

Australia and New Zealand Banking Group Ltd - Cambodia
Australia and New Zealand Banking Group Ltd - China
Australia and New Zealand Banking Group Ltd - Shanghai
Australia and New Zealand Bank (China) Company Limited
ANZ Capital Private Limited
ANZ Support Services India Pvt Limited
ANZ Operations & Technology Private Limited
PT Bank Pan Indonesia, TBK
ANZ Panin Bank

[1] The above category includes only those related parties with whom transactions have occurred during the period.

B. Key Management Personnel

During the year only Mr. Subhas DeGamia, CEO qualified as a key managerial personnel. Thus in accordance with the RBI guidelines on related party disclosures no disclosures are made with respect to the same.

C. Transactions with related parties

(Amount in ₹ '000)

Particulars	Head Office and Branches		Other Group Entities	
	As at 31 March 2012	Maximum Outstanding during the year	As at 31 March 2012	Maximum Outstanding during the year
Borrowings	5,947,293	6,105,841	–	–
Deposits	–	–	3,093,498	3,506,062
Placements	–	2,665,197	–	–
Advances	–	–	–	–
Investments	–	–	–	–
Non-funded commitments	5,133,354	5,263,126	18,101	18,101

(Amount in ₹ '000)

Particulars	Head Office and Branches		Other Group Entities	
	For the year ended 31 March 2012	As at 31 March 2012	For the year ended 31 March 2012	As at 31 March 2012
Purchase of fixed assets	206,753	–	16,308	–
Sale of fixed assets	–	–	–	–
Interest paid	35,058	18,697	99,783	99,780
Interest received	4,024	–	–	–
Rendering of services	322,150	–	–	–
Receiving of services	4,595	288	86,278 (14,456)	9,169

Note: Amount reported in bracket represents previous year.

Of the above items, transactions in excess of 10% of the related party transactions are as under:

(Amount in ₹ '000)

Particulars	Head Office and Branches	Other Group Entities
Borrowings		
Australia and New Zealand Banking Group Ltd – Singapore	15,475,747	–
Deposits		
ANZ Operations & Technology Private Limited	–	186,621,623
ANZ Support Services India Pvt Limited	–	212,549,813
Placements		
Australia and New Zealand Banking Group Ltd – Singapore	30,098,878	–
Non-funded commitments		
Australia and New Zealand Banking Group Ltd – Singapore	765,393	–
Australia and New Zealand Banking Group Ltd – New York	4,367,318	–
Purchase of fixed assets		
Australia and New Zealand Banking Group Limited, Australia	206,604	–
Interest paid		
Australia and New Zealand Banking Group Ltd – Singapore	35,058	–
ANZ Operations & Technology Private Limited	–	48,890
ANZ Support Services India Pvt Limited	–	50,891
Interest received		
Australia and New Zealand Banking Group Ltd – Singapore	4,024	–
Rendering of services		
Australia and New Zealand Banking Group Ltd – Singapore	322,150	–
Receiving of services		
ANZ Capital Private Limited	–	62,462
ANZ Support Services India Pvt Limited	–	23,816

23. Lease Disclosures

At 31 March 2012, the Bank was obligated under a few operating and finance leases for premises and motor vehicles used primarily for business purposes some of these have a certain lock-in-period.

Operating Lease

Lease payments recognised in the Profit and Loss Account during the period is ₹ 179,194 (000s).

Total future minimum lease payments under non-cancellable operating lease at the period end:

(Amount in ₹ '000)

Particulars	31 March 2012	31 March 2011
Not later than one year	213,908	1,64,513
Later than one year but not later than five years	1,197,224	1,093,608
Later than five years	388,484	6,47,474

Finance Lease

Lease payments recognised in the Profit and Loss Account during the period is ₹ 2,221 (000s)

Total future minimum lease payments under the non-cancellable finance lease at the period end:

(Amount in ₹ '000)

Particulars	Lease payments	Present value of lease payments
Not later than one year	8,087	7,594
Later than one year but not later than five years	11,263	8,694
Later than five years	Nil	Nil

24. Deferred Taxes

The deferred tax liability of 10,058 (₹ '000s) for the year ended 31 March 2012 (Previous Year – Nil) is included under Schedule 5 – Other liabilities and provisions.

The primary components that gave rise to deferred tax assets and liabilities included in the balance sheet are as follows:

(Amount in ₹ '000)

	31 March 2012	31 March 2011
Deferred Tax Assets		
Provision for Gratuity	1,393	–
Straight lining of rent under AS-19	21,189	–
Deferred Tax Assets	**22,582**	**–**
Deferred Tax Liability		
Depreciation	32,640	–
Deferred Tax Liability	**32,640**	**–**
Net Deferred Tax Liability	10,058	–

25. Capital Commitments

Capital Commitment as on 31 March 2012 is 19,918 (₹ '000s)

26. Operating Expenses

Details of expenses included in the Other Expenses in Schedule 16, exceeding 1% of the total income are set out below:

(Amount in ₹ '000)

Particulars	**For the year ended 31 March 2012**
Travel expenses	24,346
Intercompany expenses	91,732

27. Micro, Small and Medium Enterprises Development Act, 2006

There are no delays in payments to micro and small enterprises as required to be disclosed under 'The Micro, Small and Medium Enterprises Development Act, 2006'. The determination has been made to the extent such parties were identified based on the information available.

28. Provisions and Contingencies

Break up of provisions and contingencies

(Amount in ₹ '000)

	As at 31 March 2012	**As at 31 March 2011**
Provisions for depreciation on Investment	–	–
Provision towards NPA	–	–
Floating Provision	–	–
Provision towards Standard Assets	72,313	–
Provision made towards Income tax		
– Current tax expense	45,500	9,244
– Deferred tax credit	10,058	–
Other Provision and Contingencies		
– Provision towards Country Risk Exposure	589	–

29. Floating Provisions

The Bank did not maintain any floating provision during the year ended 31 March 2012.

30. Draw Down from Reserves

The Bank has not drawn any amount from reserves during the year ended 31 March 2012.

31. Disclosure of Complaints

a) Customer Complaints

(Amount in ₹ '000)

Sr. No.	**Particulars**	**For the year ended 31 March 2012**
(a)	No. of complaints pending at the beginning of the year	Nil
(b)	No. of complaints received during the year	Nil
(c)	No. of complaints redressed during the year	Nil
(d)	No. of complaints pending at the end of the year	Nil

b) **Awards passed by the Banking Ombudsman**

(Amount in ₹ '000)

Sr. No.	Particulars	For the year ended 31 March 2012
(a)	No. of unimplemented awards at the beginning of the year	Nil
(b)	No. of awards passed by the Banking Ombudsman during the year	Nil
(c)	No. of awards implemented during the year	Nil
(d)	No. of unimplemented awards at the end of the year	Nil

32. Letters of Comfort (LoCs) issued by Banks

The Bank did not issue any Letter of Comfort during the year.

33. Provisioning Coverage Ratio (PCR)

The Bank commenced operations in the current year, accordingly regulations relating to PCR are not applicable.

34. Bancassurance Business

The Bank does not undertake any bancassurance business.

35. Concentration of Deposits, Advances, Exposures and NPAs

a) Concentration of Deposits

(Amount in ₹ '000)

	31 March 2012	31 March 2011
Total Deposits of twenty largest Depositors	17,302,973	-
Percentage of Deposits of twenty largest depositors to Total deposits of the Bank	99.73%	-

b) Concentration of Advances*

(Amount in ₹ '000)

	31 March 2012	31 March 2011
Total Advances to twenty largest borrowers	13,215,784	-
Percentage of Advance to twenty largest borrowers to Total Advances of the Bank	75.07%	-

*Advances represent Credit Exposure (funded and non funded) including derivatives exposure as per RBI Master circular on Exposure Norms.

c) Concentration of Exposures**

(Amount in ₹ '000)

	31 March 2012	31 March 2011
Total Exposure to twenty largest borrowers/customers	13,215,784	-
Percentage of Exposures to twenty largest borrowers/customers to Total Exposure of the Bank on borrowers/customers	75.07%	-

** Exposure includes Credit Exposure (funded and non-funded), derivative exposure and investment exposure. However there is no investment exposure as on 31 March 2012.

d) Concentration of NPAs

The Bank did not have any NPA as on 31 March 2012 and hence this disclosure is not applicable.

36. Sector-wise NPAs and movement of NPA

The Bank did not have any NPA as on 31 March 2012 and hence this disclosure is not applicable.

37. Overseas Assets, NPAs and Revenue

As the Bank itself is a branch of a foreign bank, this disclosure is not applicable.

38. Off – Balance Sheet SPVs sponsored

(Which are required to be consolidated as per accounting norms)

There are no off – balance sheet SPVs sponsored during the year.

39. Previous period figures

Previous period's figures have been regrouped/rearranged wherever necessary.

For **Australia and New Zealand Banking Group Limited – Mumbai Branch**

Sd/-
Subhas DeGamia
Chief Executive Officer

Sd/-
S V Venkataraman
Chief Operating Officer

Place : Mumbai
Date: 20th June, 2012

Basel II: Pillar 3 Disclosures as at 31 March 2012

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 2012.

Disclosures made hereunder are in accordance with Prudential Guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (NCAF) – Market Discipline (Pillar 3). Since this is first year of India Operations, no comparative data has been provided.

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.
- Reviewing of MIS as required by the RBI in different circulars.

India Assets and Liabilities Committee ('India ALCO')

India ALCO is a sub-committee of the 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; and
- Recommendations 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 India.

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 Norms on Capital Adequacy – Basel I Framework;
- Master Circular – Prudential Guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (‘NCAF’), commonly referred as Basel II guidelines.

Presently, banks in India are required to have a parallel run of the revised framework. Banks are required to apply the prudential guidelines on capital adequacy (per both guidelines mentioned above) on an ongoing basis and compute their Capital to Risk Weighted Assets Ratio (‘CRAR’). Under the parallel run (which continues till 31 March 2013) Banks are required to hold capital sufficient to meet the Basel II minimum capital requirements subject to a prudential floor of 80% of minimum capital requirement computed under the Basel I framework.

As per NCAF, currently Banks should adopt Standardised Approach (SA) for credit risk and Basic Indicator Approach (BIA) for operational risk. Banks shall continue to apply the Standardised Duration Approach (SDA) for computing capital requirement for market risks.

Basel II 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, an effective means of informing the market about exposure to those risks and provides a consistent and comprehensive disclosure framework than enhances comparability.

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, 2012 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 Structure

Tier 1 capital mainly comprises of

- Interest free capital funds injected by Head Office
- Statutory Reserves calculated at 25% net profits of each year.

Intangible assets, debit balance in Profit and Loss Account have been deducted from above to arrive at Tier I capital.

Tier 2 capital mainly comprises of

- General provision on Standard Assets
- Provision for Country Exposures

The Capital Structure as at 31st March, 2012 is presented below:

(Amount in ₹ ‘000)

Tier I Capital	
Head Office capital	5,854,184
Statutory Reserves	2,236
Debit balance in Profit and Loss Account (Including losses brought forward from Previous period)	(121,847)
Intangibles	(206,124)
Total Tier I Capital	**5,528,449**
Tier II Capital	
General Provisions and other eligible provisions	72,902
Total Tier II Capital	**72,902**
Total Eligible Capital (Tier I + II Capital)	**5,601, 351**

6. Capital Adequacy

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

- To satisfy the Basel II Regulatory Capital requirements set out by RBI in the Master Circular; and
- To minimise the possibility of the Bank India's capital falling below the minimum regulatory requirement by maintaining a capital buffer (in excess of the Basel II 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 2012 CRAR stood at 25.50% as per BASEL II norms and 28.57% as per BASEL I 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 2012 is presented below.

(Amount in ₹ '000)

Minimum Regulatory Capital Requirements	
Capital requirements for Credit risk (a)	**1,693,967**
Portfolios subject to standardised approach	1,693,967
Securitisation exposures.	–
Capital requirements for Market risk (b)	**96,573**
Standardised duration approach	
– Interest rate risk	51,573
– Foreign exchange risk (including gold)	45,000
– Equity risk	–
Capital requirements for Operational risk (c)	**186,495**
Basic indicator approach	186,495
Total Minimum Regulatory Capital (a+b+c)	**1,977,035**
Risk Weighted Assets and Contingents	**21,967,058**
Credit Risk	18,821,857
Market Risk	1,073,032
Operational Risk	2,072,169
Capital Ratios	
Tier - I Capital	25.17%
Tier - II Capital	0.33%
Total Capital	**25.50%**

7. 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 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.

7.1 Total gross credit risk exposures as at 31st March, 2012

(Amount in ₹ '000)

Fund Based	
Claims on Banks	2,143,962
Investments (HTM)	–
Loans and Advances	13,187,239
Other Assets and Fixed Assets	779,353
Non Fund Based	
Non Market Related Off Balance sheet items (Contingent Credits and Exposures)	1,165,712
Market Related (Foreign Exchange (Fx) and Derivative contracts)	1,545,591

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.

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

Since all the exposures provided under Para 7.1 above are domestic, the disclosures on geographic distribution of exposures, both fund and non-fund based, has not been made.

7.3 Industry type distribution of exposures as at 31st March, 2012

(Amount in ₹ '000)

Industry Name	Fund Based	Non Fund Based
All Engineering	200,000	–
Chemicals, Dyes, Paints etc.	**2,043,196**	–
of which: Drugs and Pharmaceuticals	834,446	–
of which: fertiliser	700,000	
Food Processing	3,000,000	–
Infrastructure	1,345,814	–
Iron & Steel	432,438	–
Mining	442,613	–
NBFC	2,190,000	–
Other Industries	522,438	–
Other Metals & Metal Products	145,172	–
Rubber & Rubber Products.	404,457	–
Sugar	600,326	–
Trading	1,860,786	–
Total Loans & Advances	**13,187,239**	**–**
Claims on Banks	2,143,962	–
Investments (HTM)	–	–
Other Assets and Fixed Assets	779,353	–
Total Exposure	**16,110,555**	**–**

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)

7.4 Residual contractual maturity breakdown of assets as at 31st March, 2012

(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	590,082	4,153,893	428,445	660	–	–	5,173,080
2 to 7 days	44,330	–	223,981	3,243,961	–	6,806	3,519,078
8 to 14 days	16,788	–	84,824	296,121	–	174	397,907
15 to 28 days	141,002	1,000,000	712,433	2,550,787	–	51,217	4,455,440
29days and upto 3 months	133,177	1,000,000	672,895	3,104,644	–	32,994	4,943,710
Over 3 months and upto 6 months	149,939	2,950,000	757,585	3,370,925	–	97,800	7,326,249
Over 6 months and upto 1 year	293,671	200,000	1,483,811	620,140	–	1,761,540	4,359,162
Over 1 year and upto 3 years	26,145	–	132,102	–	–	–	158,247
Over 3 years and upto 5 years	69	–	348	–	–	–	417
Over 5 years	4,616	–	23,325	–	399,365	383,035	810,342
Total	1,399,819	9,303,893	4,519,748	13,187,239	399,365	2,333,566	31,143,632

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

(Amount in ₹ ‘000)

	As at 31 March 2012
Substandard	NIL
Doubtful 1	NIL
Doubtful 2	NIL
Doubtful 3	NIL
Loss	NIL
Gross NPAs	NIL
Provisions and Interest in Suspense	NIL
Net NPAs	NIL

7.6 NPA Ratios

(Amount in ₹ ‘000)

	As at 31 March 2012
Gross NPAs to gross advances	NIL
Net NPAs to net advances	NIL

7.7 Movement of NPAs (Gross)

(Amount in ₹ ‘000)

	For the year ended 31 March 2012
Opening balance	NIL
Additions	NIL
Reductions	NIL
Closing balance	NIL

7.8 Movement of provisions for NPAs

(Amount in ₹ ‘000)

	For the year ended 31 March 2012
Opening balance	NIL
Provisions made during the period	NIL
Write-off	NIL
Write-back of excess provisions	NIL
Closing balance	NIL

7.9 Amount of Non-Performing Investments

There are no non-performing investments as at 31 March 2012.

7.10 Amount of provisions held for Non-Performing Investments

There are no provisions held for non-performing investments as at 31 March 2012 as there are no non performing investments.

7.11 Movement of provisions for depreciation on investments

(Amount in ₹ '000)

	For the year ended 31 March 2012
Opening balance	NIL
Provisions made during the period	NIL
Write-off	NIL
Write-back of excess provisions	NIL
Closing balance	NIL

8. 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, CARE, CRISIL, ICRA and Fitch to assign risk weights as per RBI guidelines. For Non resident corporate and foreign banks ratings issued by the international rating agencies like S&P, Moody's and Fitch 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.

As at 31 March 2012 all of the Bank's exposures were un-rated.

Below attached is the summary as at 31st March, 2012:

(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	2,143,962	–	2,143,962	2,143,962	–	–	–
Investments (HTM)	–	–	–	–	–	–	–
Loans and Advances	13,187,239	–	13,187,239	–	13,187,239	–	–
Other Assets and Fixed Assets	779,355	–	779,355	–	779,355	–	–
Non Fund Based							
Non Market Related Off Balance sheet items (Contingent Credits and Exposures)	1,165,712	–	1,165,712	515,167	650,544	–	–
Market Related (Foreign Exchange (FX) and derivative contracts)	1,545,591	–	1,545,591	836,324	709,266	–	–

9. Credit Risk Mitigation: Disclosures for Standardised Approaches

RBI Basel II 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 II 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 31st March, 2012 are as below:

(Amount in ₹ '000)

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

10. Securitisation Exposures: Disclosure for Standardised Approach

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

11. Market Risk

Market risk arises when changes in market rates, prices and volatilities lead to a decline in the value of assets and liabilities, including financial derivatives. Market risk is generated through both trading and banking book activities.

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

The Bank has a detailed risk management and control framework to support its trading and balance sheet activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading and balance sheet portfolios.

The management of Risk Management is supported by a comprehensive limit and policy framework to control the amount of risk that the Group will accept. Market risk limits are allocated at various levels and are reported and monitored by Market Risk on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes, risk factors and profit and loss limits.

To facilitate the management, measurement and reporting of market risk, the Bank has grouped 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 interbank counterparties.

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

  This comprises the management of non-traded interest rate risk and liquidity.

Value at Risk ('VaR') measure

A key measure of market risk is Value at Risk (VaR). VaR is a statistical estimate of the possible daily loss and is based on historical market movements.

The Bank measures VaR at a 97.5% and 99% confidence interval. This means that there is a 97.5% or 99% chance that the loss will not exceed the VaR estimate on any given day. The Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Group calculates VaR using historical changes in market rates, prices and volatilities over the previous 500 business days. Traded and non-traded VaR is calculated using a one-day 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 Group could experience from an extreme market event. As a result of this limitation, the Group utilises a number of other risk measures (e.g. stress testing) and risk sensitivity limits to measure and manage market risk.

To supplement the VaR methodology, the Bank applies a wide range of stress tests, both on individual portfolios and at a Group level. The Bank's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of the Bank. Standard stress tests are applied on a daily basis and measure the potential loss arising from applying extreme market movements to individual and groups of individual price factors.

12. Liquidity Risk

Liquidity risk is the risk that the bank has insufficient capacity to fund increases in assets or is unable to meet its payment obligations as they fall due. The timing mismatch of cashflows and the related liquidity risk is inherent in all banking operations and is 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 detailed policy framework of the group. The core objective of the 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 term. Ensuring that the bank has the ability to meet 'survival horizons' under a range of the Bank group specific and general market liquidity stress scenarios to meet cash flow obligations over the short to medium term.
- 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.
- Ensuring the liquidity management framework is compatible with local regulatory requirements.
- Preparation of daily liquidity reports and scenario analysis, 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.
- Management of liquidity and funding risks are locally overseen by India ALCO

Scenario modelling:

A key component of the Group's liquidity management framework is scenario modelling. The Bank mainly assesses liquidity under different scenarios, including the 'going-concern' and 'name-crisis'.

'Going-concern': reflects the normal behaviour of cash flows in the ordinary course of business. The group policy requires that the bank should be able to meet all commitments and obligations under a going concern scenario, within the bank's normal funding capacity, over at least the following 30 calendar days. In estimating the funding requirement, the bank models expected cash flows by reference to historical behaviour and contractual maturity data.

'Name-crisis': refers to a potential name-specific liquidity crisis which models the behaviour of cash flows where there is a problem (real or perceived) which may include, but is not limited to, operational issues, doubts about the solvency of the Group or adverse rating changes. Under this scenario the bank may have significant difficulty rolling over or replacing funding. The requirements of the scenario are that the Bank must remain cash flow positive for eight calendar days.

Liquidity crisis contingency planning

The bank has a Liquidity Crisis Contingency Plan (the Plan) to articulate a risk management framework to protect depositors, creditors and shareholders should the Bank be involved in either a 'market liquidity' event, or a 'name specific' liquidity crisis event. The purpose of the framework is to outline the core management actions, resources and capabilities used to respond to and resolve any material liquidity crisis impacting the Bank.

This Plan outlines those management actions necessary to alleviate a Group or Australia or the Bank India liquidity crisis event. The Plan supplements and adheres to the group liquidity crisis plan to form a general management framework for potential liquidity risk of the Bank India, by establishing specific local issues and management strategies that need to be considered in a liquidity crisis event.

Capital requirement for Market Risk is provided in Table no 3. Capital & Risk Weighted Assets above

13. 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. The bank's operational risk measurement and management framework will support its people to effectively manage the risks in their day-to-day decision making, provide quality service to the customer and ensure regulatory compliance.

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

14. 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 Branch’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.

The extent of mismatching between the re-pricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income. The Branch quantifies the potential variation in future net interest income as a result of these re-pricing mismatches.

The re-pricing gaps themselves are constructed based on contractual re-pricing information. However, for those assets and liabilities where the contractual term to re-pricing is not considered to be reflective of the actual interest rate sensitivity (for example, products priced at the Group’s discretion), a profile based on historically observed and/or anticipated rate sensitivity is used. This treatment excludes the effect of basis risk between customer pricing and wholesale market pricing.

The Bank’s approach is to transfer market risk from the businesses to Treasury using a funds transfer price (FTP).

Earnings at Risk (EaR)

The Bank 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.

The Bank monitors the sensitivity of EaR to a 200 basis point parallel shift in interest rate, over a one year horizon.

The position as at 31st March, 2012 as below:

(Amount in ₹ ‘000)

Currency	Interest Rate Risk Shocks	
	200bp up	200bp down
Rupees	9,407	(9,407)
USD	11,716	(11,716)

Economic Value at Risk

Economic Value at Risk is an estimate of the impact of interest rate changes on the banking book’s market value, expressed to a 97.5% level of statistical confidence and using a 1 day holding period.

The position as at 31st March, 2012 as below:

(Amount in ₹ ‘000)

Currency	Value at Risk
Combined	3,685