

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED – INDIA BRANCHES

Basel III: Pillar 3 Disclosures as at 31st December 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 31 December 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 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. The committee is chaired by Chief Executive Officer India.

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. The committee is chaired by Chief Executive Officer India.

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 twofold:

- 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 severe (1 in 25 years) stress scenario.

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 31 December 2018 CRAR was 18.86% and Common Equity Tier I ratio was 18.59% as per BASEL III norms. The Bank is adequately capitalised presently. Summary of the Bank's capital requirement for credit, market and operational risk and CRAR as at 31 December 2018 is presented below.

(Amount in ₹ '000)

| | |
|---|-------------------|
| Minimum Regulatory Capital Requirements | |
| Capital requirements for Credit risk (a) | 3,488,437 |
| Portfolios subject to standardised approach | 3,488,437 |
| Securitisation exposures. | - |
| Capital requirements for Market risk (b) | 2,179,015 |
| Standardised duration approach | |
| - Interest rate risk | 1,816,345 |
| - 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) | 6,015,010 |
| Minimum CRAR + CCB at 10.875% | 7,268,137 |
| Risk Weighted Assets and Contingents | 71,245,444 |
| Credit Risk | 39,663,286 |
| Market Risk | 27,237,682 |
| Operational Risk | 4,344,476 |
| Capital Ratios | |
| CET 1 Capital | 18.59% |
| Tier I Capital | 18.59% |
| Total Capital | 18.86% |

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 based on 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 minimize losses, maximize 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 realization. The fair value of collateral will be its realizable value net of realization costs.

5.1. Total gross credit risk exposures as at 31 December 2018

(Amount in ₹ `000)

| | |
|---|-------------------|
| Fund Based | 31,070,872 |
| Claims on Banks, Balance with RBI and Cash Balance | 4,912,139 |
| Investments (HTM) | - |
| Loans and Advances (including Interbank Loans) | 22,960,668 |
| Other Assets and Fixed Assets | 3,198,065 |
| | |
| Non Fund Based | 47,438,721 |
| Non Market Related Off Balance sheet items (Contingent Credits and Exposures and undrawn committed lines of credit) | 9,560,558 |
| Market Related (Foreign Exchange (Fx) and Derivative contracts) | 37,878,164 |

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 31 December 2018

(Amount in ₹ '000)

| Industry Name | Fund Based | Non Fund Based |
|--|-------------------|-------------------|
| Banking & Finance* | 4,912,139 | 26,204,572 |
| Food Processing | 1,932,403 | 37,549 |
| Petroleum (non-infra) Coal Products (non-mining) and Nuclear Fuels | - | 1,154,200 |
| Chemicals and Chemical Products (Dyes, Paints, etc.) | 4,982,262 | 1,927,880 |
| Glass & Glassware | 800,000 | 4,211 |
| Iron and Steel | 980,000 | - |
| Metal and Metal Products | 26,480 | 252,197 |
| All Engineering | - | 1,682,198 |
| Vehicles, Vehicle Parts and Transport Equipment's | 1,000,000 | 672,316 |
| Gems and Jewellery | 147,138 | - |
| Construction | - | 21,820 |
| Infrastructure – Telecommunications | 1,900,000 | 1,379,163 |
| Non-Metallic Mineral Product | 1,140,000 | - |
| Electrical & Equipment | - | 22,230 |
| NBFC and HFC | 999,674 | 4,926,482 |
| Residuary Exposure | 12,250,776 | 9,153,904 |
| - of which Other assets | 3,198,065 | - |
| - of which interbank advances | 461,211 | - |
| - of which Exposure to Other Sectors | 8,591,500 | 9,153,904 |
| | | |
| Total Exposure | 31,070,872 | 47,438,721 |

* 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 31st December 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 | 39.63% |
| 2 | Chemicals and Chemical Products (Dyes, Paints, etc.) | 8.80% |
| 3 | NBFC and HFC | 7.55% |

5.4. Residual contractual maturity breakdown of assets as at 31 December 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 | 1,030,345 | 1,803,350 | 24,537,525 | 555,674 | - | 559,701 | 28,486,595 |
| 2 to 7 days | 286,752 | - | 1,397,917 | 5,760,512 | - | 22,893 | 7,468,074 |
| 8 to 14 days | 92,021 | - | 448,600 | 5,474,352 | - | 5,180 | 6,020,153 |
| 15 to 30 days | 326,599 | - | 1,592,170 | 3,299,047 | - | 116,322 | 5,334,138 |
| 31 days and upto 2 months | 266,921 | - | 1,301,242 | 1,085,580 | - | 51,827 | 2,705,570 |
| Over 2 months and upto 3 months | 37,801 | - | 184,281 | 1,634,374 | - | 167,148 | 2,023,604 |
| Over 3 months and upto 6 months | 315,994 | - | 1,540,472 | 2,302,385 | - | 32,989 | 4,191,840 |
| Over 6 months and upto 1 year | 121,522 | - | 592,421 | 275,776 | - | 208,738 | 1,198,457 |
| Over 1 year and upto 3 years | 112,332 | - | 542,809 | 1,449,872 | - | 10,089,207 | 12,194,220 |
| Over 3 years and upto 5 years | 802 | - | 3,909 | 594,490 | - | 1,718 | 600,919 |
| Over 5 years | - | - | - | - | 554,650 | 1,782,943 | 2,337,593 |
| Total | 2,591,089 | 1,803,350 | 32,141,346 | 22,432,062 | 554,650 | 13,038,666 | 72,561,163 |

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

(Amount in ₹ '000)

| | As at 31 December 2018 |
|---------------------|------------------------|
| Substandard | 999,674 |
| Doubtful 1 | - |
| Doubtful 2 | - |
| Doubtful 3 | - |
| Loss | - |
| Gross NPAs | 999,674 |
| Provisions for NPAs | 528,606 |
| Net NPAs | 471,068 |

5.6. NPA Ratios

(Amount in ₹ '000)

| | As at 31 December 2018 |
|------------------------------|------------------------|
| Gross NPAs to gross advances | 4.35% |
| Net NPAs to net advances | 2.10% |

5.7. Movement of NPAs (Gross)

(Amount in ₹ '000)

| | For the period ended 31 December 2018 |
|--|--|
| Opening balance as at 1 st April 2018 | - |
| Additions | 999,674 |
| Reductions | - |
| Closing balance as at 31st December 2018 | 999,674 |

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 | 528,606 | 43,686 |
| Write-off | - | - |
| Write-back of excess provisions | - | - |
| Closing balance as at 31st December 2018 | 528,606 | 189,824 |

¹ Specific provision relating to NPAs

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

Note: YTD movement has been reported above

5.9. Amount of Non-Performing Investments

There are no non-performing investments as at 31 December 2018.

5.10. Amount of provisions held for Non-Performing Investments

There are no provisions held for non-performing investments as at 31st December 2018 as there are no non-performing investments.

Movement of provisions for depreciation on Investments

(Amount in ₹ '000)

| | For the period ended 31 December 2018 |
|--|--|
| Opening balance as at 1 April 2018 | - |
| Provisions made during the period | 4,809 |
| Write-off | - |
| Write-back of excess provisions | - |
| Closing balance as at 31st December 2018 | 4,809 |

Note: YTD movement has been reported above

5.11. Geographic and industry wise distribution, Specific provision separately

| Industry Classification | Gross NPA | Specific Provision |
|-------------------------|-----------|--------------------|
| NBFC and HFC | 999,674 | 528,606 |

| Category | Gross NPA | Specific Provision |
|--------------|----------------|--------------------|
| Domestic | 999,674 | 528,606 |
| Overseas | - | - |
| Total | 999,674 | 528,606 |

6. DF-4 Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach

The Bank uses short term / long term issuer rating instruments of the accredited rating agencies viz. Credit Rating Information Services of India Limited, ICRA Limited, India Ratings and Research Private Limited (India Ratings), Credit Analysis and Research Limited, SME Rating Agency of India Limited and Brickworks Ratings India Pvt Limited to assign risk weights as per RBI guidelines. For Non- resident corporate and foreign banks ratings issued by the international rating agencies like Moody's and Standard and Poor's are used for assigning risk weights.

For assets having a contractual maturity of more than a year, long term credit ratings assigned by the above mentioned rating agencies are used.

Below attached is the summary as at 31 December 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 | 31,070,872 | 70,000 | 31,000,872 | 22,906,807 | 7,927,228 | 166,836 | |
| Claims on Banks | 4,912,139 | - | 4,912,139 | 4,908,304 | 3,835 | - | |
| Investments (HTM) | - | - | - | - | - | - | |
| Loans and Advances | 22,960,668 | 70,000 | 22,890,668 | 15,577,636 | 7,313,031 | - | |
| Other Assets and Fixed Assets | 3,198,065 | - | 3,198,065 | 2,420,867 | 610,362 | 166,836 | |
| Non Fund Based | 47,438,721 | 61,809 | 47,376,912 | 43,050,260 | 4,326,652 | - | |
| Non Market Related Off Balance sheet items (Contingent Credits and Exposures) | 9,560,558 | 61,809 | 9,498,749 | 5,836,679 | 3,662,069 | - | |
| Market Related (Foreign Exchange (FX) and derivative contracts) | 37,878,164 | - | 37,878,164 | 37,213,581 | 664,583 | - | |

7. Leverage Ratio

The Basel III leverage ratio is a simple, transparent, non-risk based measure which is calibrated to act as a credible supplementary measure to the risk based capital requirements. The Bank's leverage ratio calculated in accordance with extant RBI guidelines is as follows:

DF-18 Leverage Ratio Common Disclosure as at 31 December 2018

| Leverage Ratio | | (Amount in ₹'000) |
|-----------------------|--|-------------------|
| | Item | |
| | On-balance sheet exposures | |
| 1. | On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 64,010,291 |
| 2. | (Asset amounts deducted in determining Basel III Tier 1 capital) | (487,349) |
| 3. | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2) | 63,522,942 |
| | Derivative exposures | |
| 4. | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 5,863,368 |
| 5. | Add-on amounts for PFE associated with all derivatives transactions | 32,014,795 |
| 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) | 37,878,164 |
| | Securities financing transaction exposures | |
| 12. | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions | 7,595,070 |
| 13. | (Netted amounts of cash payables and cash receivables of gross SFT assets) | (7,579,725) |
| 14. | CCR exposure for SFT assets | - |
| 15. | Agent transaction exposures | - |
| 16. | Total securities financing transaction exposures (sum of lines 12 to 15) | 15,345 |
| | Other off-balance sheet exposures | |
| 17. | Off-balance sheet exposure at gross notional amount | 15,653,472 |
| 18. | (Adjustments for conversion to credit equivalent amounts) | (6,092,914) |
| 19. | Off-balance sheet items (sum of lines 17 and 18) | 9,560,558 |
| | Capital and total exposures | |
| 20. | Tier 1 capital | 13,245,203 |
| 21. | Total exposures (sum of lines 3, 11, 16 and 19) | 110,977,008 |
| | Leverage ratio | |
| 22. | Basel III leverage ratio (per cent) | 11.94% |