

**DISCLOSURES UNDER BASEL III CAPITAL REGULATIONS (CONSOLIDATED)
FOR THE QUARTER ENDED 31st DECEMBER 2014**

Name of the head of the banking group to which the framework applies: Axis Bank Limited

I. CAPITAL ADEQUACY

The Bank is subject to the capital adequacy guidelines stipulated by RBI, which are based on the framework of the Basel Committee on Banking Supervision. As per Basel III guidelines, the Bank is required to maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9% {11.5% including Capital Conservation Buffer (CCB)}, with minimum Common Equity Tier I (CET1) of 5.5% (8% including CCB) as on 31st March 2019. These guidelines on Basel III has been implemented on 1st April 2013 in a phased manner. The minimum capital required to be maintained by the Bank for the quarter ended 31st December 2014 is 9% with minimum Common Equity Tier I (CET1) of 5%.

An assessment of the capital requirement of the Bank is carried out through a comprehensive projection of future businesses that takes cognizance of the strategic intent of the Bank, profitability of particular businesses and opportunities for growth. The proper mapping of credit, operational and market risks to this projected business growth enables assignment of capital that not only adequately covers the minimum regulatory capital requirement but also provides headroom for growth. The calibration of risk to business is enabled by a strong risk culture in the Bank aided by appropriate, technology-based risk management systems. As part of the Internal Capital Adequacy Assessment Process (ICAAP), the Bank also assesses the adequacy of capital under stress. A summary of the Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 31st December 2014 is presented below:

Capital Requirements for various Risks		(₹ in millions)
		Amount
CREDIT RISK		
Capital requirements for Credit Risk		
- Portfolios subject to standardised approach		253,858
- Securitisation exposures		-
MARKET RISK		
Capital requirements for Market Risk		
- Standardised duration approach		21,926
- Interest rate risk		19,108
- Foreign exchange risk (including gold)		270
- Equity risk		2,548
OPERATIONAL RISK		
Capital requirements for Operational risk		
- Basic indicator approach		24,322

Capital Adequacy Ratios	Consolidated	Standalone
Common Equity Tier – 1 CRAR	11.00%	10.86%
Tier – 1 CRAR	11.00%	10.86%
Total CRAR	14.28%	14.06%

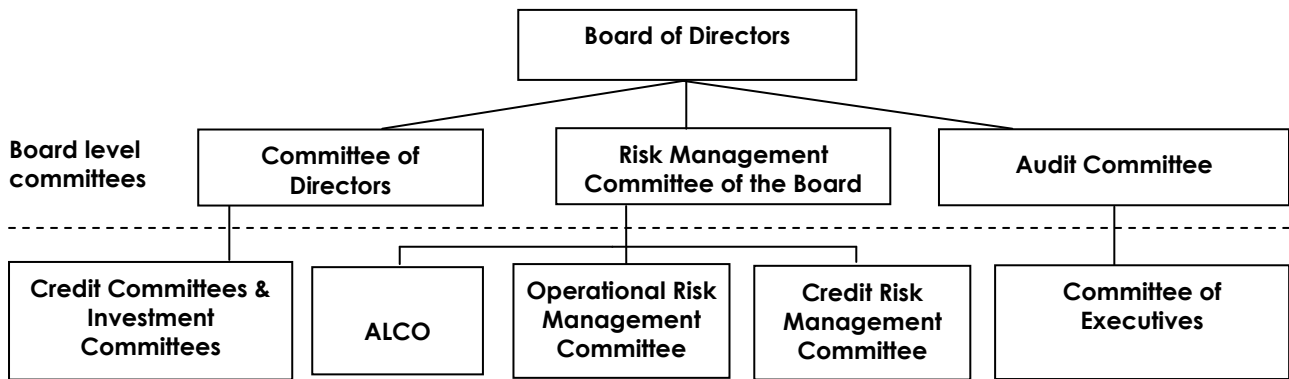
II. RISK MANAGEMENT: OBJECTIVES AND ORGANISATION STRUCTURE

The wide variety of businesses undertaken by the Bank requires it to identify, measure, control, monitor and report risks effectively. The key components of the Bank's risk management rely on the

risk governance architecture, comprehensive processes and internal control mechanism based on approved policies and guidelines. The Bank's risk governance architecture focuses on the key areas of risk such as credit, market (including liquidity) and operational risk and quantification of these risks, wherever possible, for effective and continuous monitoring and control.

Objectives and Policies

The Bank's risk management processes are guided by well-defined policies appropriate for various risk categories, independent risk oversight and periodic monitoring through the sub-committees of the Board of Directors. The Board sets the overall risk appetite and philosophy for the Bank. The Committee of Directors, the Risk Management Committee and the Audit Committee of the Board, which are sub-committees of the Board, review various aspects of risk arising from the businesses of the Bank. Various senior management committees operate within the broad policy framework as illustrated below:

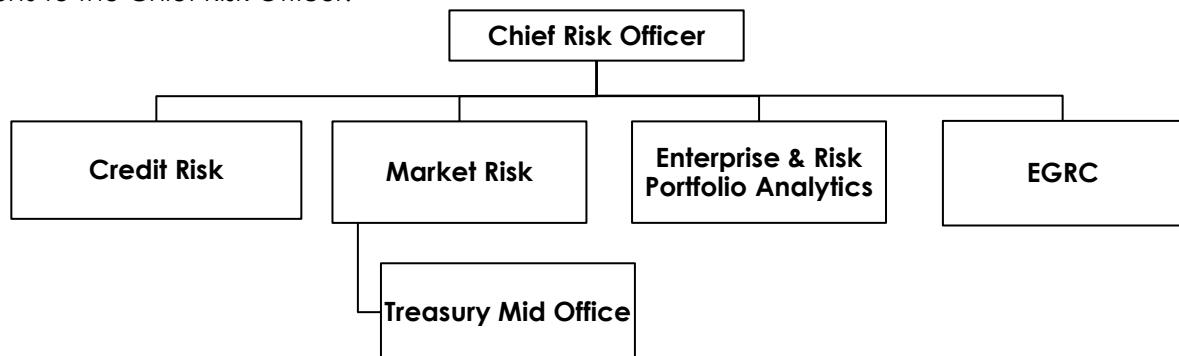


The Bank has put in place policies relating to management of credit risk, market risk, operational risk and asset-liability both for the domestic as well as overseas operations along with overseas subsidiaries as per the respective host regulatory requirements and business needs. The overseas policies are drawn based on the risk perceptions of these economies and the Bank's risk appetite.

The Bank has formulated a comprehensive Stress Testing Policy to measure impact of adverse stress scenarios on the adequacy of capital. The stress scenarios are idiosyncratic, market wide and a combination of both.

Structure and Organisation

The Risk Department reports to the Managing Director and CEO and the Risk Management Committee of the Board oversees the functioning of the Department. The Department has five separate teams for Credit Risk, Market Risk (including Treasury Mid Office), Enterprise & Risk Portfolio Analytics and Enterprise Governance Risk and Compliance (EGRC) and the head of each team reports to the Chief Risk Officer.



III. CREDIT RISK

Credit risk refers to the deterioration in the credit quality of the borrower or the counter-party adversely impacting the financial performance of the Bank. The losses incurred by the Bank in a credit transaction could be due to inability or wilful default of the borrower in honouring the financial commitments to the Bank. The Bank is exposed to credit risk through lending and capital market activities.

Credit Risk Management Policy

The Board of Directors establishes parameters for risk appetite which are defined through strategic businesses plan as well as the Corporate Credit Policy. Credit Risk Management Policy lays down the roles and responsibilities, risk appetite, key processes and reporting framework. Corporate credit is managed through rating of borrowers and the transaction and thorough risk vetting of individual exposures at origination and thorough periodic review after sanctioning. Retail credit to individuals and small business is managed through definition of product criteria, appropriate credit filters and subsequent portfolio monitoring.

Credit Rating System

The foundation of credit risk management rests on the internal rating system. Rating linked single borrower exposure norms, delegation of powers and review frequency have been adopted by the Bank. The Bank has developed rating tools specific to market segments such as large and mid-corporates, SME, financial companies, microfinance companies and project finance to objectively assess underlying risk associated with such exposures.

The credit rating model uses a combination of quantitative and qualitative inputs to arrive at a 'point-in-time' view of the risk profile of counterparty. Each internal rating grade corresponds to a distinct probability of default over one year. Expert scorecards are used for various SME schematic products and retail agriculture schemes. Statistical application and behavioural scorecards have been developed for all major retail portfolios.

The Bank recognises cash margin, central/state government, bank and corporate guarantees, exclusive mortgage of properties and lease rental securitisation for the purpose of credit enhancement to arrive at a facility rating.

Model validation is carried out annually by objectively assessing the discriminatory power, calibration accuracy and stability of ratings. The Bank has completed the estimation and validation of PD, LGD and CCF models for corporate and retail portfolios.

Credit Sanction and Related Processes

The guiding principles behind the credit sanction process are as under

- 'Know Your Customer' is a leading principle for all activities.
- The acceptability of credit exposure is primarily based on the sustainability and adequacy of borrower's normal business operations and not based solely on the availability of security.

The Bank has put in place a hierarchical committee structure based on the size and rating of the exposures for credit sanction and review; with sanctioning authority rested with higher level committees for larger and lesser rated exposures. Committee of Directors (COD) is the topmost committee in the hierarchy which is a sub-committee of the Board.

All management level sanctioning committees require mandatory presence of a representative from Risk Department for quorum.

Review and Monitoring

- All credit exposures, once approved, are monitored and reviewed periodically against the approved limits. Borrowers with lower credit rating are subject to more frequent reviews.
- Credit audit involves independent review of credit risk assessment, compliance with internal policies of the Bank and with the regulatory framework, compliance of sanction terms and conditions and effectiveness of loan administration.
- Customers with emerging credit problems are identified early and classified accordingly. Remedial action is initiated promptly to minimize the potential loss to the Bank.

Concentration Risk

The Bank manages concentration risk by means of appropriate structural limits and borrower-wise limits based on credit-worthiness. Credit concentration in the Bank's portfolios is monitored for the following:

- Large exposures to the individual clients or group: The Bank has individual borrower-wise exposure ceilings based on the internal rating of the borrower as well as group-wise borrowing limits which are continuously tracked and monitored.
- Geographic concentration for real estate exposures.
- Concentration of unsecured loans to total loans and advances.
- Concentration by Industry: Industry analysis plays an important part in assessing the concentration risk within the loan portfolio. Industries are classified into various categories based on factors such as demand-supply, input related risks, government policy stance towards the sector and financial strength of the sector in general. Such categorisation is used in determining the expansion strategy for the particular industry.

Portfolio Management

Portfolio level risk analytics and reporting to senior management examines optimal spread of risk across various rating classes, undue risk concentration across any particular industry segments and delinquencies. Borrowers or portfolios are marked for early warning when signs of weakness or financial deterioration are envisaged in order that timely remedial actions may be initiated. In-depth sector specific studies are undertaken on portfolios vulnerable to extraneous shocks and the results are shared with the business departments. The Bank has a well-defined stress testing policy in place and at least on a quarterly basis, stress testing is undertaken on various portfolios to gauge the impact of stress situations on the health of portfolio, profitability and capital adequacy.

A dedicated risk surveillance team supports the Credit Risk team by feeding it and updating it with lead indicators of stress in sectors which includes potential delinquencies, sector updates, negative news on borrower corporate and external rating downgrades.

As regards retail lending, the focus has been on increasing lending to secured portfolios (mortgage, auto), while maintaining a cautious approach to unsecured lending (personal loans and credit card business). The Bank is continuously endeavoring to improve the quality of incremental origination through better credit underwriting standards using improved scorecards. Portfolio delinquency/irregularity trends are monitored periodically.

Definitions and Classification of Non-Performing Assets

Advances are classified into performing and non-performing asset (NPAs) as per RBI guidelines.

A non-performing asset (NPA) is a loan or an advance where;

- interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- the account remains 'out-of-order' for a period of more than 90 days in respect of an Overdraft or Cash Credit (OD/CC),
- the bill remains overdue for a period of more than 90 days in case of bills purchased and discounted,
- a loan granted for short duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for two crop seasons,
- a loan granted for long duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for one crop season,
- in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.
- the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.

NPAs are further classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. A sub-standard asset is one, which has remained a NPA for a period less than or equal to 12 months. An asset is classified as doubtful if it has remained in the sub-standard category for more than 12 months. A loss asset is one where loss has been identified by the Bank or internal or external auditors or during RBI inspection but the amount has not been written off fully.

Definition of Impairment

At each balance sheet date, the Bank ascertains if there is any impairment in its assets. If such impairment is detected, the Bank estimates the recoverable amount of the asset. If the recoverable amount of the asset or the cash-generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account.

CREDIT RISK EXPOSURES

Total Gross Credit Risk Exposure Including Geographic Distribution of Exposure – Position as on 31st December 2014

(₹ in millions)

	Domestic (Outstanding)	Overseas (Outstanding)	Total
Fund Based	3,267,505	508,345	3,775,850
Non Fund Based *	849,703	136,285	985,988
Total	4,117,208	644,630	4,761,838

* Non-fund based exposures are bank guarantees issued on behalf of constituents and acceptances and endorsements.

Distribution of Credit Risk Exposure by Industry Sector – Position as on 31st December 2014

(₹ in millions)

Industry Classification	Amount	
	Fund Based (Outstanding)	Non-Fund Based (Outstanding)
Banking and Finance	260,363	109,127
Beverage and Tobacco	6,245	9,290

(₹ in millions)

Industry Classification	Amount	
	Fund Based (Outstanding)	Non-Fund Based (Outstanding)
Cement and Cement Products	27,671	6,646
Chemicals and Chemical products	74,963	79,712
- of which Petro Chemicals	8,288	36,252
- of which Drugs and Pharmaceuticals	30,666	11,277
Commercial Real Estate	115,434	17,937
Computer Software	23,479	18,312
Construction	19,964	31,268
Cotton Textiles	44,466	2,159
Edible Oils and Vanaspati	5,909	14,431
Engineering	69,166	118,327
- of which Electronics	4,606	1,146
Entertainment & Media	12,662	12,550
Food Processing	73,568	1,954
Gems and Jewellery	17,502	3,416
Glass and Glassware	4,718	2,407
Infrastructure (excluding Power)	232,680	124,471
- of which Roads and ports	84,615	13,610
- of which Telecommunications	35,891	34,501
Iron and Steel	97,904	41,306
Jute Textiles	99	6
Leather and Leather Products	1,377	68
Metal and Metal products	37,223	23,328
Mining and Quarrying (incl. Coal)	29,528	9,101
NBFCs	43,334	13,814
Other Textiles	19,068	2,289
Paper and Paper Products	13,310	4,515
Petroleum Coal Products and Nuclear fuels	11,348	35,218
Power Generation & Distribution	140,081	92,667
Professional services	49,855	4,118
Rubber Plastic and their products	15,912	4,176
Shipping Transportation & Logistics	40,852	9,928
Sugar	5,884	4,041
Tea	9,286	1,477
Trade	135,455	55,710
Vehicles, Vehicle Parts and Transport Equipments	27,165	4,120
Wood and Wood products	2,934	1,475
Other Industries	158,927	71,304
Residual Exposures	1,947,518	55,320
- of which Other Assets	104,043	-
- of which Banking Book Investments	658,340	-

(₹ in millions)

Industry Classification	Amount	
	Fund Based (Outstanding)	Non-Fund Based (Outstanding)
- of which Retail, Agriculture & Others	1,185,135	55,320
Total	3,775,850	985,988

As on 31st December 2014, 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	8%
2.	Infrastructure	8%

Residual Contractual Maturity Breakdown of Assets – Position as on 31st December 2014*

(₹ in millions)

Maturity Bucket	Cash	Balances with RBI	Balances with other banks#	Investments	Advances	Fixed Assets	Other assets
1 day	28,562	17,639	62,207	105,003	30,543	-	2,003
2 to 7 days	-	-	14,018	13,278	14,687	-	9,527
8 to 14 days	-	3,129	1,359	26,509	22,968	-	10,299
15 to 28 days	-	3,340	3,545	35,406	32,366	1	23,808
29 days to 3 months	-	10,702	10,524	118,710	131,928	-	2,955
Over 3 months and upto 6 months	-	9,921	3,244	74,211	128,634	9	6,160
Over 6 months and upto 12 months	-	14,590	6,533	175,875	163,483	24	7,324
Over 1 year and upto 3 years	-	17,768	10,686	174,295	564,734	7	3,717
Over 3 years and upto 5 years	-	7,382	374	98,277	350,635	-	77
Over 5 years	-	42,012	281	414,085	1,194,397	25,077	37,598
Total	28,562	126,483	112,771	1,235,649	2,634,375	25,118	103,468

* Intra-group adjustments are excluded

including money at call and short notice

Movement of NPAs and Provision for NPAs (including NPIs) – Position as on 31st December 2014

(₹ in millions)

	Particulars	Amount
A.	Amount of NPAs (Gross)*	39,016
	- Substandard	10,996
	- Doubtful 1	8,478
	- Doubtful 2	4,704
	- Doubtful 3	465
	- Loss	14,373

	Particulars	Amount
B.	Net NPAs	12,507
C.	NPA Ratios	
	- Gross NPAs (including NPIs) to gross advances (%)	1.47%
	- Net NPAs (including NPIs) to net advances (%)	0.48%
	Movement of NPAs (Gross)	
D.	- Opening balance as on 1 st April 2014	31,464
	- Additions	22,440
	- Reductions	(14,888)
	- Closing balance as on 31 st December 2014	39,016
	Movement of Provision for NPAs	
E.	- Opening balance as on 1 st April 2014	20,863
	- Provision made in 2014-15 [#]	14,667
	- Transfer from restructuring provision	140
	- Write-offs/Write-back of excess provision	(10,174)
	- Closing balance as on 31 st December 2014	25,496

includes ₹ 132 Million due to effect of exchange rate fluctuation.

NPIs and Movement of Provision for Depreciation on Investments – Position as on 31st December 2014

(₹ in millions)

	Amount	
A.	Amount of Non-Performing Investments	1,456
	Amount of Non-Performing Investments- Others*	
B.	Amount of Provision held for Non- performing investments	1,343
	Amount of Provision held for Non- performing investments- Others*	-
C.	Movement of provision for depreciation on investments	
	- Opening balance as on 1 st April 2014	1,233
	- Provision made in 2014-15	547
	- Write – offs/Write – back of excess provision	(940)
	- Closing balance as on 31 st December 2014	840

* represents amount outstanding under application money classified as non-performing asset.

Credit Risk: Use of Rating Agency under the Standardised Approach

The RBI guidelines on capital adequacy require banks to use ratings assigned by specified External Credit Assessment Agencies (ECAAs) namely Brickworks, CARE, CRISIL, ICRA, India Ratings and SMERA for domestic counterparties and Standard & Poor's, Moody's and Fitch for foreign counterparties.

The Bank is using issuer ratings and short-term and long-term instrument/bank facilities' ratings which are assigned by the accredited rating agencies viz. Brickworks, CARE, CRISIL, ICRA, India Ratings and SMERA and published in the public domain to assign risk-weights in terms of RBI guidelines. In respect of claims on non-resident corporates and foreign banks, ratings assigned by international rating agencies i.e. Standard & Poor's, Moody's and Fitch is used. For exposures with contractual maturity of less than one year, a short-term rating is used. For cash credit facilities and exposures with contractual maturity of more than one year, long-term rating is used.

Issue ratings would be used if the Bank has an exposure in the rated issue and this would include fund-based and non-fund based working capital facilities as well as loans and investments. In case the Bank does not have exposure in a rated issue, the Bank would use the issue rating for its comparable unrated exposures to the same borrower, provided that the Bank's exposures are pari-passu or senior and of similar or lesser maturity as compared to the rated issue. Structured Obligation (SO) ratings are not used unless the Bank has a direct exposure in the 'SO' rated issue. If an issuer has a long-term or short-term exposure with an external rating that warrants a risk weight

of 150%, all unrated claims on the same counterparty, whether short-term or long-term, also receive 150% risk weight, unless the Bank uses recognised credit risk mitigation techniques for such claims.

Issuer ratings provide an opinion on the general credit worthiness of the rated entities in relation to their senior unsecured obligations. Therefore, issuer ratings would be directly used to assign risk-weight to unrated exposures of the same borrower.

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk-Weight – Position as on 31st December 2014

	(₹ in millions)
	Amount
Below 100% risk weight	2,845,777
100% risk weight	1,401,932
More than 100% risk weight	514,129
Deduction from capital funds	-