AXIS BANK

DISCLOSURES UNDER BASEL III CAPITAL REGULATIONS (CONSOLIDATED)
FOR THE QUARTER ENDED 31ST DECEMBER 2016

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 have 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 2016 is 9.625% with minimum Common Equity Tier 1 (CET1) of 6.125%(including CCB of 0.625%)

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 2016 is presented below:

(₹ in millions)

Capital Requirements for various Risks	Amount
CREDIT RISK	
Capital requirements for Credit Risk	
- Portfolios subject to standardized approach	331,423
- Securitisation exposures	-
MARKET RISK	
Capital requirements for Market Risk	
- Standardised duration approach	30,188
- Interest rate risk	23,251
- Foreign exchange risk (including gold)	1,129
- Equity risk	5,808
OPERATIONAL RISK	
Capital requirements for Operational risk	38,869
- Basic indicator approach	

Capital Adequacy Ratios	Consolidated	Standalone
Common Equity Tier – 1 CRAR	11.69%	11.66%
Tier – 1 CRAR	12.47%	12.43%
Total CRAR	**16.05%**	**16.03%**

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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, reputation risk, subsidiary 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 Chief Risk Officer reports to the Managing Director and CEO and has a dual reporting to CFO. The Risk Management Committee of the Board oversees the functioning of the Department. The Department has separate teams for individual components of risk i.e. Credit Risk, Market Risk (including Treasury Mid Office), Operational Risk, Enterprise Risk, Risk Analytics, Risk Data Management, Information Security Risk and Enterprise Governance Risk and Compliance (EGRC). These teams report 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, thorough due diligence through an appraisal process alongside risk vetting of individual exposures at origination and thorough periodic review (including portfolio 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, 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 top most 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 categorization 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.

Retail lending portfolio is the blended mix of Consumer Lending and Retail Rural Lending Portfolios. Secured products (like mortgage, wheels business) still commands a major share of the Consumer Lending Portfolio, with prudent underwriting for unsecured lending (personal loans and credit card business) continuing during the current year. The Bank has developed a robust risk management framework at each stage of retail loan cycle i.e. loan acquisition, underwriting and collections.

Underwriting strategy relies on extensive usage of analytical scoring models which also takes inputs from bureau. The Bank uses 'Rules Engine' which helps customise business rules thereby aiding in faster decision making without compromising on the underlying risks. Senior Management takes note of movement and direction of risk reported through information published on structured dashboards.

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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 as on 31st December 2016

(₹ in millions)

	Domestic (Outstanding)	Overseas (Outstanding)	Total
Fund Based	4,858,038	580,929	5,438,967
Non Fund Based *	983,718	98,752	1,082,470
Total	**5,841,756**	**679,681**	**6,521,437**

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

Distribution of Credit Risk Exposure by Industry Sector as on 31st December 2016

(₹ in millions)

Industry Classification	Amount	
	Fund Based (Outstanding)	Non-Fund Based (Outstanding)
Banking and Finance*	393,090	151,824
Infrastructure (excluding Power)	242,904	209,603
Power Generation & Distribution	208,324	46,437
Engineering	80,948	166,537
Trade	159,023	62,774
Metal and Metal Products	138,009	32,435
Commercial Real Estate	146,437	17,953
Iron and Steel	113,500	32,715
Chemicals and Chemical products	101,295	43,154
Petroleum, Coal Products and Nuclear Fuels	38,450	93,239
NBFCs	76,564	16,335
Food Processing	75,587	4,037
Professional Services	67,926	4,106
Construction	29,687	37,038
Cement and Cement Products	47,237	11,402
Computer Software	24,075	20,660
Cotton Textiles	42,981	1,248
Shipping Transportation & Logistics	38,070	2,997
Rubber, Plastic and their Products	30,629	4,895
Vehicles, Vehicle Parts and Transport Equipment	30,254	4,186
Other Textiles	30,499	3,373
Paper and Paper Products	29,274	2,390
Mining and Quarrying (incl. Coal)	29,886	899
Entertainment & Media	19,771	10,910
Gems and Jewellery	18,679	2,072
Other Industries	193,572	64,991
Residual Exposures	3,032,296	34,260
- of which Other Assets	171,495	-
- of which Banking Book Investments	814,048	-
- of which Retail, Agriculture & Others	2,046,753	34,260
Total	**5,438,967**	**1,082,470**

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

As on 31st December, 2016, 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	7%

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Residual Contractual Maturity Breakdown of Assets as on 31st December 2016*

(₹ in millions)

Maturity Bucket	Cash	Balances with RBI	Balances with other banks#	Investments	Advances	Fixed Assets	Other assets
1 day	32,360	249,851	18,839	275,577	45,933	-	2,412
2 to 7 days	-	-	28,833	11,910	34,129	-	11,869
8 to 14 days	-	6,869	2,119	38,912	22,198	-	16,316
15 to 30 days	-	6,626	2,659	39,712	53,737	-	38,976
31 days to 2 months	-	8,804	5,341	62,204	84,339	-	10,264
Over 2 months and upto 3 months	-	7,970	665	67,548	168,719	-	5,531
Over 3 months and upto 6 months	-	14,843	1,808	83,700	166,125	-	19,302
Over 6 months and upto 12 months	-	24,747	14,033	139,861	270,242	-	59,625
Over 1 year and upto 3 years	-	21,352	9,799	146,370	604,463	-	34,884
Over 3 years and upto 5 years	-	3,342	5	65,156	440,890	7	50,930
Over 5 years	-	65,238	-	451,424	1,652,504	36,682	154,621
Total	**32,360**	**409,642**	**84,101**	**1,382,374**	**3,543,279**	**36,689**	**404,730**

* Intra-group adjustments are excluded
# including money at call and short notice

Movement of NPAs(including NPIs) as on 31st December 2016

(₹ in millions)

	Particulars	Amount
A.	**Amount of NPAs (Gross)**	**204,668**
	- Substandard	66,599
	- Doubtful 1	34,281
	- Doubtful 2	46,392
	- Doubtful 3	3,860
	- Loss	53,536
B.	**Net NPAs**	**82,950**
C.	**NPA Ratios**	
	- Gross NPAs (including NPIs) to gross advances (%)	5.60%
	- Net NPAs (including NPIs) to net advances (%)	2.34%
D.	**Movement of NPAs (Gross)**	
	- Opening balance as on 1st April 2016	60,875
	- Additions	169,704
	- Reductions	(25,911)
	- Closing balance as on 31st December 2016	204,668

Movement of Specific & General Provision as on 31st December 2016

(₹ in millions)

Movement of Provisions	Specific Provisions	General Provisions
- Opening balance as on 1st April 2016	36,000	21,492
- Provision made in 2016-17#	90,370	1,517
- Write-offs	(7,106)	-
- Write-back of excess provision	(474)	-
- Closing balance as on 31st December 2016	118,791	23,009

includes effect of exchange rate fluctuation of ₹ 390 million in specific provisions and ₹ 63 million in general provisions.

Details of write-offs and recoveries that have been booked directly to the income statement – for the nine months ending 31st December 2016

(₹ in millions)

Write-offs that have been booked directly to the income statement	1,557
Recoveries that have been booked directly to the income statement	1,445

NPIs and Movement of Provision for Depreciation on Investments as on 31st December 2016

(₹ in millions)

		Amount
A.	Amount of Non-Performing Investments	12,370
B.	Amount of Provision held for Non-performing investments	9,854
C.	Movement of provision for depreciation on investments	
	- Opening balance as on 1st April 2016	2,226
	- Provision made in 2016-17	280
	- Write-offs/Write-back of excess provision	(832)
	- Closing balance as on 31st December 2016	1,674

Breakup of NPA by major industries as on 31st December 2016

(₹ in millions)

	Amount	
Particulars	Gross NPA	Specific Provision
Iron and Steel	32,086	10,102
Infrastructure (excluding Power)	26,243	12,758
Professional services	17,038	12,702
Commercial real estate	11,694	7,697
Trade	8,183	4,876
Power Generation & Distribution	7,527	2,507
Engineering	6,631	4,877
Chemicals and chemical products	4,243	1,949
Other metal and metal products	3,535	1,395
Food Processing	2,758	1,310
Banking and Finance	1,873	1,820
Petroleum coal products and nuclear fuels	905	335
Construction	456	178
Retail, Agri & Other Industries	81,496	56,285
Total	**204,668**	**118,791**

Note:- Specific provisions include NPA and restructured provisions

General provision in Top 5 industries amounts to ₹ 5,430 million.

Major Industries breakup of specific provision and write-off's for the quarter ending 31st December 2016

(₹ in millions)

Industry	**Provision**	**Write-offs**
Specific Provision in Top 5 industries	7,899	671

Geography wise Distribution of NPA and Provision as on 31st December 2016

(₹ in millions)

Geography	**Gross NPA**	**Specific Provision**	**General Provision**
Domestic	164,122	90,240	19,002
Overseas	40,546	28,551	4,007
Total	**204,668**	**118,791**	**23,009**

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 (ECAIs) 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 as on 31st December 2016

(₹ in millions)

	Amount
Below 100% risk weight	4,231,086
100% risk weight	1,353,810
More than 100% risk weight	936,541
Deduction from capital funds	-

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IV. LEVERAGE RATIO

The leverage ratio has been calculated using the definitions of capital and total exposure. The Bank's leverage ratio, calculated in accordance with the RBI guidelines under consolidated framework is as follows:

(₹ in millions)

Tier 1 Capital	554,907
Exposure Measure	6,792,021
Leverage Ratio	8.17%