AXIS BANK

DISCLOSURES UNDER BASEL III CAPITAL REGULATIONS (CONSOLIDATED)
FOR THE QUARTER ENDED 31ST DECEMBER 2017

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 2017 is 10.25% with minimum Common Equity Tier 1 (CET1) of 6.75% (including CCB of 1.25%)

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 2017 is presented below:

(₹ in millions)

Capital Requirements for various Risks	Amount
CREDIT RISK	
Capital requirements for Credit Risk	
- Portfolios subject to standardized approach	380,123
- Securitisation exposures	-
MARKET RISK	
Capital requirements for Market Risk	
- Standardised duration approach	37,771
- Interest rate risk	25,626
- Foreign exchange risk (including gold)	683
- Equity risk	11,462
OPERATIONAL RISK	
Capital requirements for Operational risk	
- Basic indicator approach	44,266

Capital requirement has been computed at 9% of RWA

Capital Adequacy Ratios	Consolidated	Standalone
Common Equity Tier – 1 CRAR	12.34%	12.23%
Tier – 1 CRAR	13.70%	13.63%
Total CRAR	17.49%	17.50%

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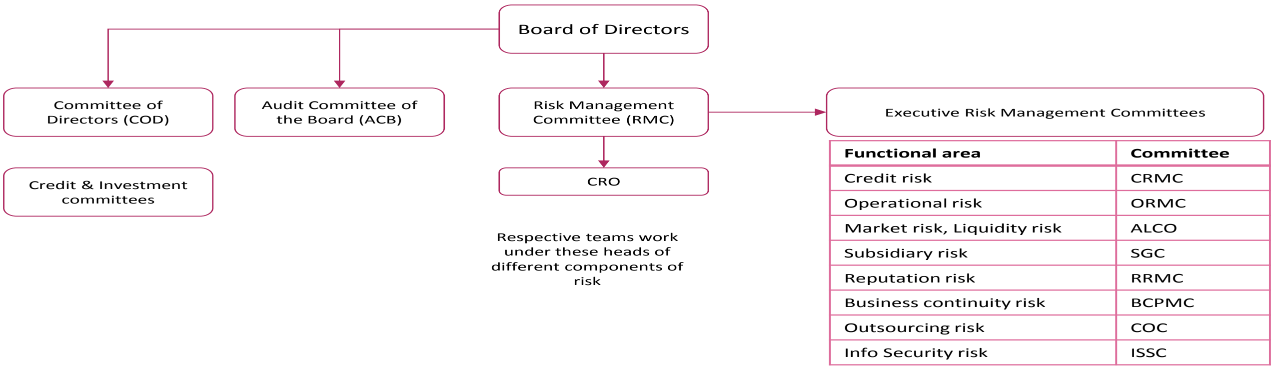
III. RISK MANAGEMENT: OBJECTIVES AND ORGANISATION STRUCTURE

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:



Functional area	Committee
Credit risk	CRMC
Operational risk	ORMC
Market risk, Liquidity risk	ALCO
Subsidiary risk	SGC
Reputation risk	RRMC
Business continuity risk	BCPMC
Outsourcing risk	COC
Info Security risk	ISSC

The Bank has put in place policies relating to management of credit risk, market risk, operational risk, information security 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. 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 and Information Security Risk. These teams report to the Chief Risk Officer.

IV. 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 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 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 periodic 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) commands a major share of the Consumer Lending Portfolio, as the Bank continues to grow the unsecured lending book (personal loans and credit card business) albeit with prudent underwriting practice. 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.

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 2017

(₹ in millions)

	Domestic (Outstanding)	**Overseas (Outstanding)**	**Total**
Fund Based	5,497,892	648,255	6,146,147
Non Fund Based *	1,142,878	86,975	1,229,853
Total	6,640,770	735,230	7,376,000

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

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Distribution of Credit Risk Exposure by Industry Sector – Position as on 31st December 2017

(₹ in millions)

Industry Classification	**Amount**	
	Fund Based (Outstanding)	**Non-Fund Based (Outstanding)**
Banking and Finance*	506,550	174,745
Infrastructure (excluding Power)	170,817	2,22,054
-of which Roads and Ports	59,974	30,750
-of which Telecommunications	44,495	92,745
Trade	217,412	49,427
Chemicals and Chemical products	150,056	149,425
-of which Petro Chemicals	9,291	86,427
-of which Drugs and Pharmaceuticals	73,384	14,370
Engineering	86,330	196,476
Power Generation & Distribution	192,419	54,660
Commercial real estate	146,223	13,492
Iron and Steel	109,594	40,711
Metal and Metal Products	119,354	29,120
NBFCs	110,858	19,576
Cement and Cement Products	100,049	19,478
Petroleum, Coal Products and Nuclear Fuels	50,496	39,846
Construction	29,490	44,887
Food Processing	63,665	5,240
Professional Services	53,170	2,371
Computer Software	32,433	15,449
Mining and Quarrying (incl. Coal)	39,429	3,412
Vehicles, Vehicle Parts and Transport Equipment	35,043	5,983
Rubber, Plastic and their Products	31,371	8,033
Cotton Textiles	34,064	2,534
Other Textiles	29,888	3,219
Shipping Transportation & Logistics	28,176	4,084
Entertainment & Media	20,654	9,938
Gems and Jewellery	19,952	5,703
Edibile oils and Vanaspati	8,977	14,728
Other Industries	242,489	71,369
Residual Exposures	3,517,188	23,893
- of which Other Assets	342,631	-
- of which Banking Book Investments	870,510	-
- of which Retail, Agriculture & Others	2,304,047	23,894
Total	**6,146,147**	**1,229,853**

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

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As on 31st December 2017, 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	9%
2.	Infrastructure (Excluding Power)	5%

Residual Contractual Maturity Breakdown of Assets – Position as on 31st December 2017(1)

(₹ in millions)

Maturity Bucket	Cash	Balances with RBI	Balances with other banks(2)	Investments	Advances	Fixed Assets	Other assets
1day	43,846	-	25,052	335,528	31,247	-	3,747
2 to 7 days	-	3,425	13,217	47,136	61,521	-	20,713
8 to 14 days	-	7,986	760	39,274	28,676	-	17,237
15 to 30 days	-	6,654	4,867	41,230	149,298	-	46,792
31 days to 2 months	-	7,798	3,692	56,294	89,969	-	4,447
Over 2 months and upto3 months	-	6,260	10,154	50,395	133,953	-	2,894
Over 3 months and upto 6 months	-	12,357	2,835	63,085	168,994	-	33,242
Over 6 months and upto 12 months	-	22,227	20,658	101,775	277,899	-	70,896
Over 1 year and upto 3 years	-	21,123	295	169,862	725,595	84	50,879
Over 3 years and upto 5 years	-	6,015	5	107,835	604,223	8	59,984
Over 5 years	-	76,383	8	426,095	2,053,297	40,021	185,817
Total	**43,846**	**170,227**	**81,543**	**1,438,508**	**4,324,673**	**40,113**	**496,739**

1. Intra-group adjustments are excluded
2. Including money at call and short notice

Movement of NPAs (including NPIs) – Position as on 31st December 2017

(₹ in millions)

	Particulars	Amount
A.	**Amount of NPAs (Gross)**	**250,005**
	- Substandard	63,882
	- Doubtful 1	91,205
	- Doubtful 2	63,330
	- Doubtful 3	8,147
	- Loss	23,441
B.	**Net NPAs**	**117,695**
C.	**NPA Ratios**	
	- Gross NPAs (including NPIs) to gross advances (%)	5.64%
	- Net NPAs (including NPIs) to net advances (%)	2.73%
D.	**Movement of NPAs (Gross)**	
	- Opening balance as on 1st April 2017	212,805
	- Additions	168,834

	Particulars	Amount
	- Reductions	(131,634)
	- Closing balance as on 31st December 2017	250,005

Movement of Specific & General Provision – Position as on 31st December 2017

(₹ in millions)

Movement of Provisions	Specific Provisions	General Provisions
- Opening balance as on 1st April 2017	122,981	24,893
- Provision made in 2017-18(1)(2)	85,541	798
- Write-offs	(78,183)	-
- Write-back of excess provision	(127)	-
- Closing balance as on 31st December 2017	130,212	25,691

1. Includes impact of specific provision of ₹ 227 million on account of exchange rate fluctuation
2. Includes release in exchange rate fluctuation of ₹ 43 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 2017

(₹ in millions)

Write-offs that have been booked directly to the income statement	1,619
Recoveries that have been booked directly to the income statement	1,228

NPIs and Movement of Provision for Depreciation on Investments – Position as on 31th December 2017

(₹ in millions)

		Amount
A.	Amount of Non-Performing Investments	23,380
B.	Amount of Provision held for Non-performing investments	17,260
C.	Movement of provision for depreciation on investments	
	- Opening balance as on 1st April 2017	4,099
	- Provision made in 2017-18	1,277
	- Write-offs/Write-back of excess provision	(815)
	- Closing balance as on 31st December 2017	4,561

Breakup of NPA by major industries– Position as on 31st December 2017

(₹ in millions)

	Amount	
Particulars	**GROSS NPA**	**Specific Provision**
Iron and Steel	37,887	19,735
Infrastructure (excluding Power)	33,518	15,070
-of which Roads and ports	4,381	2,348
-of which Telecommunications	600	627
Power Generation & Distribution	32,177	13,639
Commercial real estate	14,357	8,273
Engineering	10,604	6,383
Trade	8,870	4,420
Food Processing	6,572	4,329
Chemicals and chemical products	8,004	3,519
Cement and Cement Products	4,368	3,350
Professional services	4,554	3,267

Particulars	Amount	
	GROSS NPA	Specific Provision
Banking and Finance	2,301	2,199
Construction	2,073	1,593
Petroleum coal products and nuclear fuels	1,534	867
Other metal and metal products	682	211
Retail, Agri & Other Industries	82,504	43,355
Total	**250,005**	**130,212**

Note: Specific provisions include NPA and restructured provisions

General provision in Top 5 industries amounts to ₹ 5,691million.

Major industries breakup of specific provision and write-off's during the current period – for the quarter ending 31st December 2017

(₹ in millions)

Industry	Provision	Write-offs
Specific Provision in Top 5 industries	9,569	2,626

Geography wise Distribution of NPA and Provision – Position as on 31st December 2017

(₹ in millions)

Geography	Gross NPA	Specific Provision	General Provision
Domestic	213,004	108,905	21,560
Overseas	37,001	21,272	4,131
Total	**250,005**	**130,212**	**25,691**

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 rating is 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 uses 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 used where 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 are directly used to assign risk-weight to all 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 2017

(₹ in millions)

	Amount
Below 100% risk weight	4,789,802
100% risk weight	1,451,819
More than 100% risk weight	1,134,380
Deduction from capital funds	-

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	703,503
Exposure Measure	7,699,274
Leverage Ratio	9.14%