AXIS BANK

DISCLOSURES UNDER BASEL III CAPITAL REGULATIONS (CONSOLIDATED) FOR THE QUARTER ENDED 31st DECEMBER 2015

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 2015 is 9% with minimum Common Equity Tier 1 (CET1) of 5.5%.

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 2015 is presented below:

(₹ in millions)

Capital Requirements for various Risks	Amount
CREDIT RISK	
Capital requirements for Credit Risk	
- Portfolios subject to standardised approach	291,215
- Securitisation exposures	-
MARKET RISK	
Capital requirements for Market Risk	
- Standardised duration approach	30,276
- Interest rate risk	26,858
- Foreign exchange risk (including gold)	1,342
- Equity risk	2,076
OPERATIONAL RISK	
Capital requirements for Operational risk	
- Basic indicator approach	32,874

Capital Adequacy Ratios	Consolidated	Standalone
Common Equity Tier – 1 CRAR	10.89%	10.78%
Tier – 1 CRAR	10.89%	10.78%
Total CRAR	**14.05%**	**13.90%**

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

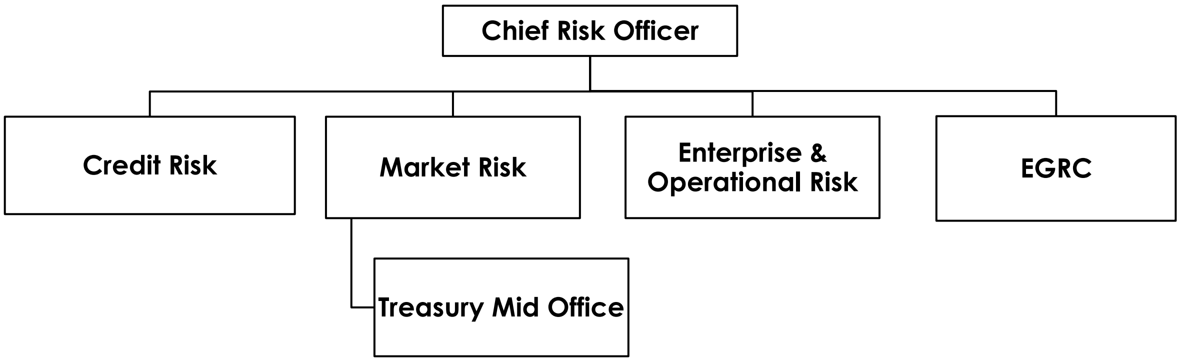
The Bank's risk management processes are guided by well-defined policies appropriate for various risk categories, independent risk oversight and periodic monitoring through the sub-committees of the Board of Directors. The Board sets the overall risk appetite and philosophy for the Bank. The Committee 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 the Risk Management Committee of the Board oversees the functioning of the Department. The Department has four separate teams for Credit Risk, Market Risk (including Treasury Mid Office), Enterprise and Operational Risk 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, 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 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.

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.

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, 2015

(₹ in millions)

	Domestic (Outstanding)	Overseas (Outstanding)	Total
Fund Based	3,954,906	598,999	**4,553,905**
Non Fund Based *	887,639	104,338	**991,977**
Total	**4,842,545**	**703,337**	**5,545,882**

* 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, 2015

(₹ in millions)

Industry Classification	Amount	
	Fund Based (Outstanding)	Non-Fund Based (Outstanding)
Banking and Finance	403,319	117,133
Beverage and Tobacco	6,596	9,416
Cement and Cement Products	43,663	6,212
Chemicals and Chemical products	104,146	105,192
- of which Petro Chemicals	7,169	67,263
- of which Drugs and Pharmaceuticals	54,755	6,096
Commercial Real Estate	127,780	15,727
Computer Software	22,265	20,619
Construction	24,722	35,294
Cotton Textiles	51,910	1,927
Edible Oils and Vanaspati	6,348	14,972
Engineering	74,805	142,039
- of which Electronics	9,600	1,196
Entertainment & Media	16,093	11,679
Food Processing	72,318	2,816
Gems and Jewellery	18,134	2,257
Glass and Glassware	3,773	3,002
Infrastructure (excluding Power)	251,612	150,801
- of which Roads and ports	94,596	11,591
- of which Telecommunications	34,769	48,052
Iron and Steel	109,153	29,220
Jute Textiles	221	21
Leather and Leather Products	2,113	167
Metal and Metal products	78,935	26,814
Mining and Quarrying (incl. Coal)	30,173	3,282
NBFCs	46,890	11,079
Other Textiles	19,579	2,800
Paper and Paper Products	24,897	6,457

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(₹ in millions)

Industry Classification	Amount	
	Fund Based (Outstanding)	Non-Fund Based (Outstanding)
Petroleum Coal Products and Nuclear fuels	36,144	18,672
Power Generation & Distribution	203,901	57,072
Professional services	61,071	3,451
Rubber Plastic and their products	18,805	3,419
Shipping Transportation & Logistics	34,783	3,898
Sugar	5,949	4,665
Tea	7,087	667
Trade	154,276	70,797
Vehicles, Vehicle Parts and Transport Equipments	28,385	4,282
Wood and Wood products	3,121	1,361
Other Industries	155,810	51,543
Residual Exposures	2,305,128	53,224
- of which Other Assets	140,674	-
- of which Banking Book Investments	679,844	-
- of which Retail, Agriculture & Others	1,484,610	53,224
Total	**4,553,905**	**991,977**

As on 31st December 2015, 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	7%

Residual Contractual Maturity Breakdown of Assets – Position as on 31st December 2015*

(₹ in millions)

Maturity Bucket	Cash	Balances with RBI	Balances with other banks#	Investments	Advances	Fixed Assets	Other assets
1day	31,813	10,766	102,810	146,834	35,798	-	3,546
2 to 7 days	-	-	10,255	18,499	22,424	-	14,391
8 to 14 days	-	4,050	8,561	27,867	25,779	-	15,654
15 to 28 days	-	5,313	7,724	36,777	49,906	-	36,245
29 days to 3 months	-	12,859	12,376	97,324	242,315	-	25,380
Over 3 months and upto 6 months	-	11,282	9,180	65,757	145,454	104	7,052
Over 6 months and upto 12 months	-	22,815	9,398	139,607	222,511	-	45,585
Over 1 year and upto 3 years	-	19,673	3,341	167,659	587,652	7	25,674

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(₹ in millions)

Maturity Bucket	Cash	Balances with RBI	Balances with other banks#	Investments	Advances	Fixed Assets	Other assets
Over 3 years and upto 5 years	-	5,993	-	79,879	397,692	-	36,907
Over 5 years	-	49,943	-	389,681	1,473,075	26,562	95,764
Total	**31,813**	**142,694**	**163,645**	**1,169,884**	**3,202,606**	**26,673**	**306,198**

* 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 2015

(₹ in millions)

	Particulars	Amount
A.	**Amount of NPAs (Gross)***	57,241
	- Substandard	12,300
	- Doubtful 1	14,538
	- Doubtful 2	19,557
	- Doubtful 3	569
	- Loss	10,277
B.	**Net NPAs**	25,141
C.	**NPA Ratios**	
	- Gross NPAs (including NPIs) to gross advances (%)	1.77%
	- Net NPAs (including NPIs) to net advances (%)	0.79%
D.	**Movement of NPAs (Gross)**	
	- Opening balance as on 1st April 2015	41,102
	- Additions	58,711
	- Reductions	(42,572)
	- Closing balance as on 31st December 2015	57,241

***** includes ₹ 352 Million outstanding under application money classified as non-performing asset.

Movement of Specific & General Provision – Position as on 31st December 2015

(₹ in millions)

Movement of Provisions	Specific Provisions	General Provisions
- Opening balance as on 1st April 2015	30,358	17,347
- Provision made in 2015-16#	23,883	1,526
- Write–offs	(20,550)	-
- Write–back of excess provision	(794)	-
- Closing balance as on 31st December 2015	32,897	18,873

includes effect of exchange rate fluctuation of ₹ 113 Million in specific provisions and ₹ 164 Million in general provisions.

Details of write offs and recoveries that have been booked directly to the income statement – Position as on 31st December 2015

(₹ in millions)

Write offs that have been booked directly to the income statement	249
Recoveries that have been booked directly to the income statement	779

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NPIs and Movement of Provision for Depreciation on Investments – Position as on 31st December 2015

(₹ in millions)

		Amount
A.	Amount of Non-Performing Investments	2,368
	Amount of Non-Performing Investments- Others*	352
B.	Amount of Provision held for Non- performing investments	2,337
	Amount of Provision held for Non- performing investments- Others*	141
C.	Movement of provision for depreciation on investments	
	- Opening balance as on 1st April 2015	723
	- Provision made in 2015-16	1,069
	- Write – offs/Write – back of excess provision	(233)
	- Closing balance as on 31st December 2015	1,559

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

Major Industries breakup of NPA – Position as on 31st December 2015

(₹ in millions)

Industry	Gross NPA
NPA in Top 5 Industries	21,035

Major Industries breakup of Provision – Position as on 31st December 2015

(₹ in millions)

Industry	Specific Provision	General Provision
Provision in Top 5 industries	11,216	4,554

Major Industries breakup of specific provision and write-off's during the current period – For quarter ended 31st December 2015

(₹ in millions)

Industry	Provision	Write-offs
Specific Provision in Top 5 industries	3,739	25

Geography wise Distribution of NPA and Provision – Position as on 31st December 2015

(₹ in millions)

Geography	Gross NPA	Specific Provision	General Provision
Domestic	52,629	30,775	15,768
Overseas	4,612	2,122	3,105
Total	**57,241**	**32,897**	**18,873**

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 – Position as on 31st December 2015

(₹ in millions)

	Amount
Below 100% risk weight	3,360,552
100% risk weight	1,437,674
More than 100% risk weight	747,656
Deduction from capital funds	-

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	428,715
Exposure Measure	5,907,211
Leverage Ratio	7.26%