AXIS BANK

DISCLOSURES UNDER BASEL III CAPITAL REGULATIONS
FOR THE QUARTER ENDED 31ST DECEMBER 2013

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 2018. These guidelines on Basel III are to be implemented beginning 1st April 2013 in a phased manner, the minimum capital required to be maintained by the Bank for the quarter ended 31st December 2013 is 9% with minimum Common Equity Tier 1 (CET1) of 4.5%.

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 2013 is presented below.

(₹ in millions)

Capital Requirements for various Risks	Amount
CREDIT RISK	
Capital requirements for Credit Risk	
- Portfolios subject to standardised approach	206,712
- Securitisation exposures	-
MARKET RISK	
Capital requirements for Market Risk	
- Standardised duration approach	18,622
- Interest rate risk	16,622
- Foreign exchange risk (including gold)	297
- Equity risk	1,703
OPERATIONAL RISK	
Capital requirements for Operational risk	
- Basic indicator approach	20,004

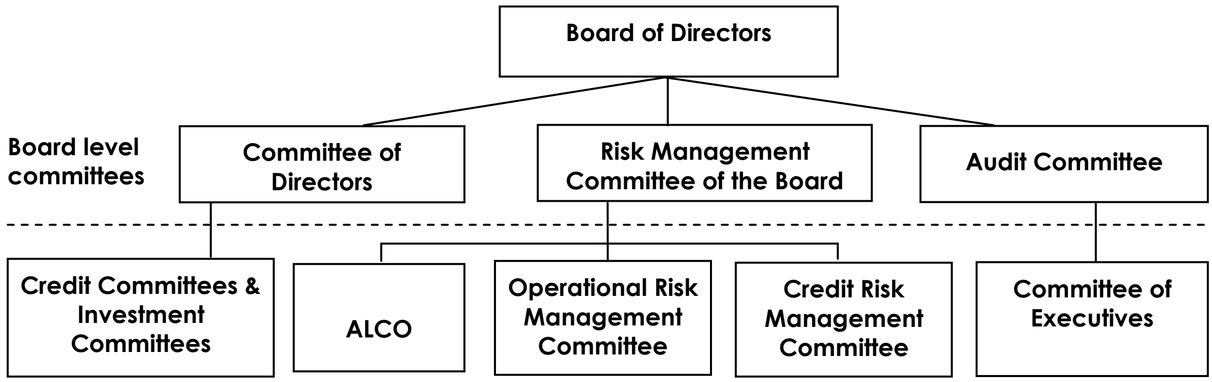
Capital Adequacy Ratios	Axis Bank Group (Consolidated)	Axis Bank Group (Standalone)
Common Equity Tier – 1 CRAR	11.61%	11.49%
Tier – 1 CRAR	11.61%	11.49%
Total CRAR	15.76%	15.50%

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. The Bank's risk governance architecture focuses attention on key areas of risk such as credit, market and operational risk and quantification of these risks wherever possible for effective and continuous monitoring.

Objectives and Policies

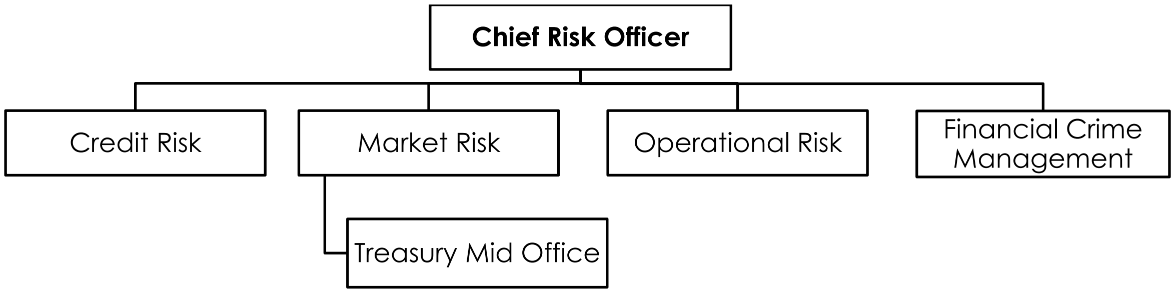
The Bank's risk management processes are guided by well-defined policies appropriate for various risk categories, independent risk oversight and periodic monitoring through the sub-committees of the Board of Directors. The Board sets the overall risk appetite and philosophy for the Bank. The Committee 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.

Structure and Organisation

The Risk Department reports to the Executive Director and Head (Corporate Centre) 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, Operational Risk and Financial Crime Management Unit (FCMU) 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, 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 inputs 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.

Delegation of sanctioning powers is based on the size and rating of the exposures. The Bank has put in place the following hierarchical committee structure for credit sanction and review:

- Retail Agriculture Credit Committee (RACC)
- Central Agriculture Business Credit Committee (CABCC)
- Regional Credit Committee (RCC)
- Central Office Credit Committee (COCC)
- Committee of Executives (COE)
- Senior Management Committee (SMC)
- Committee of Directors (COD), 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. The Bank periodically monitors its portfolios for any lead indicators of stress which includes potential delinquencies, external rating downgrades and credit concentration. 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.

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 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;

1. interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan;
2. the account remains 'out-of-order'' for a period of more than 90 days in respect of an Overdraft or Cash Credit (OD/CC);
3. the bill remains overdue for a period of more than 90 days in case of bills purchased and discounted;
4. 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; and
5. 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.
6. 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.
7. 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.

AXIS BANK

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 2013

(₹ in millions)

	Domestic (Outstanding)	Overseas (Outstanding)	Total
Fund Based	2,747,338	466,870	**3,214,208**
Non Fund Based *	781,617	120,937	**902,554**
Total	**3,528,955**	**587,807**	**4,116,762**

* 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 2013

Industry Classification	Amount (₹ in millions)	
	Fund Based (Outstanding)	Non-Fund Based (Outstanding)
Banking and Finance	183,882	57,270
Beverage and Tobacco	5,927	405
Cement and Cement Products	23,912	6,901
Chemicals and chemical products	66,854	73,182
- of which Petro Chemicals	9,940	32,896
- of which Drugs and Pharmaceuticals	24,180	8,430
Commercial real estate	79,372	11,984
Computer Software	26,357	14,230
Construction	15,909	27,118
Cotton Textiles	28,154	2,001
Edible Oils and Vanaspati	6,864	19,474
Engineering	61,911	100,562
- of which Electronics	4,076	741
Entertainment & Media	11,794	18,879
Food Processing	69,924	1,127
Gems and Jewellery	14,879	1,898
Glass and Glass ware	5,285	2,619
Infrastructure (excluding Power)	180,245	128,250
- of which Roads and ports	72,194	16,778
- of which Telecommunications	31,103	25,627
Iron and Steel	69,603	47,478
Jute Textiles	172	8
Leather and Leather Products	1,279	134

Metal and metal products	27,471	18,319
Mining and quarrying (incl. Coal)	22,438	4,464
NBFCs	23,161	14,391
Paper and Paper Products	9,831	3,127
Petroleum coal products and Nuclear fuels	15,217	34,118
Power Generation & Distribution	118,370	131,743
Professional services	39,461	11,799
Rubber Plastic and their products	9,909	1,513
Shipping Transportation & Logistics	37,577	10,941
Sugar	7,975	2,087
Tea	4,108	863
Textiles	18,658	3,484
Trade	118,392	53,952
Vehicles Vehicle parts and transport equipments	27,602	5,173
Wood and wood products	4,313	1,490
Other Exposures	1,877,402	91,570
Total	**3,214,208**	**902,554**

As on 31st December 2013, the Bank's exposure to the industries stated below was more than 5% of the total gross credit exposure:

Sr. No.	Industry Classification	Percentage of the total gross credit exposure
1.	Infrastructure	7%
2.	Power Generation & Distribution	6%
3.	Banking & Finance	6%

Residual Contractual Maturity breakdown of Assets – Position as on 31st December 2013

(₹ in millions)

Maturity Bucket	Cash	Balances with RBI	Balances with other banks*	Investments	Advances	Fixed Assets	Other assets
1day	37,849	30,621	26,981	148,124	38,830	-	2,792
2 to 7 days	-		18,701	11,951	10,736	-	10,974
8 to 14 days	-	2,750	1,436	25,252	4,247	-	12,710
15 to 28 days	-	3,486	5,985	28,452	16,696	-	25,044
29 days to 3 months	-	8,698	13,511	68,221	99,225	-	1,050
Over 3 months and upto 6 months	-	7,720	1,814	53,697	71,590	-	6,940
Over 6 months and upto 12 months	-	16,397	9,013	143,429	119,963	-	5,201
Over 1 year and upto 3 years	-	12,337	-	183,705	523,507	-	1,554

Maturity Bucket	Cash	Balances with RBI	Balances with other banks*	Investments	Advances	Fixed Assets	Other assets
Over 3 years and upto 5 years	-	7,341	3,234	94,358	267,387	-	-
Over 5 years	-	36,286	-	361,970	980,839	23,920	33,137
Total	**37,849**	**125,636**	**80,675**	**1,119,159**	**2,133,020**	**23,920**	**99,402**

* including money at call and short notice

Movement of NPAs and Provision for NPAs (including NPIs) – Position as on 31st December 2013

(₹ in millions)

	Particulars	NPA
A.	**Amount of NPAs (Gross)***	30,082
	- Substandard	10,721
	- Doubtful 1	5,673
	- Doubtful 2	1,421
	- Doubtful 3	685
	- Loss	11,582
B.	**Net NPAs**	10,034
C.	**NPA Ratios**	
	- Gross NPAs (including NPIs) to gross advances (%)	1.40%
	- Net NPAs (including NPIs) to net advances (%)	0.47%
D.	**Movement of NPAs (Gross)**	
	- Opening balance as on 1st April 2013	23,934
	- Additions	22,462
	- Reductions	16,314
	- Closing balance as on 31st December 2013	30,082
E.	**Movement of Provision for NPAs**	
	- Opening balance as on 1st April 2013	16,560
	- Provision made in 2013-14	11,601
	- Transfer of restructuring provision	539
	- Write–offs / Write–back of excess provision	8,971
	- Closing balance as on 31st December 2013	19,729

* includes ₹14 Million outstanding under application money classified as non-performing asset.

NPIs and Movement of Provision for Depreciation on Investments – Position as on 31st December 2013

(₹ in millions)

		Amount
A.	Amount of Non-Performing Investments	1,490
	Amount of Non-Performing Investments- Others*	14
B.	Amount of Provision held for Non- performing investments	1,212
	Amount of Provision held for Non- performing investments- Others*	13
C.	Movement of provision for depreciation on investments	
	- Opening balance as on 1st April 2013	2,236
	- Provision made in 2013-14	(149)
	- Write – offs	-
	- Write – back of excess provision	-
	- Closing balance as on 31st December 2013	2,087

* 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 (ECAIs) namely Brickworks, CARE, CRISIL, ICRA, India Ratings and SMERA or 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 2013

(₹ in millions)

	Amount
Below 100% risk weight	2,552,366
100% risk weight	1,169,571
More than 100% risk weight	394,825
Deduction from capital funds	
- Investments in subsidiaries	-