AXIS BANK

DISCLOSURES UNDER BASEL III CAPITAL REGULATIONS (CONSOLIDATED)
FOR THE QUARTER ENDED 30th JUNE 2019

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 2020. 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 year ended 30th June 2019 is 10.875% with minimum Common Equity Tier 1 (CET1) of 7.375% (including CCB of 1.875%)

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 30th June 2019 is presented below:

(₹ in millions)

Capital Requirements for various Risks	Amount
CREDIT RISK	
Capital requirements for Credit Risk	
- Portfolios subject to standardized approach	445,819
- Securitisation exposures	-
MARKET RISK	
Capital requirements for Market Risk	
- Standardised duration approach	33,725
- Interest rate risk	25,487
- Foreign exchange risk (including gold)	1,163
- Equity risk	7,075
OPERATIONAL RISK	
Capital requirements for Operational risk	
- Basic indicator approach	52,775

Note:- Capital requirement has been computed at 9% of RWA

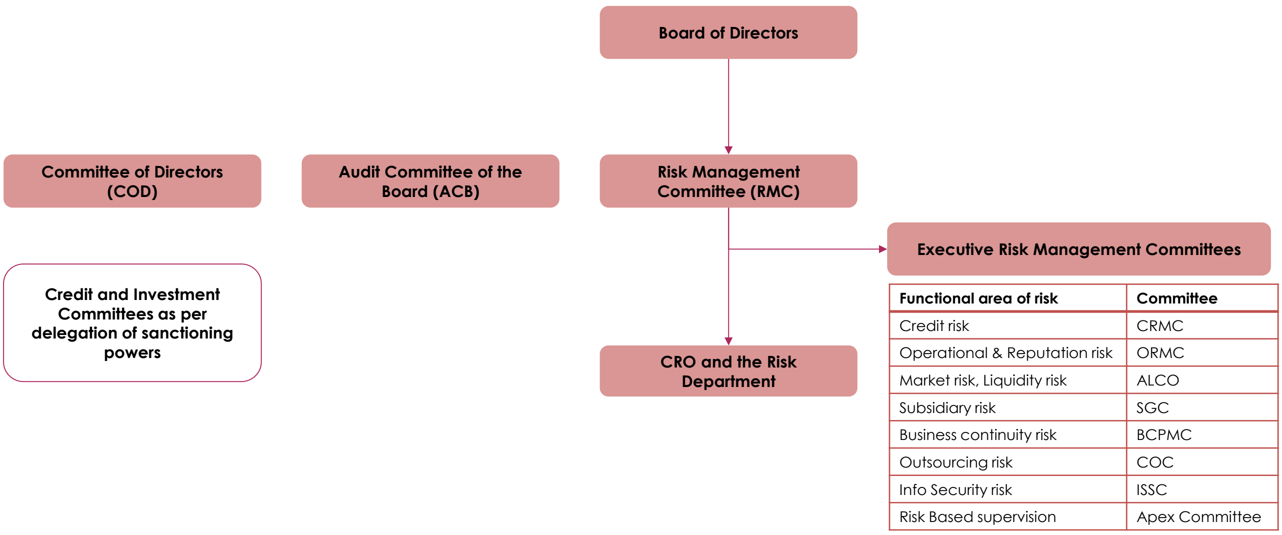
Capital Adequacy Ratios	Consolidated	Standalone
Common Equity Tier – 1 CRAR	11.61%	11.44%
Tier – 1 CRAR	12.79%	12.66%
Total CRAR	15.86%	15.82%

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:



Functional area of risk	Committee
Credit risk	CRMC
Operational & Reputation risk	ORMC
Market risk, Liquidity risk	ALCO
Subsidiary risk	SGC
Business continuity risk	BCPMC
Outsourcing risk	COC
Info Security risk	ISSC
Risk Based supervision	Apex Committee

The Bank has put in place policies relating to management of various kinds of risk (eg: credit risk, market risk, operational risk, information security risk, reputation risk, subsidiary risk and asset-liability) 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.

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.

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 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.
- 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.
- In addition, an account may also be classified as NPA due to temporary deficiencies
    a. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular. A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.
    b. An account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.
- Further, the account may also be classified as NPA due to DCCO criteria as per para 4.2.15 Projects under implementation of Master circular on IRAC dated July 01, 2015.

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 a period of 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

Impairment of other assets

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 30th June 2019

(₹ in millions)

	Domestic (Outstanding)	Overseas (Outstanding)	Total
Fund Based	6,905,056	455,973	**7,361,029**
Non Fund Based *	1,126,824	37,835	**1,164,659**
Total	**8,031,880**	**493,808**	**8,525,688**

* Non-fund based exposures are bank guarantees issued on behalf of constituents and acceptances and endorsements and other items for which the Bank is contingently liable.

Distribution of Credit Risk Exposure by Industry Sector – Position as on 30th June 2019

(₹ in millions)

Industry Classification	Amount	
	Fund Based (Outstanding)	Non-Fund Based (Outstanding)
Banking and Finance	600,125	134,325
-of which Housing Finance Companies	112,599	146
Infrastructure (excluding Power)	251,948	174,118
-of which Roads and ports	93,059	31,744
-of which Telecommunications	77,077	52,429
Chemicals and Chemical products	245,882	100,194
-of which Petro Chemicals	71,928	36,195
-of which Drugs and Pharmaceuticals	79,481	10,658
Engineering	108,032	229,377
Trade	235,812	30,605
Power Generation & Distribution	193,101	34,188
Iron and Steel	121,895	80,076
NBFCs	183,297	8,191
Commercial Real Estate	158,886	14,585
Other metal and metal products	116,944	8,389
Petroleum, Coal Products and Nuclear Fuels	37,260	82,323
Food Processing	94,701	8,901
Textiles	86,693	8,788
-of which Cotton Textiles	41,216	3,435
Cement and Cement Products	68,782	17,509
Construction	26,365	45,311
Entertainment & Media	54,975	8,066
Professional Services	58,234	3,402

AXIS BANK

(₹ in millions)

Industry Classification	Amount	
	Fund Based (Outstanding)	Non-Fund Based (Outstanding)
Vehicles, Vehicle Parts and Transport Equipment	50,651	10,147
Rubber, Plastic and their Products	39,076	7,818
Computer Software	27,120	17,801
Mining and Quarrying (incl. Coal)	27,786	4,385
Shipping Transportation & Logistics	23,557	3,059
Edibile oils and Vanaspati	7,380	16,377
Other Industries	372,719	51,779
Residual Exposures	4,169,808	64,945
-of which Other Assets	361,135	40,746
-of which Banking Book Investments	1,050,874	-
*-of which Retail, Agriculture & Others**	2,757,799	24,200
Total	**7,361,029**	**1,164,659**

* includes Cash and Balances with RBI

As on 30th June 2019, 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 30th June 2019(1)

(₹ in millions)

Maturity Bucket	Cash	Balances with RBI	Balances with other banks(2)	Investments	Advances	Fixed Assets	Other assets
1day	54,585	-	54,276	444,312	41,207	-	3,150
2 to 7 days	-	5,398	12,292	54,909	55,926	-	14,765
8 to 14 days	-	8,695	6,105	33,650	42,911	-	15,248
15 to 30 days	-	6,797	2,700	33,666	102,760	-	48,331
31 days to 2 months	-	6,982	3,152	58,525	125,790	-	16,654
Over 2 months and upto3 months	-	4,022	2,861	36,540	127,278	-	14,517
Over 3 months and upto 6 months	-	7,350	4,353	63,310	226,640	-	63,406
Over 6 months and upto 12 months	-	6,932	20,533	121,130	332,850	-	41,483
Over 1 year and				146,454			

AXIS BANK

(₹ in millions)

Maturity Bucket	Cash	Balances with RBI	Balances with other banks(2)	Investments	Advances	Fixed Assets	Other assets
upto 3 years	-	6,332	304		1,052,638	105	108,196
Over 3 years and upto 5 years	-	1,647	-	88,063	614,481	4	68,894
Over 5 years	-	175,541	-	689,790	2,373,870	41,324	207,036
Total	**54,585**	**229,696**	**106,576**	**1,770,349**	**5,096,351**	**41,433**	**601,680**

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

Movement of NPAs (including NPIs) – Position as on 30th June 2019

(₹ in millions)

	Particulars	Amount
A.	**Amount of NPAs (Gross)**	**294,436**
	- Substandard	51,262
	- Doubtful 1	54,934
	- Doubtful 2	135,410
	- Doubtful 3	26,038
	- Loss	26,792
B.	**Net NPAs**	**110,733**
C.	**NPA Ratios**	
	- Gross NPAs (including NPIs) to gross advances (%)	5.61%
	- Net NPAs (including NPIs) to net advances (%)	2.18%
D.	**Movement of NPAs (Gross)**	
	- Opening balance as on 1st April 2019	298,282
	- Additions	47,974
	- Reductions	(51,820)
	- Closing balance as on 30th June 2019	294,436

Movement of Specific & General Provision – Position as on 30th June 2019

(₹ in millions)

Movement of Provisions	Specific Provisions	General Provisions
- Opening balance as on 1st April 2019	183,772	32,109
- Provision made in 2019-20(1)(2)	28,705	-
- Write-offs/Write-back of excess provision	(30,051)	(906)
- Closing balance as on 30th June 2019	1,82,426	31,203

1. Includes release of specific provision of ₹ 35 million on account of exchange rate fluctuation
2. Includes impact in exchange rate fluctuation of ₹ 6 million in general provisions

Details of write-offs and recoveries that have been booked directly to the income statement – for the quarter ending 30th June 2019

(₹ in millions)

Write-offs that have been booked directly to the income statement	297
Recoveries that have been booked directly to the income statement	1,194

AXIS BANK

NPIs and Movement of Provision for Depreciation on Investments – Position as on 30th June 2019

(₹ in millions)

		Amount
A.	Amount of Non-Performing Investments	27,498
B.	Amount of Provision held for Non-performing investments	22,042
C.	Movement of provision for depreciation on investments	
	- Opening balance as on 1st April 2019	5,603
	- Provision made in 2019-20	-
	- Write-offs/Write-back of excess provision	(683)
	- Closing balance as on 30th June 2019	4,920

Breakup of NPA by major industries– Position as on 30th June 2019

(₹ in millions)

	Amount	
Particulars	**Gross NPA**	**Specific Provision**
Power Generation & Distribution	80,811	51,533
Infrastructure (excluding Power)	44,664	31,264
Commercial Real Estate	14,375	5,037
Engineering	12,463	9,251
Iron and Steel	9,223	6,529
Trade	10,281	4,984
Cement and Cement Products	9,338	6,262
Petroleum coal products and Nuclear fuels	7,926	2,148
Food Processing	6,412	3,990
Chemicals and Chemical products	5,729	3,082
Banking and Finance*	622	572
Other metal and metal products	1,810	1,276
Construction	4,555	4,169
Retail, Agri & Other Industries	86,227	52,329
Total	**294,436**	**182,426**

Note: Specific provisions include NPA and restructured provisions

General provision in Top 5 industries amounts to ₹ 8,216 million.

Major industries breakup of specific provision and write-off's during the current period – For the quarter ending 30th June 2019

(₹ in millions)

Industry	Provision	Write-offs
Specific Provision in Top 5 industries	12,921	5,146

Geography wise Distribution of NPA and Provision – Position as on 30th June 2019

(₹ in millions)

Geography	Gross NPA	Specific Provision	General Provision
Domestic	258,992	157,331	26,738
Overseas	35,444	25,095	4,465
Total	**294,436**	**182,426**	**31,203**

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, Acuite Ratings and Infomerics 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, Acuite Ratings and Infomerics 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 30th June 2019

(₹ in millions)

Particulars	Amount
Below 100% risk weight	5,853,205
100% risk weight	1,263,011
More than 100% risk weight	1,398,046
Deduction from capital funds	11,426

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	756,555
Exposure Measure	9,164,238
Leverage Ratio	8.26%