AXIS BANK

DISCLOSURES UNDER BASEL III CAPITAL REGULATIONS (CONSOLIDATED)
FOR THE QUARTER ENDED 31st DECEMBER 2020

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) effective 1st April 2021. 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 2020 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 31st December 2020 is presented below:

(₹ in millions)

Capital Requirements for various Risks	Amount
CREDIT RISK	
Capital requirements for Credit Risk	
- Portfolios subject to standardized approach	4,92,733
- Securitisation exposures	-
MARKET RISK	
Capital requirements for Market Risk	
- Standardised duration approach	22,630
- Interest rate risk	14,002
- Foreign exchange risk (including gold)	1,044
- Equity risk	7,584
OPERATIONAL RISK	
Capital requirements for Operational risk	
- Basic indicator approach	58,845

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

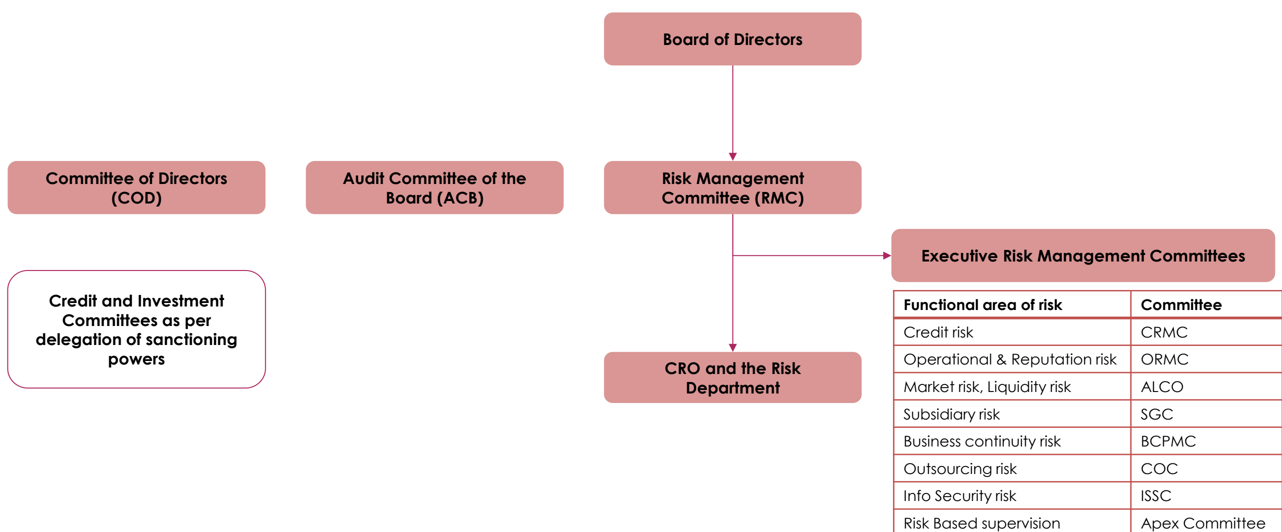
Capital Adequacy Ratios	Consolidated	Standalone
Common Equity Tier – 1 CRAR	14.84%	14.73%
Tier – 1 CRAR	15.93%	15.85%
Total CRAR	18.69%	18.68%

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, 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.

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.
- 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 case of credit card account, if the minimum amount due, as mentioned in the statement, is not paid fully within 90 days from the print (payment) due date mentioned in the statement.
- 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.

Impairment of other assets

The carrying amounts of assets are reviewed at each balance sheet date to ascertain if there is an indication of impairment based on internal/external factors. An impairment loss is recognised

wherever the carrying amount of an asset exceeds the recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use.

CREDIT RISK EXPOSURES

Total Gross Credit Risk Exposure Including Geographic Distribution of Exposure – Position as on 31st December 2020

(₹ in millions)

	Domestic (Outstanding)	Overseas (Outstanding)	Total
Fund Based	87,50,028	5,62,982	93,13,010
Non Fund Based *	12,19,818	22,214	12,42,032
Total	**99,69,846**	**5,85,196**	**1,05,55,042**

* 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 31st December 2020

(₹ in millions)

Industry Classification	Amount	
	Fund Based (Outstanding)	Non-Fund Based (Outstanding)
Banking and Finance	8,58,740	1,44,437
-of which Housing Finance Companies	1,60,872	6,553
Infrastructure (excluding Power)	3,11,016	1,63,099
-of which Roads, ports & airports	1,29,108	23,179
-of which Telecommunications	1,13,384	46,328
Chemicals and Chemical products	2,44,422	1,09,307
-of which Petro Chemicals	55,482	37,554
-of which Drugs and Pharmaceuticals	76,933	14,445
Engineering	1,19,329	2,51,253
Trade	2,47,859	46,934
NBFCs	2,54,695	4,431
Power Generation & Distribution	2,15,145	35,105
Commercial real estate$	2,24,290	10,394
Petroleum, Coal Products and Nuclear Fuels	90,492	1,02,549
Iron and Steel	1,27,140	58,236
Other metal and metal products	1,39,291	19,447
Food Processing	1,11,310	10,645
Textiles	1,01,215	7,798
Vehicles, Vehicle Parts and Transport Equipment	88,730	13,493
Cement and Cement Products	76,234	25,301
Construction$	24,321	43,190
Professional services	62,207	3,266
Rubber, Plastic and their Products	52,298	9,381
Shipping Transportation & Logistics	43,847	7,462
Computer Software	23,644	17,856
Paper and Paper Products	31,095	3,902
Entertainment & Media	24,175	9,653
Edible oils and Vanaspati	12,737	16,938

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(₹ in millions)

Industry Classification	Amount	
	Fund Based (Outstanding)	Non-Fund Based (Outstanding)
Other Industries	2,55,684	47,158
Residual Exposures	55,73,094	80,797
-of which Other Assets	4,14,659	43,136
-of which Banking Book Investments	14,21,648	-
-of which Retail, Agriculture & Others*	37,36,787	37,661
Total	**93,13,010**	**12,42,032**

* includes Cash and Balances with RBI

$ includes LRD balance of ₹ 1,00,474 million

As on 31st December 2020, 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	10%

Residual Contractual Maturity Breakdown of Assets – Position as on 31st December 2020[1]

(₹ in millions)

Maturity Bucket	Cash	Balances with RBI	Balances with other banks[2]	Investments[3]	Advances	Fixed Assets	Other assets
1day	94,594	3,30,000	30,725	4,32,942	39,886	-	2,358
2 to 7 days	-	6,355	93,100	56,177	64,176	-	22,708
8 to 14 days	-	4,377	1,438	31,779	63,723	-	17,095
15 to 30 days	-	6,296	500	45,433	1,52,422	-	65,391
31 days to 2 months	-	7,857	3,003	52,236	1,65,798	-	36,485
Over 2 months and upto 3 months	-	8,506	3,562	60,406	2,31,576	-	21,290
Over 3 months and upto 6 months	-	10,755	1,517	78,543	2,82,774	-	28,682
Over 6 months and upto 12 months	-	17,378	4,105	1,39,823	4,47,931	5	78,657
Over 1 year and upto 3 years	-	14,941	1,451	2,58,767	12,48,138	83	1,73,037
Over 3 years and upto 5 years	-	3,221	-	79,289	7,12,162	-	93,082
Over 5 years	-	1,10,069	-	7,58,884	25,17,562	43,501	2,76,589
Total	**94,594**	**5,19,755**	**1,39,401**	**19,94,279**	**59,26,148**	**43,589**	**8,15,374**

1. Intra-group adjustments are excluded
2. Including money at call and short notice
3. Listed equity shares have been considered at 50% haircut as per RBI regulations

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Movement of NPAs (including NPIs) – Position as on 31st December 2020

(₹ in millions)

	Particulars	Amount
A.	**Amount of NPAs (Gross)**	**2,23,259**
	- Substandard	13,199
	- Doubtful 1	47,535
	- Doubtful 2	44,712
	- Doubtful 3	23,800
	- Loss	94,013
B.	**Net NPAs#**	**47,742**
C.	**NPA Ratios**	
	- Gross NPAs (including NPIs) to gross advances (%)	3.67%
	- Net NPAs (including NPIs) to net advances (%)	0.81%
D.	**Movement of NPAs (Gross)**	
	- Opening balance as on 1st April 2020	3,04,228
	- Additions	33,274
	- Reductions	(1,14,243)
	- Closing balance as on 31st December 2020	**2,23,259**

Net of balance outstanding in interest capitalization-restructured NPA accounts

Movement of Specific & General Provision – Position as on 31st December 2020

(₹ in millions)

Movement of Provisions	Specific Provisions	General Provisions
- Opening balance as on 1st April 2020	2,08,414	47,556
- Provision made in 2020-21 (1)(2)	55,995	26,958
- Write-offs/Write-back of excess provision	(89,711)	-
- Closing balance as on 31st December 2020	**1,74,698**	**74,514**

1. Includes release of specific provision of ₹ 1,102 million on account of exchange rate fluctuation
2. Includes release in exchange rate fluctuation of ₹ 127 million in general provisions

Details of write-offs and recoveries that have been booked directly to the income statement – for the period ending 31st December 2020

(₹ in millions)

Write-offs that have been booked directly to the income statement	2,404
Recoveries that have been booked directly to the income statement	8,853

NPIs and Movement of Provision for Depreciation on Investments – Position as on 31st December 2020

(₹ in millions)

		Amount
A.	Amount of Non-Performing Investments	23,809
B.	Amount of Provision held for Non-performing investments	20,992
C.	Movement of provision for depreciation on investments	
	- Opening balance as on 1st April 2020	6,492
	- Provision made in 2020-21	6,254
	- Write-offs/Write-back of excess provision	(874)
	- Closing balance as on 31st December 2020	11,872

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Breakup of NPA by major industries* – Position as on 31st December 2020

(₹ in millions)

	Amount	
Particulars	**Gross NPA**	**Specific Provision#**
Infrastructure (excluding Power)	28,963	25,470
Power Generation & Distribution	23,474	19,460
Commercial real estate	14,747	9,669
Engineering	14,611	12,613
Trade	12,448	7,506
Chemicals and chemical products	12,328	7,668
Iron and Steel	9,901	9,726
Petroleum, Coal Products and Nuclear Fuels	7,805	3,235
Banking and Finance	1,792	1,792
NBFCs	1,013	1,013
Retail, Agri & Other Industries	96,177	76,546
Total	**2,23,259**	**1,74,698**

* Based on top 10 industry wise gross credit exposure

Specific provisions include NPA and restructured provisions

General provision in Top 5 industries amounts to ₹ 14,105 million.

Major industries breakup of specific provision and write-off's for the period ending 31st December 2020

(₹ in millions)

Industry	**Provision**	**Write-offs**
Specific Provision in Top 5 industries	19,690	25,704

Geography wise Distribution of NPA and Provision – Position as on 31st December 2020

(₹ in millions)

Geography	**Gross NPA**	**Specific Provision**	**General Provision**
Domestic	1,84,672	1,43,082	70,167
Overseas	38,587	31,616	4,347
Total	**2,23,259**	**1,74,698**	**74,514**

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 31st December 2020

(₹ in millions)

Particulars	**Amount**
Below 100% risk weight	75,16,196
100% risk weight	20,34,613
More than 100% risk weight	10,00,930
Deduction from capital funds	3,303

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)

Particulars	**Amount**
Tier 1 capital	10,16,374
Exposure Measure	1,10,37,244
Leverage Ratio	9.21%