



## Kotak Mahindra Bank Limited

### BASEL III (PILLAR 3) DISCLOSURES (CONSOLIDATED) As at 31<sup>st</sup> December, 2015

#### Capital Adequacy

The Group manages its capital position to maintain strong capital ratios well in excess of regulatory and Board Approved minimum capital adequacy at all times. The strong Tier I capital position of the Group is a source of competitive advantage and provides assurance to regulators, credit rating agencies, depositors and shareholders.

In accordance with the RBI guidelines on NCAF (New Capital Adequacy Framework under Basel norms), the Bank adopts the Standardized Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Standardised Duration Approach for Market Risk.

Each legal entity within the group, manages its capital base to support planned business growth and meet regulatory capital requirements. The Bank and each legal entity in the Group are adequately capitalised above existing regulatory requirements.

Capital management practices are designed to maintain a risk reward balance, while ensuring that businesses are adequately capitalised to absorb the impact of stress events.

Basel III Capital regulations are applicable to Banks in India from 1st April, 2013 and will be fully phased in by 31st March, 2019. With a view to strengthen the financial system and improve the shock absorbing capability, going forward, Banks are also expected to hold Capital buffers (Capital conservation buffer, countercyclical capital buffer and additional buffer for Domestic Systemically Important Banks) out of common equity.

Detailed guidelines on Basel III Capital Regulations and Guidelines on Composition of Capital Disclosure Requirements are issued by RBI and consolidated under the Master Circular – Basel III Capital Regulations July 2015.

The transitional arrangements for minimum Basel III capital ratios are given below.

Minimum capital ratios	March 31,2014	March 31,2015	March 31,2016	March 31,2017	March 31,2018	March 31,2019
Minimum Common Equity Tier 1 (CET1)	5.0	5.5	5.5	5.5	5.5	5.5
Maximum Additional Tier 1 capital	1.5	1.5	1.5	1.5	1.5	1.5

Minimum Tier 1 capital	6.5	7.0	7.0	7.0	7.0	7.0
Maximum Tier 2 Capital	2.5	2.0	2.0	2.0	2.0	2.0
Minimum Total Capital*	9.0	9.0	9.0	9.0	9.0	9.0
Capital conservation buffer (CCB)	-	-	0.625	1.25	1.875	2.5
Minimum Total Capital +CCB	9.0	9.0	9.625	10.25	10.875	11.5
Phase-in of all deductions from CET1 (in %) #	40	60	80	100	100	100

### **Approach to Capital Adequacy Assessment to support business activities**

The diversified business activities require the Group to identify, measure, aggregate and manage risks effectively and to allocate capital among its businesses appropriately. The risk management framework lays emphasis on the Group's risk philosophy, proper organisational structure, risk and reward balance and is supported by dedicated monitoring and risk measuring mechanism.

The Risk Appetite is an expression of the risks, the Bank is willing to take in pursuit of its financial and strategic objectives. The Risk Appetite thus sets the outer boundaries for risk taking at the Bank. The Risk Appetite is a top-down process and consists of specific risk appetite statements, which are approved by the Board and reviewed quarterly. Risk Appetite forms a key input to the business and capital planning process by linking risk strategy to the business strategy, through a set of comprehensive indicators.

Risk Appetite at the Bank is defined both quantitatively and qualitatively and covers key risk parameters.

The framework is operational at the consolidated level as well as for key legal entities thereby ensuring that the Group's aggregate risk exposure is within the Group's desired risk bearing capacity.

ICAAP is an assessment of all significant risks (Pillar II and Pillar I risks), to which the Group is exposed. As part of this process, the Group identifies risks to which it is exposed, in order to assess its risk profile. Once the risks are identified, the Group determines the method and extent of risk mitigation. Risk mitigation takes place through strengthening policies, procedures, improving risk controls and having suitable contingency plans. Finally, the Group determines the risks that will be covered by capital and the level of capital sufficient to cover those risks. There are methodologies implemented that help in capital allocation towards quantifiable Pillar II risks.

Capital planning under ICAAP takes into account the demand for capital from businesses for their growth plans and ensures that the Group is adequately capitalised for the period ahead and holds sufficient buffers to withstand stress conditions. The budgeting process under ICAAP thus ensures that the overall risk and rewards are aligned with Risk Appetite. The ICAAP

framework thus assists in aligning capital levels with the risks inherent in the business and growth plans.

The key risks that are assessed are:

- Credit Risk
- Market Risk
- Operational Risk
- Credit Concentration risk
- Underestimation of Credit Risk under Standardised Approach
- Currency induced Credit Risk
- Interest Rate Risk in the Banking Book (IRRBB)
- Liquidity Risk
- Settlement Risk
- Reputation Risk
- Strategic & Business Risk
- Model Risk
- Compliance Risk
- Country Risk
- Pension Obligation Risk
- Group Risk

Annually, the Group ICAAP outcome is prepared and based on the ICAAP outcome; the Group was well capitalized to cover Pillar I & Pillar II risks.

The capital adequacy computation is supplemented by performing stress tests, across key risk factors, guided by a comprehensive Board approved stress testing policy, which is aligned to regulatory guidelines. The Bank tests its portfolio across a range of historical and hypothetical stress scenarios that provide for severe shocks to various risk parameters. Impact of the stress scenarios is then assessed on profit and loss and capital levels to determine the level of additional capital if any that will be needed to absorb losses experienced during a stress condition. Key companies within the Group also perform stress tests relevant to their portfolios.

## Capital requirements for various risk categories as at 31<sup>st</sup> December, 2015

₹ in million

Items	Amount
(a) Capital requirements for credit risk	
Portfolios subject to standardised approach	140,743.2
Securitisation exposures	-
(b) Capital requirements for market risk	
Using standardised duration approach	
Interest rate risk	11,180.6
Equity position risk	4,821.8
Foreign exchange risk (including gold)	709.8
(c) Capital requirements for operational risk	
Measured using basic indicator approach	16,929.6

*Computed as per Basel III guidelines*

Capital Adequacy Ratios	Consolidated	Standalone
Common Equity Tier I	14.6%	14.1%
Tier I	14.6%	14.1%
Total CRAR	15.5%	15.2%

### Credit Risk

Credit Risk arises as a result of failure or unwillingness on part of customer or counterparties' to fulfill their contractual obligations. These obligations arise from wholesale, retail advances and off balance sheet items. Credit risks also emanate from investment and trading portfolio by way of issuer risk in debt paper, settlement risk on OTC trades and downgrade risk on non SLR investments and OTC contracts.

Credit risk is managed in the Bank through committees and a detailed delegation framework that approve credit and an enterprise wide risk management framework which sets out policies and procedures covering the measurement and management of credit risk.

The Bank's credit policies and process notes articulate the credit risk strategy of the Bank and thereby the approach for credit origination, approval and maintenance. These policies define the Bank's overall credit sanction criteria, including the general terms and conditions. The policies / processes generally address such areas as target markets / customer segmentation, qualitative-quantitative assessment parameters, portfolio mix, prudential exposure ceilings, concentration limits, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms, etc. They take cognisance of prudent and prevalent banking practices, relevant regulatory requirements, nature and complexity of the Bank's activities, market dynamics, etc.

The Bank's credit exposure is primarily categorised into retail and wholesale borrowers. Retail exposure is mostly schematic lending (for e.g. vehicle loans, mortgage loans, personal loans etc) within pre-approved parameters for smaller value, to individuals and small businesses. These may be asset backed or on unsecured basis. Retail credit lending is largely decentralised and based on predefined parameters and managed through product definition and portfolio monitoring. Wholesale borrowers are internally categorised as belonging to corporate, mid-markets or financial institutional group. Wholesale borrowers are allocated to and managed on a name by name basis by dedicated Relationship Management and Credit team members.

### **Credit Risk Management Process**

The Bank focuses on ensuring that credit risk taking is in line with approved policies, while meeting risk-reward objectives. The Bank expects to achieve its earnings objectives and to satisfy its customers' needs while maintaining a sound portfolio.

The Board has delegated credit approval authority to the Management Committee, Credit Committee and other approval authorities. Credit Committee may further delegate the responsibility as required from time to time. Credit Committee ensures that the credit processes are in compliance with regulatory and internal norms and are enforced across the Bank in a uniform manner.

The Bank's credit process is divided into three stages - pre-sanction, sanction and post - sanction.

At the pre-sanction stage, the independent credit function within respective businesses conduct credit appraisal and assign a credit rating based on internal rating model. The Credit Appraisal note prepared by Credit analyses the credit risk, financial status of borrower, industry risk, the quantum of financing needed etc,. Reference checks, bureau data and NCIF checks are completed as part of the credit appraisal process.

For certain segments of retail loans there is a loan origination system (LOS) on which cases are tracked for completion and policy deviations if any. KYC checks are done by the Sales team and the Risk Containment Unit (RCU). Post RCU check, Credit team does tele verification / personal verification, if required, evaluates the proposal based on documents and as per laid down process.

Based on the independent credit risk assessment, appropriate credit decisions are taken by the sanctioning authorities. The Bank has a tiered credit sanction process where credit approvals are reported to the next higher level.

As part of the post sanction process, the credit administration team processes documentation, on the completion of which, credit is disbursed.

In accordance with credit policies, the Wholesale borrowers are subject to periodic review with updated information on financial position, market position, industry and economic condition, delinquency trends and account conduct.

Retail monitoring teams monitor the retail portfolio through delinquency monitoring, early warning indicators identification, collection efficiency analysis, churning and utilization.

The Bank has an enterprise wide Early Warning Signal (EWS) framework that helps identify signs of credit weakness at an early stage for the Bank to work closely with the borrowers and take suitable remedial actions like reducing exposure, prescribing additional security / comfort of cash flows etc to reduce risk.

Besides the EWS framework, the Bank has also implemented a Loan Review Mechanism (LRM) that does a comprehensive assessment of credit appraisal, assessment, sanction, post sanction activities and also checks compliance with internal policies and regulatory framework. The LRM framework helps to identify weaknesses if any in the credit value chain and suitable controls are implemented to strengthen the credit process. To maintain a diversified portfolio, the Bank operates within Board approved limits in its credit portfolio. The Bank also constantly reviews its concentration across borrowers, groups, portfolio segments, geography, sectors and ratings. This helps the Bank maintain a diversified portfolio.

### **Credit Risk Management Principles**

The Bank measures and manages its credit risk based on the following principles:

- The Bank has a Basic Customer Acceptance Criteria for appraisal of Wholesale borrowers. The Retail business is governed by approved product papers in selection of customers.
- The approval of all limits to counterparties should be in line with the credit policy of the Bank. Such approval should generally be within the Bank's portfolio guidelines and credit strategies.
- The credit worthiness of Wholesale borrowers is regularly reviewed and monitored at least once a year. Customers with emerging credit problems are identified early and classified accordingly. For retail loans, delinquency trends are monitored on an ongoing basis to identify any deterioration of portfolio quality. Remedial action is initiated promptly to minimize the potential loss to the Bank.
- All business units have a credit monitoring function which monitors conduct of the account post disbursement.

### **Credit Risk Measurement Systems**

Credit Rating is an integral part of the lending decision for Wholesale borrowers within the Bank. The rating model is capable of rating large and emerging corporates, traders, brokers, Non-Banking Finance Companies (NBFCs), real estate clients and service sector clients.

Credit Rating consists of two dimensions – the Obligor Risk Rating and the Facility Risk Rating. The Obligor Rating provides an estimate of the Probability of Default (PD) of the borrower over a 1 year time horizon. The obligor rating is independent of the type/nature of facilities and collaterals offered and is expressed in terms of an 18 point scale. The obligor rating takes into account quantitative and qualitative factors and includes assessment of customer's financial position including Net Worth, Profitability, Cash Flows, Repayment Capacity, Debt Protection metrics and credit standing. Besides financial parameters, industry in which the customer operates business & management risks are also considered while arriving at the obligor rating. The underwriting process is based on obligor rating.

Facility ratings take into account structuring features of specific facilities and the collaterals offered. The facility rating provides an estimate of the Loss Given Default (LGD) for the facility. Obligor Rating (Probability of Default) and Facility rating (LGD) are combined to provide an estimate of the Expected Loss (EL) for each facility.

The internal credit rating model is being enhanced to incorporate additional variables that are identified by the Bank as impacting credit quality. The model is also being fine-tuned to incorporate estimates of Probability of PDs and LGDs based on the Bank's internal experience.

The Bank has a robust governance framework for usage, monitoring and making changes to the rating model and operates under the Board approved Model Risk Policy. The rating model is drawn up in accordance with Basel II framework.

For the retail portfolio, the Bank has processes for risk assessment of retail loan exposures. These are through product notes, processes or policies, that specify entry criteria for loan origination, bureau data, minimum margins on collaterals, maximum Loan to Value Ratios (LTV) for products, product tenor etc. The Bank is constantly improving the quality of origination through better understanding of its portfolio and improved underwriting standards. Portfolio delinquency trends are monitored periodically.

All credit proposals are put up for consideration under the approved framework of policies. Performance against key Board approved limits and Risk Appetite are periodically reported and discussed at the Board. This enables the Board to analyse exceptions level and also assess compliance with its policies.

The Bank has a defined stress testing policy that lays down the framework for stress testing. Credit risk framework covers corporate as well as retail portfolio and the portfolios are stressed on approved scenarios to assess the impact of stress conditions on profitability and capital adequacy. The stress tests are performed periodically and results of these stress tests are placed before the RMC & the Board.

Concentration of credit risk arises when a number of obligors are engaged in similar activities, or operate in the same geographical areas or belong to the same industry. Risk appetite of the Bank mandates a well-diversified portfolio and has quantitative metrics for credit concentration. The Bank operates within Board approved limits in its loan portfolio that cover obligor concentration, group concentration, substantial exposures, sector & industry concentration & unsecured lending. These limits are monitored periodically and reported to senior management. Assessment of credit concentration risk is part of the ICAAP.

The Bank prepares its risk profile on a periodic basis and monitors the level of credit risk (low / moderate / high) and direction of change in credit risk (increasing / decreasing / stable) at the portfolio level on a regular basis. The risk profile is reported to the senior management and the Board.

## Definition and Classification of Non-Performing Assets (NPA)

The Bank classifies its advances into performing and non-performing advances in accordance with extant RBI guidelines.

An NPA is defined as a loan or an advance where;

- interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan;
- the account remains 'out of order' – in respect of an overdraft/cash credit (OD/CC); and
- the bill remains overdue for more than 90 days in case of bills purchased and discounted.
- 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
- An existing NPA account is upgraded to standard category only on collection of all overdues.

In respect of NBFCs, if the overdue is in excess of 180 days, the loan is classified into sub-standard, doubtful, and loss as required by RBI guidelines. Cheques deposited at quarter end but returned in subsequent month are considered for NPA and provisioning.

### Out of Order

An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power for a continuous period of 90 days. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

### Overdue

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank.

Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. A sub-standard asset is one, which has remained 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 exceeding 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. The loans of subsidiaries are classified as non-performing in accordance with the guidelines prescribed by their respective regulators.

## Total credit risk exposures as at 31<sup>st</sup> December, 2015

₹ in million

Overall credit exposure	Fund based	Non-fund based	Total
Total gross credit exposures	1,426,927.9	331,122.0	1,758,049.9

*Includes all entities considered for Basel III capital adequacy computation*

Credit exposure include term loans, working capital facilities (i.e. funded facilities like cash credit, demand loans, temporary limits and non-funded facilities like letter of credits, acceptances and guarantees).



## Exposure Management Measures

The Corporate Credit policy of the Bank defines the exposure management measures. Exposure includes credit exposure (funded and non-funded credit limits), investment exposure (including underwriting and similar commitments) and derivatives exposure which includes MTM and Potential Future exposure as per current exposure method.

The Bank operates within Board approved limits in its loan portfolio. Key portfolio limits include:

- Single borrower limits
- Exposure to borrower groups
- Substantial exposure limits
- Limits on capital market exposure
- Limits on real estate exposure
- Limits on exposure to NBFCs
- Industry exposure limits
- Limits on unsecured lending

Performance against these limits are monitored periodically and reported to the appropriate authorities.

The Bank has a policy on exposure to Borrowers with Unhedged Foreign Exchange. The Corporate Credit Policy stipulates review of unhedged foreign currency exposure as part of every credit appraisal for sanction of facilities to a borrower. The Bank maintains provisions and capital on its exposure to borrowers with unhedged foreign currency exposure, as per regulatory guidelines.

To manage credit risk exposure on treasury contracts, the Bank operates within approved limits on Countries, Inter Bank counterparties and corporates.

## Geographic distribution of exposures as at 31<sup>st</sup> December, 2015

₹ in million

Exposures	Fund based	Non-fund based	Total
Domestic	1,426,927.9	331,028.3	1,757,956.2
Overseas	-	93.7	93.7
<b>Total</b>	<b>1,426,927.9</b>	<b>331,122.0</b>	<b>1,758,049.9</b>

*Includes all entities considered for Basel III capital adequacy computation*

## Industry-wise distribution of exposures as at 31<sup>st</sup> December, 2015

₹ in million

Industry	Fund based	Non-fund based	Total
Auto loans	260,102.8	22,115.7	282,218.5
Personal loans	65,880.7	-	65,880.7
Home loans/Loan against property	218,234.5	-	218,234.5
Credit cards	8,552.7	-	8,552.7
Other retails loans	30,342.0	-	30,342.0
Iron and steel	24,680.1	14,692.9	39,373.0
Commercial Real Estate	76,950.3	6,124.3	83,074.6
Engineering	38,143.8	32,760.2	70,904.0
Chemical, dyes, paints etc	26,167.4	7,622.0	33,789.4
Fertilisers	8,324.1	9,836.4	18,160.5
Drugs and Pharmaceuticals	29,744.6	8,177.2	37,921.8
Construction	15,770.6	9,069.0	24,839.6
Automobiles	58,456.8	11,768.9	70,225.7
Power	20,672.8	4,971.8	25,644.6
Telecom	9,837.2	36,698.2	46,535.4
Roads and Ports	6,135.3	4,112.7	10,248.0
Other Infrastructure	6,442.3	20,512.8	26,955.1
NBFCs	64,255.8	811.7	65,067.5
Other industries (i)	458,234.1	141,848.2	600,082.3
<b>Total</b>	<b>1,426,927.9</b>	<b>331,122.0</b>	<b>1,758,049.9</b>

*Includes all entities considered for Basel III capital adequacy computation*

<sup>(i)</sup> *Other industries include entities from sectors such as logistics and auxiliary, agri related services wholesale trade, education, hospitality and tourism, retail trade, stock broking, entertainment and media other services etc.*

## Exposure to industries (other than retail assets) in excess of 5% of total exposure

₹ in million

Industry	Fund based	Non-fund based	Total
	NIL	NIL	NIL

## Residual contractual maturity break-down of assets as at 31<sup>st</sup> December, 2015

₹ in million

Maturity Pattern	Cash and balances with monetary authority	Balances with other banks	Investments	Advances	Fixed Assets	Other Assets
0 to 14 days	16,939.4	30,660.9	152,666.5	86,570.9	-	7,584.5
15 to 28 days	4,103.9	-	21,647.0	56,142.1	-	6,528.8
29 days to 3 months	8,169.3	2,607.9	43,889.2	162,887.9	-	12,001.5
Over 3 months & upto 6 months	8,575.8	-	53,545.3	101,604.1	-	3,094.3
Over 6 months & upto 1 year	8,923.8	409.8	54,997.5	142,030.4	-	17,776.0
Over 1 year & upto 3 years	14,853.6	0.6	93,666.5	574,272.6	-	11,562.7
Over -3 year & upto 5 years	3,041.9	-	20,076.7	126,494.8	49.9	16,975.4
Over 5 years	1,366.6	68.0	19,153.5	160,194.2	15,955.7	29,885.6
<b>Total</b>	<b>65,974.3</b>	<b>33,747.2</b>	<b>459,642.2</b>	<b>1,410,197.0</b>	<b>16,005.6</b>	<b>105,408.8</b>

Consolidated figures for lending entities namely Kotak Mahindra Bank Limited, Kotak Mahindra Prime Limited and Kotak Mahindra Investments Limited, other entities are primarily engaged in fee based activities only.

## Amount of non-performing loans as at 31<sup>st</sup> December, 2015

₹ in million

Items	Amount	
	Gross NPA	Net NPA
Substandard	15,300.4	8,338.6
Doubtful 1	6,953.0	2,520.4
Doubtful 2	4,560.9	1,143.1
Doubtful 3	1,050.8	-
Loss	843.3	-
<b>Total</b>	<b>28,708.4</b>	<b>12,002.1</b>
NPA Ratio (%)	2.01%	0.85%
Movement of NPAs		
Opening balance as at 1 <sup>st</sup> April, 2015	13,923.5	6,974.4
Additions*	24,454.7	11,071.1
Reductions	(9,669.8)	(6,043.4)
Closing balance as at 31 <sup>st</sup> December, 2015	<b>28,708.4</b>	<b>12,002.1</b>

\*The Merger with ING Vyasa Bank (eIVBL) is effective 1<sup>st</sup> April 2015 and the includes NPAs of eIVBL as at 31<sup>st</sup> March, 2015

Includes all entities considered for Basel III capital adequacy computation

Gross NPA ratio is computed as a ratio of gross non-performing loans to gross advances

Net NPA ratio is computed as a ratio of net non-performing loans to net advances

### Movement of provisions for NPAs

	₹ in million
	<b>Amount</b>
Opening balance as at 1 <sup>st</sup> April, 2015	6,949.1
Provisions made during the year*	13,386.5
Write-off/ Write back of excess provisions	(3,629.3)
Closing balance as at 31 <sup>st</sup> December, 2015	<b>16,706.3</b>

\*Includes provisions made by eIVBL upto 31<sup>st</sup> March, 2015

	₹ in million
	<b>9MFY16</b>
Write offs booked directly to income statement	1,509.9
Recoveries booked directly to income statement	408.8

### Amount of Non-performing investments (NPI)

	₹ in million
	<b>Amount</b>
Gross NPI as at 31 <sup>st</sup> December, 2015*	795.1
Amount of provisions held for NPI*	690.7
Net NPI as at 31 <sup>st</sup> December, 2015	104.4

\*includes NPIs and provisions of eIVBL as at 31<sup>st</sup> March, 2015

### Movement of provisions for depreciation on investments

	₹ in million
	<b>Amount</b>
Opening balance as at 1 <sup>st</sup> April, 2015	24.5
Additional provisions during the year*	666.2
Write off /Write back of provisions during the year	-
Closing balance as at 31 <sup>st</sup> December, 2015	690.7

\* Includes provisions made by eIVBL upto 31<sup>st</sup> March, 2015

### Geographic distribution

	₹ in million		
	<b>Domestic</b>	<b>Overseas</b>	<b>Total</b>
Gross NPA	28,708.4	-	28,708.4
Provisions for NPA	16,706.3	-	16,706.3
Provision for standard assets	6,131.7	-	6,131.7

## Industry-wise distribution

₹ in million

	Gross NPA	Specific Provision
NPA in top 5 Industries	2,233.5	653.6

## Credit Risk – portfolios subject to the Standardised Approach

### External Ratings

As per the NCAF (New Capital Adequacy Framework of RBI), the Bank has adopted Standardised Approach for measurement of Credit Risk. The risk weights under this approach are based on external ratings of borrowers. The Bank has identified the following External Credit Assessment Institutions (ECAIs) as approved rating agencies:

- Domestic credit rating agencies: CRISIL, ICRA, CARE and India Ratings (erstwhile FITCH India)
- International rating agencies: S&P, FITCH and Moody's

The Bank assigns risk weight on the basis of long-term and short-term rating of the borrower. The issue/issuer ratings of the ECAI's are considered for the borrowers and the risk weights are then derived on a case by case basis in accordance with the rules laid down by RBI as part of the NCAF.

## Credit exposures by risk weights as at 31<sup>st</sup> December, 2015

₹ in million

Exposure category	Fund based	Non-fund based	Total
Below 100% risk weight	530,380.4	195,794.6	726,175.0
100% risk weight	586,339.9	90,158.5	676,498.4
More than 100% risk weight	284,279.9	16,095.5	300,375.4
Deducted	-	-	-
<b>TOTAL</b>	<b>1,401,000.2</b>	<b>302,048.6</b>	<b>1,703,048.8</b>

*includes all entities considered for Basel III capital adequacy computation, net of risk mitigation as per the standardised approach*

## Credit Risk Mitigation

The Bank has a Credit Risk Mitigation Policy that lists possible credit risk mitigation techniques and associated haircuts in line with RBI guidelines. The objective of this Policy is to enable classification and valuation of credit risk mitigants in a manner that allows regulatory capital adjustment to reflect their mitigating effect. The Policy adopts the Comprehensive Approach, which allows full offset of collateral wherever applicable against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. The collateral values are suitably adjusted by (appropriate haircuts to take account of possible future fluctuations in their value due to market movements).

The list of eligible financial collaterals recognized by the Bank for Risk Mitigation is as follows:

- Cash / Fixed deposits with the Bank
- Gold – including Bullion & Jewelry
- Central & State Government Securities

- Kisan Vikas Patra and National Savings Certificates
- Life Insurance Policies with a declared surrender value of an insurance company which is regulated by the insurance sector regulator
- Debt Securities with investment grade rating or better
- Mutual Fund Units where investment is in debt instruments

Where available, the Bank also makes use of credit mitigation by way of guarantees / letters of credit provided by other eligible guarantors / banks as per RBI guidelines. Where eligible guarantees are used towards credit mitigation, the Bank follows a substitution approach and applies the risk weight of the guarantor in lieu of the risk weight applicable to the obligor.

The Bank has taken ₹ 55,001.2 million of eligible financial collateral benefit in the capital computation as at 31st December, 2015.

The highest share of Financial Collaterals considered for Credit Risk Mitigation is by way of term deposits and thus there is not much risk concentration envisaged on account of these mitigants.

₹ in million		
Type of Credit exposure	Eligible financial collateral after haircut	Covered by Guarantees/Credit derivatives
Total Exposure	55,001.2	29,127.7

#### Leverage ratio

₹ in million	
	<b>As at 31<sup>st</sup> December, 2015</b>
Tier I Capital	282,843.0
Exposure Measure	2,544,452.5
Leverage Ratio	11.1%