Kotak Mahindra Bank Limited

BASEL III (PILLAR 3) DISCLOSURES (CONSOLIDATED)
As at 31st Dec, 2016

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. Capital management practices are built on an assessment of all identified risks and consider the risk reward balance. The objective is to maintain a strong capital base to support the risks inherent in various businesses. The Group’s approach to capital management ensures that businesses are adequately capitalized to meet their business plans at all times, while holding adequate capital buffers to absorb the impact of stress events. 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.

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

Minimum capital ratios	March 31,2014	March 31,2015	March 31,2016	March 31,2017	March 31,2018	March 31,2019
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 organizational structure, risk and reward balance and is supported by dedicated monitoring and risk measuring mechanism.

The Group manages Risk under an Enterprise wide Risk Management (ERM) framework that aligns risk and capital management to business strategy, protects its financial strength, reputation and ensures support to business activities for adding value to customers while creating sustainable shareholder value. The Group believes that all employees must play their part in risk management, regardless of position, function or location.

The ERM framework lays down the following components for effective Risk Management across the Group

- An Independent Risk organization structure with a clear common framework of risk ownership and accountability
- Governance standards and controls to identify, measure, monitor and manage risks
- Policies to support and guide risk taking activities across the Group

The Group faces a variety of risks across businesses. Defining acceptable levels of risk is fundamental to delivering consistent and sustainable performance over the long term. The success of the Group is dependent on its ability to manage the broad range of interrelated risks.

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 financial plans for the forthcoming year are tested against the Risk Appetite to ensure business strategy and plans are within approved Risk Appetite.

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.

The ICAAP encompasses Management's assessment of material risks and their governance, measurement and mitigants. It is linked to overall business planning for maintaining appropriate capital levels during the business horizon. The Group identifies risks to which it is exposed and 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 on an aggregate basis as well as the major legal entities on a standalone basis are sufficiently capitalized for the specified time horizon and hold sufficient capital buffers to withstand stress conditions.

The Key risks assessed as part of the ICAAP 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
- Conduct Risk
- Country Risk
- Pension Obligation Risk
- Group Risk

Based on the Group ICAAP outcome; the Group was well capitalized to cover Pillar I & Pillar II risks.

The Bank supplements capital adequacy computation by performing stress tests, across key risk factors, guided by a comprehensive Board approved stress testing policy, which is aligned to regulatory guidelines. Stress testing is a key element of the ICAAP and an integral tool in the Risk Management framework, as it provides management a better understanding of how portfolios perform under adverse economic conditions. 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. Stress-testing provides senior management with an assessment of the financial impact of identified extreme events. Stress testing is integral to strengthening the predictive approach to risk management and is a key component in managing risks. The stress tests determine the level of capital needed to absorb losses that may be experienced during stress conditions.

The Bank performs Reverse Stress testing across key risk areas to test the stress levels at which capital falls below the internal capital threshold. Results of stress tests are reported to management and the Board.

The stress testing exercise provides an opportunity to the Bank to develop suitable mitigating response prior to onset of actual conditions exhibiting the stress scenarios. During the year, the Bank was above regulatory and internal target capital ratios under all approved stress scenarios.

Capital requirements for various risk categories as at 31st Dec, 2016

₹ in million

Items	Amount
(a) Capital requirements for credit risk	
Portfolios subject to standardised approach	154,823.9
Securitisation exposures	86.4
(b) Capital requirements for market risk	
Using standardised duration approach	
Interest rate risk	5,524.9
Equity position risk	5,903.5
Foreign exchange risk (including gold)	709.9
(c) Capital requirements for operational risk	
Measured using basic indicator approach	19,198.9

Computed as per Basel III guidelines

Capital Adequacy Ratios	Consolidated	Standalone
Common Equity Tier I	15.5%	14.9%
Tier I	15.5%	14.9%
Total CRAR	16.4%	16.0%

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 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 cognizance 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 wholesale and retail borrowers.

These portfolios are managed separately owing to difference in the risk profile of the assets. Wholesale lending tend to be larger and are managed on a name-by-name basis by dedicated relationship management and credit team members. Credit rating models provide a consistent and structured assessment, which, supplemented with expert judgment determines Credit Approval.

Retail advances being mainly schematic lending (for e.g. vehicle loans, mortgage loans etc) within pre-approved parameters for small value loans, are managed on a portfolio basis. In retail and schematic lending, credit assessment is typically done using a combination of client scoring, product policy, external credit reporting information where available and is also supplemented by Credit officer's judgment. Parameters like loan to value, borrower demographics, income, loan tenor etc determine the credit. Retail clients are monitored on a portfolio basis. Business-specific credit risk policies and procedures including client acceptance criteria, approving authorities, frequency of reviews, as well as portfolio monitoring frameworks and robust collections and recovery processes are in place. There is a loan origination system (LOS) on which cases are tracked for completion and policy deviations if any.

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.

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 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.

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 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 take suitable remedial actions. In case of loans where there is significant deterioration, the Bank employs various recovery mechanisms, including transferring the account to an internal unit specialized in managing problem accounts, to maximize collection from these accounts.

Besides the EWS framework, the Bank has also implemented a Loan Review Mechanism (LRM) that does a comprehensive assessment of the overall credit across 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 corporate and mid-market customers. 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 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 identity 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. The Bank has a two scale internal rating model for wholesale exposures that assigns obligor ratings & facility ratings. 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. Ratings are supported by financial analysis and combined with credit head's judgment to arrive at the final rating for a borrower / counterparty. The Bank uses an 18 point scale to grade borrowers.

The obligor rating provides an estimate of the probability of default of the borrower in the next year. The obligor rating is independent of the type/nature of facilities and collaterals offered. The obligor rating consists of 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.

The 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.

The product of the obligor rating (Probability of Default) and Facility rating (LGD) provides an estimate of the expected loss against each facility.

The Bank has governance structure covering the rating models and framework for changes to the model or enhancements and operates under the Board approved Model Risk Policy. The rating model is drawn up in accordance with the Basel 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 aims to constantly improve 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 under the approved framework of policies. Discussions are also done on whether the credit portfolio is within the overall Board approved risk appetite. Performance against key Board approved limits 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 Risk Management Committee (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
- Instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops.
- Instalment of principal or interest thereon remains overdue for one crop season for long duration crops.
- 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 31st Dec, 2016

₹ in million

Overall credit exposure	Fund based	Non-fund based	Total
Total gross credit exposures	1,768,854.6	387,411.2	**2,156,265.8**

Includes all entities considered for Basel III capital adequacy computation

Fund based exposure is comprised of Gross loans & advances, Balances with Banks, Investments excluding Government Securities. Non fund based exposure is comprised of Guarantees, Acceptances & endorsements, Letters of credit and Credit equivalent of foreign exchange and derivative exposures.

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.

To avoid undue concentration in credit exposures and maintain diversification, the Bank operates within Board approved limits or operational controls in its loan portfolio. Concentration limits represent the maximum exposure levels the Bank will hold on its books. 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
- Country / Bank exposure limits

Performance against these limits are monitored periodically and reported to the appropriate authorities. The risk appetite of the Bank mandates a diversified portfolio and has suitable metrics for avoiding excessive concentration of credit risk.

The Bank has a policy on exposure to Borrowers with Unhedged Foreign Exchange. The Corporate Credit Policy stipulates review of unhedged forex 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 31st Dec, 2016

₹ in million

Exposures	Fund based	Non-fund based	Total
Domestic	1,760,655.0	370,272.3	**2,130,927.3**
Overseas	8,199.6	17,138.9	**25,338.5**
Total	**1,768,854.6**	**387,411.2**	**2,156,265.8**

Includes all entities considered for Basel III capital adequacy computation

Industry-wise distribution of exposures as at 31st Dec, 2016

₹ in million

Industry	Fund Based	Non Fund Based	Total
Banks	100,332.4	39,797.5	**140,129.9**
Commercial Real Estate	115,517.8	6,678.9	**122,196.7**
of which LRD	*31,214.2*	-	***31,214.2***
NBFC's	90,914.3	1,286.3	**92,200.6**
Telecommunication	52,743.0	26,746.7	**79,489.7**
Automobiles incl ancillaries	65,893.7	13,506.2	**79,399.9**
Engineering	36,941.3	32,886.8	**69,828.1**
Wholesale Trade	48,024.3	10,389.8	**58,414.1**
Drugs and Pharmaceuticals	28,845.3	17,421.7	**46,267.0**
Food Processing	38,986.3	5,071.5	**44,057.8**
Iron and steel	32,895.4	7,619.9	**40,515.3**
Gems & Jewellery	35,908.2	3,884.7	**39,792.9**
Logistics and Auxillary transport activities	32,586.6	4,464.6	**37,051.2**
Chemical, dyes, paints etc	29,236.7	7,628.0	**36,864.7**
Infrastructure ex telecom, power, roads & ports	5,280.9	29,953.8	**35,234.7**
Agriculture Related Service Activity	33,153.8	1,556.7	**34,710.5**
Crude oil Petroleum and Natural Gas	2,974.2	29,303.5	**32,277.7**
Power	24,797.7	6,567.7	**31,365.4**
Man Made textiles	27,078.6	3,344.8	**30,423.4**
Construction	15,393.2	13,290.4	**28,683.6**
Entertainment & Media	18,733.4	4,684.4	**23,417.8**
Hospitality & Tourism	19,430.9	3,250.5	**22,681.4**

Industry	Fund Based	Non Fund Based	Total
Apparels and Accessories	20,799.4	1,728.0	**22,527.4**
Education	22,259.7	153.9	**22,413.6**
Organised Retail	8,162.8	13,305.5	**21,468.3**
Paper & Paper products	15,943.0	2,165.0	**18,108.0**
Fertilisers	10,787.6	6,230.7	**17,018.3**
Stock Broking	8,024.4	8,453.0	**16,477.4**
Non- ferrous metals	6,212.9	7,428.7	**13,641.6**
Road and Ports	6,924.5	6,375.2	**13,299.7**
Cotton textiles	11,208.5	253.2	**11,461.7**
Mutual Funds	8,444.8	-	**8,444.8**
Other Industries[#]	208,675.4	71,983.6	**280,659.0**
Auto loans	266,855.6	-	**266,855.6**
Home loans/Loan against property	171,367.7	-	**171,367.7**
Personal loans, Credit Cards & Other retail Loans (including Agri)	147,520.3	-	**147,520.3**
Total gross credit exposure	**1,768,854.6**	**387,411.2**	**2,156,265.8**

Includes all entities considered for Basel III capital adequacy computation

[#]other industries include entities from sectors such as Plastic & plastic products, Cables, IT Services, retail trade, education, hospitality and tourism, financial intermediation etc...

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

₹ in million

Industry	Fund based	Non-fund based	Total
Banks	100,332.4	39,797.5	**140,129.9**
Commercial Real Estate	115,517.8	6,678.9	**122,196.7**

Residual contractual maturity break-down of assets as at 31st Dec, 2016

₹ in million

Maturity Pattern	Cash and balances with monetary authority	Balances with other banks	Investments	Advances	Fixed Assets	Other Assets
Day - 1	23,764.4	10,621.1	153,431.7	3,905.7	-	282.6
2-7 Days	1,753.1	44,484.5	9,441.2	29,746.6	-	2,757.9
8-14 Days	2,283.7	10,000.0	9,343.0	28,042.7	-	6,108.3
15 to 30 days	2,865.4	-	15,226.9	60,461.7	-	8,938.3
31 Days & upto 2 months	3,669.7	-	19,238.3	88,003.9	-	5,990.5
More than 2 months and upto 3 months	3,095.7	790.9	22,499.9	108,624.6	-	877.3
Over 3 months & upto 6 months	9,826.6	-	49,688.7	107,244.1	-	4,025.3
Over 6 months & upto 1 year	9,770.8	7,566.8	44,344.2	152,976.3	-	21,868.5
Over 1 year & upto 3 years	24,545.7	1,506.6	123,933.0	666,365.8	-	14,358.3
Over -3 year & upto 5 years	741.2	-	4,075.3	155,474.8	-	15,670.7
Over 5 years	1,767.9	0.9	21,439.2	175,508.4	15,863.4	17,554.2
Total	**84,084.2**	**74,970.8**	**472,661.4**	**1,576,354.6**	**15,863.4**	**98,431.9**

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 31st Dec, 2016

₹ in million

Items	Amount	
	Gross NPA	**Net NPA**
Substandard	12,265.9	7,718.3
Doubtful 1	10,019.7	4,601.5
Doubtful 2	8,695.0	2,184.5
Doubtful 3	1,575.5	-
Loss	1,120.6	-
Total	**33,676.7**	**14,504.3**
NPA Ratio (%)	2.11%	0.92%
Movement of NPAs		
Opening balance as at 1st April, 2016	30,165.5	13,530.3
Additions	11,062.6	4,569.1
Reductions	(7,551.4)	(3,595.1)
Closing balance as at 31st Dec, 2016	**33,676.7**	**14,504.3**

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

	Amount
Opening balance as at 1st April, 2016	16,635.2
Provisions made during the year	6,493.5
Write-off/ Write back of excess provisions	(3,956.3)
Closing balance as at 31st Dec, 2016	**19,172.4**

₹ in million

	Q3FY17
Write offs booked directly to income statement	193.8
Recoveries booked directly to income statement	172.9

Amount of Non-performing investments (NPI)

₹ in million

	Amount
Gross NPI as at 31st Dec, 2016	1,562.0
Amount of provisions held for NPI	(1,031.6)
Net NPI as at 31st Dec, 2016	**530.4**

Movement of provisions for depreciation on investments

₹ in million

	Amount
Opening balance as at 1st April, 2016	881.7
Additional provisions during the year	149.9
Write off /Write back of provisions during the year	-
Closing balance as at 31st Dec, 2016	**1,031.6**

Geographic distribution

₹ in million

	Domestic	Overseas	Total
Gross NPA	33,676.7	-	**33,676.7**
Provisions for NPA	19,172.4	-	**19,172.4**
Provision for standard assets	7,103.9	-	**7,103.9**

Industry-wise distribution

₹ in million

	Gross NPA	Specific Provision
NPA in top 5 Industries	2,447.8	1,439.1

Credit risk – portfolios subject to the standardised approach

External Ratings

As per the NCAF, 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 for risk weighting purposes:

a. Domestic credit rating agencies: CRISIL, ICRA, CARE and India Ratings (erstwhile FITCH India)
b. 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, as appropriate for the transaction. 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 New Capital Adequacy Framework.

Credit exposures by risk weights as at 31st Dec, 2016

₹ in million

Exposure category	Fund based	Non-fund based	Total
Below 100% risk weight	812,955.1	210,826.7	**1,023,781.8**
100% risk weight	573,678.4	114,324.3	**688,002.7**
More than 100% risk weight	352,932.6	28,951.0	**381,883.6**
Deducted	-	-	**-**
TOTAL	**1,739,566.1**	**354,102.0**	**2,093,668.1**

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

Credit Risk Mitigation

Risk mitigation, begins with proper customer selection through assessment of the borrower, along financial and non-financial parameters, to meet commitments. A number of methods to mitigate credit risk are used, depending on suitability of the mitigant for the credit, legal enforceability, type of customer and the internal experience to manage the particular risk mitigation technique.

When granting credit facilities, the sanctioning authorities base their decision on credit standing of the borrower, source of repayment and debt servicing ability. Based on the risk profile of the borrower while unsecured facilities may be provided, within the Board approved limits for unsecured lending, collateral is taken wherever needed, depending upon the level of borrower risk and the type of loan granted.

The Bank has a credit risk mitigation policy that lists possible credit risk mitigation techniques and associated haircuts as envisaged in 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 them. 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). Legal enforceability of any collateral obtained is critical in risk mitigation. The Bank has specific requirements in its internal policies with regards to appropriate legal documentation The Credit Administration and Legal function ensure that there is adequate legal documentation, in line with internal policies, to establish our recourse to any collateral, security or other credit enhancements.

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 rated investment grade 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 obligor risk weight.

The Bank has taken ₹ 62,597.7 million of eligible financial collateral benefit in the capital computation as at 31st Dec, 2016.

The highest share of Financial Collaterals considered for Credit Risk Mitigation, is by way Cash/FD's 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	62,597.7	25,529.8

Leverage ratio

The leverage ratio is a non-risk based measure that supplements the risk based capital requirements and is intended to constrain the build-up of leverage in the banking system. The Basel III leverage ratio is defined as the capital measure (Tier-1 capital) divided by the exposure measure, with this ratio expressed as a percentage. The Bank is required to maintain a minimum leverage ratio of 4.5%.

₹ in million

	As at 31st Dec, 2016
Tier I Capital	321,258.2
Exposure Measure	2,789,964.9
Leverage Ratio	11.5%