

Independent Auditor's Report

To the Members of Axis Bank Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the accompanying standalone financial statements of Axis Bank Limited ("the Bank"), which comprise the Balance Sheet as at March 31, 2019, the Profit and Loss Account and the Cash Flow Statement for the year then ended and notes to the standalone financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013 ("the Act") in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Bank as at March 31, 2019, its profit and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Standards on Auditing (SAs) specified under section 143(10) of the Act. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the standalone financial statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India ("ICAI") together with the ethical requirements that are relevant to our audit of the standalone financial statements under the provisions of the Act and Rules thereunder and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	Procedure performed
IT Controls Framework Axis Bank has a complex IT architecture to support its day to day business operations. The volume of transactions processed and recorded is huge. Moreover, a transaction may be required to be recorded across multiple applications depending upon the process. Each application has different rules incorporated in it and a different set of user access and authority matrix. These applications are interlinked using different technologies. Data transfer happens in real time or at a particular time of the day; in batches or at a transaction level and in an automated manner or manually. The Core Banking Solution (CBS) itself has many interfaces. All these data streams directly affect financial reporting.	IT audit specialists are an integral part of our engagement team. Our approach of testing IT General Controls (ITGC) and IT Application Controls (ITAC) is risk based and business centric. As a part of our IT controls testing, we have tested ITGC as well as ITAC. The focus of testing of ITGCs was based on the various parameters such as Completeness, Validity, Identification, Authentication Authorization, Integrity and Accountability. On the other hand, focus of testing automated controls from applications was whether the controls prevent or detect unauthorized transactions and support financial objectives including completeness, accuracy, authorization and validity of transactions. We gathered a comprehensive understanding of IT applications landscape implemented at the Bank. It was followed by process understanding, mapping of applications to the same and understanding financial risks posed by people-process and technology.

Key Audit Matter	Procedure performed
<p>The Bank has a process for identifying the applications where the controls are embedded. It also has a process to ensure that systems, processes and controls remain relevant. The Bank's IT control framework includes automated, semi-automated and manual controls designed to address identified risks. IT controls are stated in Entity Level Controls (ELC), IT General Controls (ITGC) and IT Application Controls (ITAC).</p> <p>We regard this area as a Key Audit Matter as the Bank's business is highly dependent on technology, the IT environment is complex and the design and operating effectiveness of IT controls have a direct impact on a financial reporting process. Review of these controls allows us to provide assurance on the integrity and completeness of data processed through various IT applications which are used for the preparation of financial reports.</p>	<p>In ITGC testing we reviewed, on sample basis, control areas such as User Management, Change Management, Systems Security, Incident Management, Physical & Environmental Security, Backup and Restoration, Business Continuity and Disaster Recovery, Service Level Agreement.</p> <p>For ITAC, we carried out on sample basis, compliance tests of system functionality in order to assess the accuracy of system calculations. We also carried out procedures such as validations and limit checks on data entered into applications, approvals, process dependencies and restriction on time period in which transactions may be recorded.</p> <p>We tested the control environment using various techniques such as inquiry, review of documentation/record/reports, observation and re-performance. We also tested few controls using negative testing technique. We had taken adequate samples of instances for our tests.</p> <p>Wherever deviations were noted either the same were explained to our satisfaction or we suitably modified our testing procedures to draw comfort.</p>
<p>Provisions and Write off of Advances</p> <p>The Bank's portfolio of advances to customers amounts to ₹4,94,79,797 Lacs as at March 31, 2019 comprising of ₹2,37,22,782 Lacs towards its Corporate Customers ("Wholesale Banking" customers) and ₹2,57,57,015 Lacs towards its Retail Customers ("Retail Banking" customers). As required under Income Recognition, Asset Classification and provisioning norms (IRAC norms) and other circulars, notifications and directives issued by the Reserve Bank of India (RBI), the Bank classifies advances into performing and non-performing advances which consists of Standard, Sub-standard, Doubtful and Loss and makes appropriate provisions.</p> <p>The Bank, on case to case basis, as per its governing framework, identifies standard advances which require higher provision based on its evaluation of risk and internal ratings. The Bank also identifies sectors wherein the Bank perceives stress and makes higher provisions. Additionally, the Bank also identifies accounts which are to be technical written off based on the framework approved by the Bank's Board of Directors.</p> <p>The provisions for such advances and technical write off is a Key Audit Matter as the Bank has significant credit risk exposure to a large number of borrowers across a wide range of borrowers, products, industries and geographies and there is a high degree of complexity and judgement involved in recoverability of advances, estimating the provisions thereon and identification of accounts to be written off.</p> <p>The same resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions and write off.</p>	<p><i>Provisions for Corporate advances against specific individual loans (Wholesale Banking)</i></p> <ol style="list-style-type: none"> Testing the key controls over borrower risk grading for wholesale loans (larger customer exposures that are monitored individually) for classification of such loans as performing or non-performing advances. <ul style="list-style-type: none"> We tested on sample basis, the approval of new lending facilities against the Bank's credit policies, the performance of annual loan assessments, and controls over the monitoring of credit quality. We have assessed the process for classification by the management including identification of non-performing assets. We tested on sample basis loans to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner. For the selected non-performing loans, we assessed management's forecast and inputs of recoverable cash flows, valuation of underlying security and collaterals, estimates of recoverable amounts on default and other sources of repayment. <p>This included testing controls over the identification of exposures showing signs of stress, either due to internal factors specific to the borrower or external macroeconomic factors, and testing the timeliness of and the accuracy of risk assessments and risk grading against the requirements of the Bank's lending policies and RBI IRAC norms.</p> Performing credit assessments of a sample of corporate loans managed by a specialised group assessed as high risk or impaired, focusing on larger exposures assessed by the Bank as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged the Bank's risk grading of the loan, their assessment of loan recoverability and the impact on the credit provision. To do this, we used the information on the Borrowers loan file, discussed the case with the concerned officials and senior management, and performed our own assessment of recoverability.

Key Audit Matter	Procedure performed
	<p data-bbox="794 271 1449 327"><i>Provisions for Retail advances against specific individual loans (Retail Banking)</i></p> <p data-bbox="794 337 1449 658">For retail loans (smaller customer exposures not monitored individually), testing controls over the systems which record lending arrears, group exposures into delinquency buckets based on the number of days loans are overdue, and calculate individual provisions. We tested automated calculation and change management controls and evaluated the Bank's oversight of the portfolios, with a focus on controls over delinquency statistics monitoring. We tested on sample basis the level of provisions held against different loan products based on the delinquency profile and challenged assumptions made in respect of expected recoveries, primarily from collateral held. We also carried out extensive data analytics procedures to identify exceptions and outliers.</p> <p data-bbox="794 669 1366 696"><i>Provisions estimated across loan portfolios (collective provision)</i></p> <ol data-bbox="794 706 1449 1089" style="list-style-type: none"> 1. Testing the Bank's processes for making collective provision 2. Review of the Policy for higher provision for weak standard advances and stressed sectors adopted by the Bank 3. Validating the parameters used to calculate collective provisions with reference to IRAC norms and internal policy on higher provisions on weak standard advances; 4. Testing the completeness and accuracy of data transferred from underlying source systems used for computing collective provision; 5. Re-performing, for a sample of retail and wholesale portfolios, the calculation of collective provisions, to determine the accuracy of the same. <p data-bbox="794 1100 1158 1127"><i>Technical write off across loan portfolios</i></p> <p data-bbox="794 1137 1449 1274">The Bank has adopted a framework for technical write off. We reviewed the framework and understood the process for identification of loan portfolios to be technically written off. We tested on sample basis, the accounts identified during the year to be written off for compliance with the aforesaid framework.</p>

Other Information

The Bank's Board of Directors is responsible for the other information. The other information comprises the information included in the Directors' Report forming part of the Annual Report, but does not include the standalone financial statements, consolidated financial statements and our auditor's report thereon and the Pillar III Disclosures under the New Capital Adequacy Framework (Basel III disclosures). The Director's Report is expected to be made available to us after the date of this report.

Our opinion on the standalone financial statements does not cover the other information and the Basel III disclosures and accordingly, we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Director's Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements

The Bank's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows

of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, read with relevant rules issued thereunder, provision of section 29 of the Banking Regulation Act, 1949 and the circulars, guidelines and directions issued by Reserve Bank of India ("RBI") from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are also responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Standalone Financial Statements

Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this standalone financial statements. As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Bank has adequate internal financial controls with reference to standalone financial statements in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

The standalone financial statements of the Bank for the previous year ended March 31, 2018, were audited by another firm of Chartered Accountants who have expressed an unmodified opinion on those statements vide their report dated April 26, 2018.

Report on Other Legal and Regulatory Requirements

- (1) The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder.
- (2) As required under section 143 (3) of the Act and Section 30(3) of the Banking Regulation Act, 1949, we report that:
 - a. We have sought and obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
 - b. In our opinion, the transactions of the Bank, which have come to our notice, have been within the powers of the Bank;
 - c. The financial accounting systems of the Bank are centralized and therefore, accounting returns for the purpose of preparing financial statements are not required to be submitted by the branches; we have visited 120 branches for the purpose of our audit;
 - d. In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
 - e. The Balance Sheet, the Profit and Loss Account, and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - f. In our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under section 133 of the Act read with relevant rules issued thereunder to the extent they are not inconsistent with the accounting policies prescribed by RBI;
 - g. On the basis of the written representations received from the directors as on March 31, 2019, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2019 from being appointed as a director in terms of section 164(2) of the Act;
 - h. With respect to the adequacy of the internal financial controls with reference to financial statements of the Bank and the operating effectiveness of such controls, we give our separate report in "Annexure";
 - i. With respect to the other matters to be included in the Auditor's Report in accordance with the requirements of section 197(16) of the Act, as amended;

In our opinion and to the best of our information and according to the explanations given to us, requirements prescribed under section 197 of the Act is not applicable by virtue of section 35B (2A) of the Banking Regulation Act, 1949.

- j. With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
- i. The Bank has disclosed the impact of pending litigations on its financial position in its standalone financial statements – Refer Schedule 12 - Contingent Liabilities to the standalone financial statements;
 - ii. The Bank has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts;
 - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Bank.

For Haribhakti & Co. LLP

Chartered Accountants

Firm Registration No.103523W / W100048

Purushottam Nyati

Partner

Membership No. 118970

Place: Mumbai

Date: April 25, 2019

Annexure to the Independent Auditor's Report

[Referred to in paragraph 3 (h) under 'Report on Other Legal and Regulatory Requirements' in the Independent Auditor's Report of even date to the members of Axis Bank Limited on the standalone Financial Statements for the year ended March 31, 2019]

Report on the Internal Financial Controls with reference to Standalone Financial Statements under clause (i) of sub-section 3 of section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls with reference to Standalone Financial Statements of Axis Bank Limited ("the Bank") as of March 31, 2019 in conjunction with our audit of the standalone Financial Statements of the Bank for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Bank's management is responsible for establishing and maintaining internal financial controls based on the internal control with reference to Standalone Financial Statements criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") issued by the Institute of Chartered Accountants of India ("ICAI"). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditors' Responsibility

Our responsibility is to express an opinion on the Bank's internal financial controls with reference to Standalone Financial Statements based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing specified under section 143(10) of the Act to the extent applicable to an audit of internal financial controls, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls with reference to Standalone Financial Statements was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to Standalone Financial Statements and their operating effectiveness.

Our audit of internal financial controls with reference to Standalone Financial Statements included obtaining an understanding of internal financial controls with reference to Standalone Financial Statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal controls based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Standalone Financial Statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls with reference to Standalone Financial Statements.

Meaning of Internal Financial Controls with reference to Standalone Financial Statements

A Bank's internal financial control with reference to Standalone Financial Statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Standalone Financial Statements for external purposes in accordance with generally accepted accounting principles. A Bank's internal financial control with reference to Standalone Financial Statements includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of Standalone Financial Statements in accordance

with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorisations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Bank's assets that could have a material effect on the Standalone Financial Statements.

Inherent Limitations of Internal Financial Controls with reference to Standalone Financial Statements

Because of the inherent limitations of internal financial controls with reference to Standalone Financial Statements, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls with reference to Standalone Financial Statements to future periods are subject to the risk that the internal financial controls with reference to Standalone Financial Statements may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the Bank has, in all material respects, an adequate internal financial controls with reference to Standalone Financial Statements and such internal financial controls with reference to Standalone Financial Statements were operating effectively as at March 31, 2019, based on the internal control with reference to Standalone Financial Statements criteria established by the Bank considering the essential components of internal controls stated in the Guidance Note issued by the ICAI.

For Haribhakti & Co. LLP

Chartered Accountants

Firm Registration No.103523W/W100048

Purushottam Nyati

Partner

Membership No. 118970

Place: Mumbai

Date: April 25, 2019