

SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March, 2016

1 Background

Axis Bank Limited ('the Bank') was incorporated in 1993 and provides a complete suite of corporate and retail banking products. The Bank is primarily governed by the Banking Regulation Act, 1949. The Bank has overseas branches at Singapore, Hong Kong, DIFC - Dubai, Shanghai and Colombo.

2 Basis of preparation

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting in accordance with the generally accepted accounting principles in India to comply with the statutory requirements prescribed under the Banking Regulation Act, 1949, the circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time and the Accounting Standards notified under Section 133 of the Companies Act, 2013 read together with paragraph 7 of the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules, 2016 to the extent applicable and practices generally prevalent in the banking industry in India.

3 Use of estimates

The preparation of the financial statements in conformity with the generally accepted accounting principles requires the Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, revenues and expenses during the reporting period and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. The Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Any revisions to the accounting estimates are recognised prospectively in the current and future periods.

4 Significant accounting policies

4.1 Investments

Classification

In accordance with the RBI guidelines, investments are classified at the time of purchase as:

- Held for Trading ('HFT');
- Available for Sale ('AFS'); and
- Held to Maturity ('HTM').

Investments that are held principally for sale within a short period are classified as HFT securities. As per the RBI guidelines, HFT securities, which remain unsold for a period of 90 days are reclassified as AFS securities.

Investments that the Bank intends to hold till maturity are classified under the HTM category. Investments in the equity of subsidiaries/joint ventures are categorised as HTM in accordance with the RBI guidelines.

All other investments are classified as AFS securities.

However, for disclosure in the Balance Sheet, investments in India are classified under six categories - Government Securities, Other approved securities, Shares, Debentures and Bonds, Investment in Subsidiaries/Joint Ventures and Others.

Investments made outside India are classified under three categories – Government Securities, Subsidiaries and/or Joint Ventures abroad and Others.

Transfer of security between categories

Transfer of security between categories of investments is accounted as per the RBI guidelines.

Acquisition cost

Costs including brokerage and commission pertaining to investments, paid at the time of acquisition, are charged to the Profit and Loss Account.

SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Broken period interest is charged to the Profit and Loss Account.

Cost of investments is computed based on the weighted average cost method.

Valuation

Investments classified under the HTM category are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised over the period remaining to maturity on a constant yield to maturity basis. In terms of RBI guidelines, discount on securities held under HTM category is not accrued and such securities are held at the acquisition cost till maturity.

Investments classified under the AFS and HFT categories are marked to market. The market/fair value of quoted investments included in the 'AFS' and 'HFT' categories is the market price of the scrip as available from the trades/quotes on the stock exchanges or prices declared by Primary Dealers Association of India ('PDAI') jointly with Fixed Income Money Market and Derivatives Association of India ('FIMMDA'), periodically. Net depreciation, if any, within each category of each investment classification is recognised in the Profit and Loss Account. The net appreciation if any, under each category of each investment classification is ignored. The book value of individual securities is not changed consequent to the periodic valuation of investments. Non-performing investments are identified and provision is made thereon as per RBI guidelines.

Treasury Bills, Exchange Funded Bills, Commercial Paper and Certificate of Deposits being discounted instruments, are valued at carrying cost.

Units of mutual funds are valued at the latest repurchase price/net asset value declared by the mutual fund.

Market value of investments where current quotations are not available, is determined as per the norms prescribed by the RBI as under:

- in case of unquoted bonds, debentures and preference shares where interest/dividend is received regularly (i.e. not overdue beyond 90 days), the market price is derived based on the YTM for Government Securities as published by FIMMDA/PDAI and suitably marked up for credit risk applicable to the credit rating of the instrument. The matrix for credit risk mark-up for each categories and credit ratings along with residual maturity issued by FIMMDA is adopted for this purpose;
- in case of bonds and debentures (including Pass Through Certificates) where interest is not received regularly (i.e. overdue beyond 90 days), the valuation is in accordance with prudential norms for provisioning as prescribed by RBI;
- equity shares, for which current quotations are not available or where the shares are not quoted on the stock exchanges, are valued at break-up value (without considering revaluation reserves, if any) which is ascertained from the company's latest Balance Sheet. In case the latest Balance Sheet is not available, the shares are valued at ₹1 per company;
- units of Venture Capital Funds ('VCF') held under AFS category where current quotations are not available are marked to market based on the Net Asset Value ('NAV') shown by VCF as per the latest audited financials of the fund. In case the audited financials are not available for a period beyond 18 months, the investments are valued at ₹1 per VCF. Investment in unquoted VCF after 23 August, 2006 are categorised under HTM category for the initial period of three years and valued at cost as per RBI guidelines and
- security receipts are valued as per the NAV obtained from the issuing Reconstruction Company/Securitisation Company.

Investments in subsidiaries/joint ventures are categorised as HTM and assessed for impairment to determine permanent diminution, if any, in accordance with the RBI guidelines.

Realised gains on investments under the HTM category are recognised in the Profit and Loss Account and subsequently appropriated to Capital Reserve account (net of taxes and transfer to statutory reserves) in accordance with the RBI guidelines. Losses are recognised in the Profit and Loss Account. Realised gains/losses on investments under the AFS and HFT category are recognised in the Profit and Loss Account.

All investments are accounted for on settlement date, except investments in equity shares which are accounted for on trade date.

Repurchase and reverse repurchase transactions

Repurchase and reverse repurchase transactions in government securities and corporate debt securities [excluding those conducted under the Liquidity Adjustment Facility ('LAF') and Marginal Standby Facility ('MSF') with RBI] are accounted as collateralised borrowing and lending respectively. Such transactions done under LAF and MSF are accounted as outright sale and outright purchase respectively.

Short Sales

In accordance with the RBI guidelines, the Bank undertakes short sale transactions in Central Government dated securities. The short positions are reflected in 'Securities Short Sold ('SSS') A/c', specifically created for this purpose. Such short positions are categorised under HFT category. These positions are marked-to-market along with the other securities under HFT portfolio and the resultant mark-to-market gains/losses are accounted for as per the relevant RBI guidelines for valuation of investments discussed earlier.

4.2 Advances

Advances are classified into performing and non-performing advances ('NPAs') as per the RBI guidelines and are stated net of specific provisions made towards NPAs and floating provisions. Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by the RBI. Advances held at the overseas branches that are identified as impaired as per host country regulations for reasons other than record of recovery, but which are standard as per the RBI guidelines, are classified as NPAs to the extent of amount outstanding in the host country. Provisions for NPAs are made for sub-standard and doubtful assets at rates as prescribed by the RBI with the exception for agriculture advances and schematic retail advances. In respect of schematic retail advances, provisions are made in terms of a bucket-wise policy upon reaching specified stages of delinquency (90 days or more of delinquency) under each type of loan, which satisfies the RBI prudential norms on provisioning. Provisions in respect of agriculture advances classified into sub-standard and doubtful assets are made at rates which are higher than those prescribed by the RBI. Provisions for advances booked in overseas branches, which are standard as per the RBI guidelines but are classified as NPAs based on host country guidelines, are made as per the host country regulations.

In addition to the above, the Bank on a prudential basis, makes provision for expected losses against advances or other exposures to specific assets/industry/sector either on a case-by-case basis or for a group of assets, based on specific information or general economic environment. These are classified as contingent provision and included under Schedule 5 - Other Liabilities in the Balance Sheet.

Loss assets and unsecured portion of doubtful assets are provided/written off as per the extant RBI guidelines. NPAs are identified by periodic appraisals of the loan portfolio by the Management.

Amounts recovered against debts written off are recognised in the Profit and Loss account.

For restructured/rescheduled assets, provision is made in accordance with the guidelines issued by RBI, which requires the diminution in the fair value of the assets to be provided at the time of restructuring.

The Bank makes provision in accordance with the RBI guidelines, on assets subjected to Strategic Debt Restructuring.

For entities with Unhedged Foreign Currency Exposure (UFCE), provision is made in accordance with the guidelines issued by RBI, which requires to ascertain the amount of UFCE, estimate the extent of likely loss and estimate the riskiness of unhedged position. This provision is classified under Schedule 5 – Other Liabilities in the Balance Sheet.

The Bank maintains a general provision on standard advances at the rates prescribed by RBI. In case of overseas branches, general provision on standard advances is maintained at the higher of the levels stipulated by the respective overseas regulator or RBI.

Under its home loan portfolio, the Bank offers housing loans with certain features involving waiver of Equated Monthly Installments ('EMIs') of a specific period subject to fulfilment of a set of conditions by the borrower. The Bank makes provision on an estimated basis against the probable loss that could be incurred in future on account of waivers to eligible borrowers in respect of such loans. This provision is classified under Schedule 5 – Other Liabilities in the Balance Sheet.

SIGNIFICANT ACCOUNTING POLICIES (CONT.)

4.3 Country risk

In addition to the provisions required to be held according to the asset classification status, provisions are held for individual country exposure (other than for home country as per the RBI guidelines). The countries are categorised into seven risk categories namely insignificant, low, moderate, high, very high, restricted and off-credit and provision is made on exposures exceeding 180 days on a graded scale ranging from 0.25% to 100%. For exposures with contractual maturity of less than 180 days, 25% of the normal provision requirement is held. If the country exposure (net) of the Bank in respect of each country does not exceed 1% of the total funded assets, no provision is maintained on such country exposure.

4.4 Securitisation

The Bank enters into purchase/sale of corporate and retail loans through direct assignment/Special Purpose Vehicle ('SPV'). In most cases, post securitisation, the Bank continues to service the loans transferred to the assignee/SPV. The Bank also provides credit enhancement in the form of cash collaterals and/or by subordination of cash flows to Senior Pass Through Certificate ('PTC') holders. In respect of credit enhancements provided or recourse obligations (projected delinquencies, future servicing etc.) accepted by the Bank, appropriate provision/disclosure is made at the time of sale in accordance with AS-29, Provisions, Contingent Liabilities and Contingent Assets as notified under Section 133 of the Companies Act, 2013 read together with paragraph 7 of the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules, 2016.

In accordance with RBI guidelines of 7 May, 2012, on 'Guidelines on Securitisation of Standard Assets', gain on securitisation transaction is recognised over the period of the underlying securities issued by the SPV as prescribed under RBI guidelines. Loss on securitisation is immediately debited to the Profit and Loss Account.

4.5 Foreign currency transactions

In respect of domestic operations, transactions denominated in foreign currencies are accounted for at the rates prevailing on the date of the transaction. Monetary foreign currency assets and liabilities are translated at the Balance Sheet date at rates notified by Foreign Exchange Dealers Association of India ('FEDAI'). All profits/losses resulting from year end revaluations are recognised in the Profit and Loss Account.

Financial statements of foreign branches classified as non-integral foreign operations as per the RBI guidelines are translated as follows:

- Assets and liabilities (both monetary and non-monetary as well as contingent liabilities) are translated at closing rates notified by FEDAI at the year end.
- Income and expenses are translated at the rates prevailing on the date of the transactions.
- All resulting exchange differences are accumulated in a separate 'Foreign Currency Translation Reserve' till the disposal of the net investments. Any realised gains or losses are recognised in the Profit and Loss Account.

Outstanding forward exchange contracts including tom/spot contracts (excluding currency swaps undertaken to hedge foreign currency assets/liabilities and funding swaps which are not revalued) are revalued at year end on PV basis by discounting the forward value till spot date and converting the FCY amount using the respective spot rates as notified by FEDAI. The resulting gains or losses on revaluation are included in the Profit and Loss Account in accordance with RBI/FEDAI guidelines.

Premium/discount on currency swaps undertaken to hedge foreign currency assets and liabilities and funding swaps is recognised as interest income/expense and is amortised on a pro-rata basis over the underlying swap period.

Contingent liabilities on account of forward exchange and derivative contracts, guarantees, acceptances, endorsements and other obligations denominated in foreign currencies are disclosed at closing rates of exchange notified by FEDAI.

4.6 Derivative transactions

Derivative transactions comprise of forward contracts, swaps and options which are disclosed as contingent liabilities. The forwards, swaps and options are categorised as trading or hedge transactions. Trading derivative contracts are revalued at the Balance Sheet date with the resulting unrealised gain or loss being recognised in the Profit and Loss Account and correspondingly in other assets or other liabilities respectively. For hedge transactions, the Bank identifies the hedged item (asset or liability) at the inception of transaction itself. The effectiveness is ascertained at the time of inception of the hedge and periodically thereafter. Hedge swaps are accounted for on accrual basis except in case of swaps designated with an asset or liability that is carried at market value or lower of cost or market value in the financial statements. In such cases the swaps are marked to market with the resulting gain or loss recorded as an adjustment to the market value of designated asset or liability. The premium on option contracts is accounted for as per FEDAI guidelines. Pursuant to the RBI guidelines any receivables under derivative contracts comprising of crystallised receivables as well as positive Mark to Market (MTM) in respect of future receivables which remain overdue for more than 90 days are reversed through the Profit and Loss Account and are held in separate Suspense Account.

Currency futures contracts are marked to market using daily settlement price on a trading day, which is the closing price of the respective futures contracts on that day. While the daily settlement price is computed based on the last half an hour weighted average price of such contract, the final settlement price is taken as the RBI reference rate on the last trading day of the futures contract or as may be specified by the relevant authority from time to time. All open positions are marked to market based on the settlement price and the resultant marked to market profit/loss is daily settled with the exchange.

Valuation of Exchange Traded Currency Options (ETCO) is carried out on the basis of the daily settlement price of each individual option provided by the exchange and valuation of Interest Rate Futures (IRF) is carried out on the basis of the daily settlement price of each contract provided by the exchange.

4.7 Revenue recognition

Interest income is recognised on an accrual basis except interest income on non-performing assets, which is recognised on receipt in accordance with AS-9, Revenue Recognition as notified under Section 133 of the Companies Act, 2013 read together with paragraph 7 of the Companies (Accounts) Rules, 2014, the Companies (Accounting Standards) Amendment Rules, 2016 and the RBI guidelines.

Fees and commission income is recognised when due, except for guarantee commission which is recognised on a pro-rata basis over the period of the guarantee.

Arrangership/syndication fee is accounted for on completion of the agreed service and when right to receive is established.

Dividend is accounted on an accrual basis when the right to receive the dividend is established.

Gain/loss on sell down of loans and advances through direct assignment is recognised at the time of sale.

In accordance with RBI guidelines on sale of non-performing advances, if the sale is at a price below the net book value (i.e. book value less provisions held), the shortfall is charged to the Profit and Loss Account. If the sale is for a value higher than the net book value, the excess provision is credited to the Profit and Loss Account in the year the amounts are received.

The Bank deals in bullion business on a consignment basis. The difference between the price recovered from customers and cost of bullion is accounted for at the time of sale to the customers. The Bank also deals in bullion on a borrowing and lending basis and the interest paid/received is accounted on an accrual basis.

4.8 Fixed assets and depreciation/impairment

Fixed assets are carried at cost of acquisition less accumulated depreciation and impairment, if any. Cost includes freight, duties, taxes and incidental expenses related to the acquisition and installation of the asset.

Capital work-in-progress includes cost of fixed assets that are not ready for their intended use and also includes advances paid to acquire fixed assets.

Depreciation is provided over the estimated useful life of a fixed asset on the straight-line method from the date of addition. The management believes that depreciation rates currently used, fairly reflect its estimate of the useful lives and residual values of fixed assets, though these rates in certain cases are different from lives prescribed under Schedule II of Companies Act, 2013.

Asset	Estimated useful life
Owned premises	60 years
Computer hardware including printers	3 years
Application software	5 years
Vehicles	4 years
EPABX, telephone instruments	8 years
CCTV and video conferencing equipment	3 years
Mobile phone	2 years
Locker cabinets/cash safe/strong room door	10 years
Modem, scanner, routers, hubs, switches, racks/cabinets for IT equipment	5 years
UPS, VSAT, fax machines	5 years
Cheque book/cheque encoder, currency counting machine, fake note detector	5 years
Assets at staff residence	3 years
All other fixed assets	10 years

Depreciation on assets sold during the year is recognised on a pro-rata basis to the Profit and Loss Account till the date of sale.

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Profit on sale of premises is appropriated to Capital Reserve Account in accordance with RBI instructions.

The carrying amounts of assets are reviewed at each Balance Sheet date to ascertain if there is any indication of impairment based on internal/external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

4.9 Lease transactions

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the lease term are classified as operating lease. Lease payments for assets taken on operating lease are recognised as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

4.10 Retirement and other employee benefits

Provident Fund

Retirement benefit in the form of provident fund is a defined benefit plan wherein the contributions are charged to the Profit and Loss Account of the year when the contributions to the fund are due and when services are rendered by the employees. Further, an actuarial valuation is conducted by an independent actuary using the Projected Unit Credit Method as at 31 March each year to determine the deficiency, if any, in the interest payable on the contributions as compared to the interest liability as per the statutory rate.

Gratuity

The Bank contributes towards gratuity fund (defined benefit retirement plan) administered by various insurers for eligible employees. Under this scheme, the settlement obligations remain with the Bank, although various insurers administer the scheme and determine the contribution premium required to be paid by the Bank. The plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee's salary and the years of employment with the Bank. Liability with regard to gratuity fund is accrued based on actuarial valuation conducted by an independent actuary using the Projected Unit Credit Method as at 31 March each year. In respect of employees at overseas branches (other than expatriates) liability with regard to gratuity is provided on the basis of a prescribed method as per local laws, wherever applicable.

Compensated Absences

Short term compensated absences are provided for based on estimates of encashment/availment of leave. The Bank provides long term compensated absences based on actuarial valuation conducted by an independent actuary. The actuarial valuation is carried out as per the Projected Unit Credit Method as at 31 March each year.

Actuarial gains/losses are immediately taken to the Profit and Loss Account and are not deferred.

Superannuation

Employees of the Bank are entitled to receive retirement benefits under the Bank's Superannuation scheme either under a cash-out option through salary or under a defined contribution plan. Through the defined contribution plan, the Bank contributes annually a specified sum of 10% of the employee's eligible annual basic salary to LIC, which undertakes to pay the lumpsum and annuity benefit payments pursuant to the scheme. Superannuation contributions are recognised in the Profit and Loss Account in the period in which they accrue.

4.11 Reward points

The Bank runs a loyalty program which seeks to recognise and reward customers based on their relationship with the Bank. Under the program, eligible customers are granted loyalty points redeemable in future, subject to certain conditions. In addition, the Bank continues to grant reward points in respect of certain credit cards (not covered under the loyalty program). The Bank estimates the probable redemption of such loyalty/reward points using an actuarial method at the Balance Sheet date by employing an independent actuary. Provision for the said reward points is then made based on the actuarial valuation report as furnished by the said independent actuary.

4.12 Taxation

Income tax expense is the aggregate amount of current tax and deferred tax charge. Current year taxes are determined in accordance with the Income tax Act, 1961. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the Balance Sheet date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the taxes on income levied by same governing taxation laws.

Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. The impact of changes in the deferred tax assets and liabilities is recognised in the Profit and Loss Account.

Deferred tax assets are recognised and reassessed at each reporting date, based upon the Management's judgement as to whether realisation is considered as reasonably certain. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty supported by convincing evidence that such deferred tax asset can be realised against future profits.

4.13 Share issue expenses

Share issue expenses are adjusted from Share Premium Account in terms of Section 52 of the Companies Act, 2013.

4.14 Earnings per share

The Bank reports basic and diluted earnings per share in accordance with AS-20, Earnings per Share, as notified under Section 133 of the Companies Act, 2013 read together with paragraph 7 of the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules, 2016. Basic earnings per share is computed by dividing the net profit after tax by the weighted average number of equity shares outstanding for the year.

Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted during the year. Diluted earnings per share is computed using the weighted average number of equity shares and dilutive potential equity shares outstanding at the year end.

4.15 Employee stock option scheme

The 2001 Employee Stock Option Scheme ('the Scheme') provides for grant of stock options on equity shares of the Bank to employees and Directors of the Bank and its subsidiaries. The Scheme is in accordance with the Securities and Exchange Board of India (SEBI) (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ('the Guidelines'). These Guidelines have been repealed in the month of October, 2014 and were substituted by Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014. The Scheme is in compliance with the said regulations. The Bank follows the intrinsic value method to account for its stock based employee compensation plans as per the Guidelines. Options are granted at an exercise price, which is equal to/less than the fair market price of the underlying equity shares. The excess of such fair market price over the exercise price of the options as at the grant date is recognised as a deferred compensation cost and amortised on a straight-line basis over the vesting period of such options.

The fair market price is the latest available closing price, prior to the date of grant, on the stock exchange on which the shares of the Bank are listed. If the shares are listed on more than one stock exchange, then the stock exchange where there is highest trading volume on the said date is considered.

4.16 Provisions, contingent liabilities and contingent assets

A provision is recognised when the Bank has a present obligation as a result of past event where it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. A disclosure of contingent liability is made when there is:

- a possible obligation arising from a past event, the existence of which will be confirmed by occurrence or non-occurrence of one or more uncertain future events not within the control of the Bank; or
- a present obligation arising from a past event which is not recognised as it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.