

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, 2021, 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. (hereinafter referred to as "standalone financial statements")

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, 2021, 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 on the standalone financial statements.

Emphasis of Matter

We draw attention to Note 1.2 of Schedule 18 to the standalone financial statements which explains that the extent to which COVID-19 pandemic will impact the Bank's operations and financial results is dependent on future developments, which are highly uncertain.

Our opinion is not modified in respect of this matter.

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 year. 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.

Sr. No. Key audit matters	How our audit addressed the key audit matter
<p>1. Information Technology (IT) Controls Framework</p> <p>The 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 and each application has different rules and a different set of user access and authority matrix. These applications are interlinked using different technologies so that 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 the financial accounting and reporting process of the Bank.</p>	<p>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.</p> <p>As 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.</p> <p>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.</p>

Standalone Financial Statements

Sr. No. Key audit matters	How our audit addressed the key audit matter
<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 have identified IT Controls Framework 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 its 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 tested compensating controls and performed alternate procedures, where necessary, to draw comfort.</p>
<p>2. Classification, Provisioning and Write off of Advances</p>	
<p><i>(Refer schedule 5, schedule 9, note 5.2 of schedule 17, note 1.2, 2.1.1 and note 2.1.8 of schedule 18 to the standalone financial statements)</i></p>	<p>Our audit procedures included, but were not limited to the following:</p>
<p>The Bank's portfolio of advances to customers amounts to ₹ 6,23,720.19 crores as at March 31, 2021.</p>	<p>1. We gained understanding of processes by carrying out walkthrough and tested the key controls identified by us over borrower risk grading for advances (including larger customer exposures that are monitored individually) on classification of such advances as performing or non-performing:</p>
<p>As required under Income Recognition, Asset Classification and Provisioning Norms (IRAC norms), guidelines on COVID 19 related Regulatory Package dated March 27, 2020, April 17, 2020 and May 23, 2020 issued by the Reserve Bank of India (the "RBI") ('Regulatory Package'), Circulars on Resolution Framework for COVID-19 related stress and restructuring of advances dated August 06, 2020 ('Resolution Framework') and other circulars, notifications and directives issued by the RBI, the Bank classifies advances to performing and non-performing which consists of Standard, Sub-standard, Doubtful and Loss and recognizes appropriate provisions.</p>	<ul style="list-style-type: none"> • Tested on sample basis, the annual review /renewal assessments carried out by the management and controls over the monitoring of credit quality; • Evaluated the design of internal controls relating to borrower wise classification of loan in the respective asset classes viz., standard, sub-standard, doubtful and loss with reference to their days-past-due (DPD) status (including consideration of non-financial parameters of NPA, restructuring guidelines, the Regulatory Package and Resolution framework) and provisioning of advances. Tested the operating effectiveness of these internal controls; • Tested loans on sample basis to form our own assessment as to whether impact of impairment events have been recognised in a timely manner by the Bank; • Made inquiries with management regarding any effects considered on the NPA identification and / or provisioning, resulting from observations raised by the RBI during their annual inspection of the Bank's operations; • For the selected non-performing advances, assessed Management's forecast and inputs on recoverability of cash flows, impact of auditor's comments on the financial statements, valuation of underlying security and collaterals, estimation on recoverability of amount in default and other sources of repayment; • Held specific discussions with the credit and risk departments to ascertain how various Early Warning Signal (EWS) and potential defaults have been identified and assessed in determining the NPA.
<p>The Bank, as per its governing framework, made the performing and non-performing advances provisions based on Management's assessment of the degree of impairment of the advances subject to and guided by minimum provisioning levels prescribed under RBI guidelines.</p>	<p>2. Performed credit assessments of a sample of corporate and retail loans including larger exposures assessed by the Bank as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We reviewed the Bank's risk grading of the loan, their account statement review and 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.</p>
<p>The classification, provisioning and write off of advances is a Key Audit Matter as the Bank has significant exposure to a large number of borrowers across various sectors, products, industries and geographies and there is a high degree of complexity, uncertainty and judgment involved in recoverability of advances, nature of transactions, estimation of provisions thereon and identification of accounts to be written off.</p>	
<p>The same resulted in significant audit efforts to address the risks around loan recoverability, classification and the determination of related provisions and write off.</p>	

Sr. No. Key audit matters	How our audit addressed the key audit matter
3.	Reviewed Bank's policy including SOPs with respect to implementation of Regulatory package and Resolution framework ('guidelines') and tested sample to ascertain the implementation of those guidelines by the Bank.
4.	<p>Provisions for advances:</p> <ul style="list-style-type: none"> i. Tested the Bank's processes for making provision on advances for compliance with RBI regulations and internally laid down policies for provisioning; ii. Tested the completeness and accuracy of data transferred from underlying source systems used for computing collective provision; iii. Considered board approved policy and internal laid down policy for higher provision for weak standard advances, advances covered under Resolution Framework, stressed sectors, adopted by the Bank; iv. Validated the parameters used to calculate provisions with reference to IRAC norms, internal policies on higher provisions on NPA advances; v. Re-performed, on sample basis for retail and Corporate portfolios, the calculation of provisions, to determine the accuracy of the same; vi. With respect to holding provisions as at March 31, 2021 against the potential impact of COVID-19 including provisions held under Resolution Framework, we broadly reviewed the underlying assumptions and estimates used by the management for the same but as the extent of impact is dependent on future developments which are highly uncertain, we primarily relied on those assumptions and estimates. These assumptions and estimates are a subject matter of periodic review by the Bank.

Other Information

The Bank's Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the standalone financial statements, consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the standalone financial statements does not cover the other information and 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 identified above when it becomes available 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 Annual 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 prescribed under Section 133 of the Act, read with the 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.

Standalone Financial Statements

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 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 the 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 year 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.

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 Act 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. 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;
- d. The financial accounting systems of the Bank are centralized and therefore, accounting returns for the purpose of preparing standalone financial statements are not required to be submitted by the branches; we have visited 135 branches for the purpose of our audit.
- 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 prescribed 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, 2021, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2021 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, refer to our separate report in "Annexure";
- i. With respect to the other matter to be included in the Auditor's Report in accordance with the requirements of Section 197(16) of the Act;

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 - Refer Schedule 5 read with note 2.2.16 of schedule 18 to the standalone financial statements in respect of such items as it relates to the Bank;
 - 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

ICAI Firm Registration No.103523W / W100048

Purushottam Nyati

Partner

Membership No. 118970

UDIN. 21118970AAAADD7419

Place: Mumbai

Date: April 27, 2021

Standalone Financial Statements

ANNEXURE TO THE INDEPENDENT AUDITOR'S REPORT

[Referred to in paragraph 2(h) under 'Report on Other Legal and Regulatory Requirements' section in our 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, 2021]

Report on the Internal Financial Controls with reference to 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 financial statements of Axis Bank Limited ("the Bank") as of March 31, 2021 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 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 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 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 financial statements and their operating effectiveness.

Our audit of internal financial controls with reference to financial statements included obtaining an understanding of internal financial controls with reference to 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 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 financial statements.

Meaning of Internal Financial Controls with reference to Financial Statements

A Bank's internal financial control with reference to financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's internal financial control with reference to 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 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 financial statements.

Inherent Limitations of Internal Financial Controls with reference to Financial Statements

Because of the inherent limitations of internal financial controls with reference to 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 financial statements to future periods are subject to the risk that the internal financial controls with reference to 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, adequate internal financial controls with reference to the financial statements and such internal financial controls with reference to financial statements were operating effectively as at March 31, 2021, based on the internal control with reference to 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

ICAI Firm Registration No.103523W / W100048

Purushottam Nyati

Partner

Membership No. 118970

UDIN. 21118970AAAADD7419

Place: Mumbai

Date: April 27, 2021