MANAGEMENT'S DISCUSSION AND ANALYSIS

MACRO-ECONOMIC ENVIRONMENT

Global growth accelerated during fiscal 2018, with a synchronized recovery in US, the Euro area, and Japan; even China seemed to be stabilizing. A pervasive sense of investor confidence led to unusually low financial markets volatility, resulting in aggressive pricing of risk assets across bond and emerging markets. Oil prices rose during the year, as OPEC cuts led inventories to be drawn down, while metal prices recovered along with fall in inventories due to stronger demand. Global Inflation, however, has remained persistently below central bank's targets. However, global central banks are becoming more hawkish, with at least 3 Fed rate hikes in 2018, an ECB rate hike in 2019, and the end of Quantitative Easing by Bank of Japan in 2019 all now within the realm of possibility.

India's macro fundamentals have remained broadly stable, but with oil prices no longer falling, the tailwinds from falling inflation and a low current account deficit are fading. At the same time, the government has extended the fiscal consolidation programme, raising deficit targets for both FY18 and FY19. Domestic growth appears to be recovering cyclically, and high frequency indicators showing a recovery more pronounced in manufacturing than in services. Both remain drivers of a stronger GDP print, with the CSO estimating FY18 growth at 6.6%, and the RBI forecasting FY19 growth at 7.4%.

Capex trends are beginning to improve, as seen in IIP and other high frequency indicators, and as noted by the RBI in its latest monetary policy review. Corporate credit growth is better than the troughs following the demonetization exercise, but this currently appears to be partially due to working capital financing. A reallocation from market instruments, which tightening liquidity has made less attractive, to bank credit is also a factor.

At the first RBI Monetary Policy Committee (MPC) meeting in early April, members did express concerns on upside risks to inflation, but seemed more confident over a lower trajectory, which they projected only slightly above the 4% target well into FY20 (with the caveat that these did not factor in the new Minimum Support Prices formula). The risks to inflation which appeared tilted to the upside – lengthening of fiscal consolidation, potentially higher inflation through the new Minimum Support Prices (MSP) formula and higher customs duty, high household inflation expectations, global central bank tightening, higher commodity prices, etc – will play a role in determining the stance of policy. The MPC chose to continue with its neutral stance so as to nurture the nascent recovery.

PROSPECTS FOR FISCAL 2019

The IMF projects Global growth prospects to remain firm in the coming year, with lower taxes and fiscal expansion in the US, as well as potential Eurozone reforms amid accommodative financing conditions. China's able stewardship of the shift to a lower and sustainable growth trajectory has led to some easing in investor uncertainty. However, fresh risks are asserting themselves. Higher oil and commodity prices might once again lead to larger trade imbalances, increasing future potential volatility. A potential trade war, with US tariffs on steel seeing retaliation from other countries, might escalate. The effects of faster than expected withdrawal of stimulus, can still hit markets where risks are priced aggressively, particularly Emerging Markets currencies.

Although our base projections indicate that CPI inflation in India is likely to average ~4.3% over FY19, there are many upside risks, including the pass through to fuel of high oil prices, spatial and temporal distribution of monsoon rains, implementation of 7th Pay Commission awards for State Government employees and steep increase in kharif MSP. Given these risks, which are reflected in the minutes of the latest meeting, we expect the Monetary Policy Committee to remain on an extended pause with a rising probability of eventual tightening. Liquidity will be tighter than in FY 18, and market interest rates have risen back from low levels to those more commensurate with seasonal patterns. Assuming that liquidity conditions will be maintained around neutral levels by the RBI, short end interest rates are likely to remain linked to the RBI repo rate. However, long term rates retain the potential to be driven by broader market trends, as in the past few months.

As per our base projections, India's growth is expected to improve to 7.3% in FY19, with much of the increase likely from higher consumption. Investment is likely to remain modest, particularly in H1, but capex spend will be supported by spends on urban infrastructure and road and rail projects, renewable energy and affordable housing. Bank credit growth will also revive only gradually, since most of the initial capex will be public sector led.

As a result of these trends, the Rupee is likely to steadily depreciate, with RBI able to modulate volatility. The broad, longer term drift is likely to depend more on global trends, especially movements in other Emerging Market currencies.

OVERVIEW OF FINANCIAL PERFORMANCE

Operating performance

(₹ in crores)

Particulars	2017-18	2016-17	% change
Net interest income	18,617.73	18,093.12	2.90
Non-interest income	10,967.09	11,691.31	(6.19)
Operative revenue	29,584.82	29,784.43	(0.67)
Operating expenses	13,990.34	12,199.91	14.68
Operating profit	15,594.48	17,584.52	(11.32)
Provisions and contingencies	15,472.91	12,116.96	27.70
Profit before tax	121.57	5,467.56	(97.78)
Provision for tax	(154.11)	1,788.28	-
Net profit	275.68	3,679.28	(92.51)

Net profit for the year ended 31 March, 2018 contracted by 92.51% and stood at ₹275.68 crores, as compared to the net profit of ₹3,679.28 crores last year, primarily on account of higher provision for non-performing assets (NPAs). Operating profit reported a decline of 11.32% over the previous year to ₹15,594.48 crores with operating revenue decline of 0.67%.

Operating revenue declined from ₹29,784.43 crores in fiscal 2017 to ₹29,584.82 crores in fiscal 2018. Net interest income (NII) rose 2.90% from ₹18,093.12 crores in fiscal 2017 to ₹18,617.73 crores in fiscal 2018. Non-interest income consisting of fee, trading and other income declined by 6.19% from ₹11,691.31 crores in fiscal 2017 to ₹10,967.09 crores in fiscal 2018. However fee income grew strongly by 12.50% from ₹7,882.01 crores in fiscal 2017 to ₹8,866.97 crores in fiscal 2018. Trading profit declined by 52.45% and stood at ₹1,616.76 crores in fiscal 2018.

Operating expenses rose 14.68% from ₹12,199.91 crores in fiscal 2017 to ₹13,990.34 crores in fiscal 2018 as the Bank continued to invest in branch infrastructure, technology and human capital to support its business growth. Decline in operating revenues along with higher operating expenses this fiscal led to a decline in the Bank's operating profit by 11.32% to ₹15,594.48 crores from ₹17,584.52 crores reported last year. Provisions and contingencies jumped 27.70% from ₹12,116.96 crores in fiscal 2017 to ₹15,472.91 crores in fiscal 2018. Consequently, profit before taxes declined by 97.78% to ₹121.57crores and net profit contracted by 92.51%, from ₹3,679.28 crores in fiscal 2017 to ₹275.68 crores in fiscal 2018.

Net interest income

(₹ in crores)

Particulars	2017-18	2016-17	% change
Interest on loans	34,137.47	33,124.96	3.06
Interest on investments	9,983.30	9,622.82	3.75
Other interest income	1,659.54	1,794.38	(7.51)
Interest income	45,780.31	44,542.16	2.78
Interest on deposits	19,173.52	19,639.63	(2.37)
Other interest expense	7,989.06	6,809.41	17.32
Interest expense	27,162.58	26,449.04	2.70
Net interest income	18,617.73	18,093.12	2.90
Average interest earning assets[1]	541,127	492,868	9.79
Average CASA[1]	179,731	151,678	18.50
Net interest margin	3.44%	3.67%	-
Yield on assets	8.44%	8.97%	-
Yield on advances	9.12%	9.77%	-
Yield on investments	7.14%	7.49%	-
Cost of funds	5.15%	5.60%	-
Cost of deposits	4.89%	5.54%	-

[1] computed on daily average basis

NII constituted 62.93% of the operating revenue and increased by 2.90% from ₹18,093.12 crores in fiscal 2017 to ₹18,617.73 crores in fiscal 2018. The increase is primarily due to an increase in average interest earning assets on a daily average basis by 9.79%, even as net interest margin (NIM) during the fiscal year 2018 contracted by 23 bps to 3.44%. The decline in NIM was mainly on account of higher fall in yield on interest earning assets of 53 basis points (bps) as compared to 45 bps decline in cost of funds.

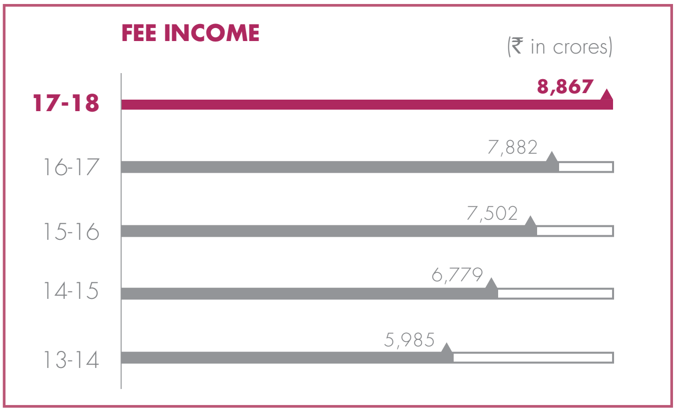
During this period, the yield on interest earning assets decreased from 8.97% last year to 8.44%. The yield on advances declined by 65 bps from 9.77% in fiscal 2017 to 9.12% in fiscal 2018 primarily due to higher interest reversals on NPAs and reduction in base rate by 20 bps, even as marginal cost of funds based lending rate (MCLR) rose by 15 bps in the last quarter of the fiscal 2018. The yield on investments contracted by 35 bps during the fiscal 2018. Cost of funds also moderated by 45 bps from 5.60% in fiscal 2017 to 5.15% in fiscal 2018 led by moderation in the cost of deposits and further aided by the Bank's continued focus on CASA. During the year, the cost of deposits decreased to 4.89% from 5.54% last year, primarily due to a decrease in cost of term deposits by 73 bps to 6.91% from 7.64% last year. CASA deposits, on a daily average basis, reported a healthy increase of 18.50% to ₹179,731 crores from ₹151,678 crores last year.

Non-interest income

(₹ in crores)

Particulars	2017-18	2016-17	% change
Fee income	8,866.97	7,882.01	12.50
Trading profit	1,616.76	3,400.34	(52.45)
Miscellaneous income	483.36	408.96	18.19
Non-interest income	10,967.09	11,691.31	(6.19)

Non-interest income comprising fees, trading profit and miscellaneous income declined by 6.19% to ₹10,967.09 crores in fiscal 2018 from ₹11,691.31 crores last year and constituted 37.07% of the operating revenue of the Bank.



Fee income increased by 12.50% to ₹8,866.97 crores from ₹7,882.01 crores last year and continued to remain a significant part of the Bank's non-interest income. It constituted 80.85% of non-interest income and contributed 29.97% to the operating revenue. The share of granular fees comprising of Retail and Transaction Banking fees witnessed improvement during the year and stood at 75% compared to 70% last year. Retail card fees, Retail non-card fees and Transaction Banking fees constituted 18%, 30% and 27%, respectively of the total fee income in fiscal 2018. The Corporate Banking fee growth momentum remained weak during the year due to lack of fresh investment demand and the Bank's continued focus on better rated corporate clients. The share of Corporate fee in the overall fee profile stood at 18%. The rest 7% was contributed by Treasury and SME segments.

During the year, proprietary trading profits declined by 52.45% to ₹1,616.76 crores from ₹3,400.34 crores last year mainly on account of lower profits on SLR and bond portfolio in fiscal 2018 compared to fiscal 2017.

The Bank's miscellaneous income was higher at ₹483.36 crores compared to ₹408.96 crores in previous year mainly on account of recovery in written off accounts.

Operating revenue

The operating revenue of the Bank decreased by 0.67% to ₹29,584.82 crores from ₹29,784.43 crores last year. The core income streams (NII and fees) constituted 92.90% of the operating revenue, reflecting the stability of the Bank's earnings.

Operating expenses

(₹ in crores)

Particulars	2017-18	2016-17	% change
Staff cost	4,312.96	3,891.86	10.82
Depreciation	568.10	508.80	11.65
Other operating expenses	9,109.28	7,799.25	16.80
Operating expenses	13,990.34	12,199.91	14.68
Cost : Income Ratio	47.29%	40.96%	-
Cost : Assets Ratio	2.17%	2.13%	-

The operating expenses growth for the Bank moderated during the year to 14.68% as compared to 20.78% last year. The Bank continued to focus on making investments in expanding branch network and other infrastructure required for supporting the existing and new businesses, as a result of which the operating expenses increased to ₹13,990.34 crores from ₹12,199.91 crores last year. The operating expenses to assets ratio stood at 2.17% compared to 2.13% last year.

Staff cost increased by 10.82% from ₹3,891.86 crores in fiscal 2017 to ₹4,312.96 crores in fiscal 2018, primarily on account of 5.29% increase in employee strength from 56,617 as at end of fiscal 2017 to 59,614 as at the end of fiscal 2018.

Other operating expenses increased by 16.80% from ₹7,799.25 crores in fiscal 2017 to ₹9,109.28 crores in fiscal 2018. The increase is primarily due to investments in branch infrastructure and technology to support business growth. The Bank added 400 branches during fiscal 2018.

Operating profit

During the year, the operating profit of the Bank declined by 11.32% to ₹15,594.48 crores from ₹17,584.52 crores last year.

Provisions and contingencies

(₹ in crores)

Particulars	2017-18	2016-17	% change
Provision for non-performing assets	16,598.71	11,157.06	48.77
Provision for restructured assets/SDR/S4A	(307.16)	290.53	-
Provision for standard assets including unhedged foreign currency exposure	(144.30)	334.57	-
Provision for depreciation in value of investments	(211.01)	238.70	-
Provision for country risk	(19.94)	19.94	-
Provision for other contingencies	(443.39)	76.16	-
Provisions and contingencies	15,472.91	12,116.96	27.70

During fiscal 2018, the Bank created higher amount of total provisions (excluding provisions for tax) of ₹15,472.91 crores compared to ₹12,116.96 crores last year. The Bank provided ₹16,598.71 crores towards non-performing assets compared to ₹11,157.06 crores last year and ₹144.30 crores were written back for standard assets including unhedged foreign currency exposure compared to ₹334.57 crores provided last year. During the year, there was a net write-back in provision against restructured assets/SDR/S4A of ₹307.16 crores mainly due to accounts turning NPAs. The credit costs for fiscal 2018 stood at 3.57%, 75 bps higher than that witnessed in fiscal 2017.

Asset Quality Parameters

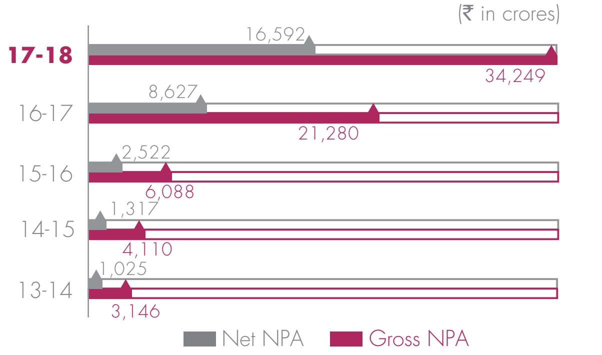
The asset quality stress during the year continued to remain largely dominated by legacy corporate loans to stressed sectors like iron and steel, infrastructure construction and power. The Bank added ₹33,419 crores as fresh addition to Gross NPAs during the fiscal year with the Bank's ratio of Gross NPAs to gross customer assets increasing to 6.77%, at the end of March 2018 from 5.04% as at end of March 2017. In February 2018, RBI issued revised guidelines on Resolution of Stressed Assets. Under the revised guidelines, all the extant instructions on resolution of stressed assets such as Framework for Revitalising Distressed Assets, Corporate

Debt Restructuring Scheme, Flexible Structuring of Existing Long Term Project Loans, SDR Scheme, Change in Ownership outside SDR and S4A Scheme were withdrawn with immediate effect. This has resulted in higher NPA slippages due to accounts under these schemes losing the 'stand still' benefit.

The Bank added ₹24,656 crores to Net NPAs after adjusting for recoveries and upgradations of ₹3,853 crores and ₹4,910 crores respectively and the Bank's Net NPA ratio (Net NPAs as percentage of net customer assets) increased to 3.40% from 2.11%.

During the fiscal, the Bank started disclosing the quantum of low rated pool of stressed accounts in addition to the Watch List disclosures, to provide a better sense of the source of stress. The Bank added ₹27,345 crores of corporate slippages during the year, of which 84% came from lower rated BB and below pool.

GROSS AND NET NPA



The Watch List that the Bank had first published in end March 2016 declined by 98% over FY17 and FY18 and residual balance of the same stood at ₹428 crores as on 31 March, 2018. The residual Watch List has now been dissolved and continues to be a part of the BB and below pool of standard advances.

The Bank's provision coverage remained steady during the fiscal and stood at 65% after considering prudential write-offs.

The net restructured book stood at ₹1,087 crores and net restructured assets ratio (net restructured assets as percentage of net customer assets) was 0.22%. During the year slippages from the standard restructured book stood at ₹5,096 crores.

The book value of the assets sold by the Bank to ARCs during fiscal 2018 was ₹42 crores (net of provisions). The consideration (excluding accounts already written-off) was settled in cash of ₹67 crores.

KEY RATIOS

Particulars	2017-18	2016-17
Basic earnings per share (₹)	1.13	15.40
Diluted earnings per share (₹)	1.12	15.34
Book value per share (₹)	247.20	232.83
Return on equity (%)	0.53%	7.22%
Return on assets (%)	0.04%	0.65%
Net interest margin (%)	3.44%	3.67%
Profit per employee (₹ lakh)	0.47	6.68
Business per employee (₹ crores)	14.84	14.00
Credit/deposit ratio (Domestic)	85.50%	79.07%
Credit/deposit ratio (Global)	96.92%	90.03%

Basic Earnings Per Share (EPS) was ₹1.13 compared to ₹15.40 last year, while the Diluted Earnings Per Share was ₹1.12 compared to ₹15.34 last year. Return on Equity (RoE) and Return on Assets (RoA) stood at 0.53% and 0.04% respectively. Book Value per Share increased by 6.17% to ₹247.20 from ₹232.83 last year. Profit per Employee stood at ₹0.47 lakh and Business per Employee stood at ₹14.84 crores.

Credit Deposit (CD) ratio of the Bank as on 31 March, 2018 was at 96.92% with a domestic CD ratio of 85.50%. Considering Infrastructure Bonds, that are more cost effective and asset liability management friendly than deposits of same maturity, as a part of the Bank's deposits base, the domestic CD ratio stood at 82.98%.

Balance Sheet parameters

Assets

(₹ in crores)

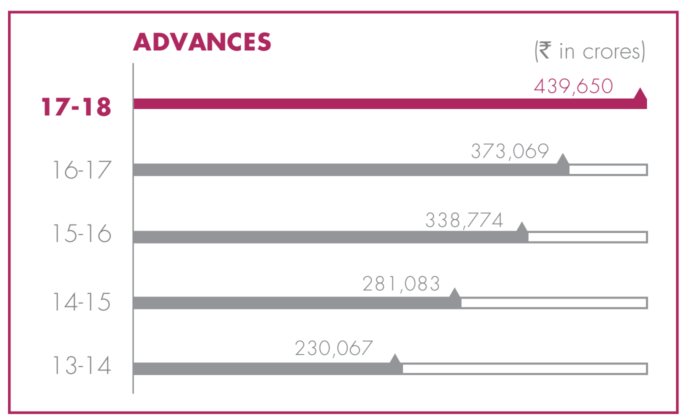
Particulars	2017-18	2016-17	% change
Cash and bank balances	35,481	50,256	(29.40)
Government securities	104,053	93,008	11.88
Other securities	49,823	35,786	39.22
Total investments	153,876	128,794	19.47
Retail advances	206,464	167,993	22.90
Corporate advances	174,446	155,904	11.89
SME advances	58,740	49,172	19.46
Total advances	439,650	373,069	17.85
Fixed assets	3,972	3,747	6.00
Other assets[1]	50,377	45,602	10.47
Total assets	691,330	601,468	14.94

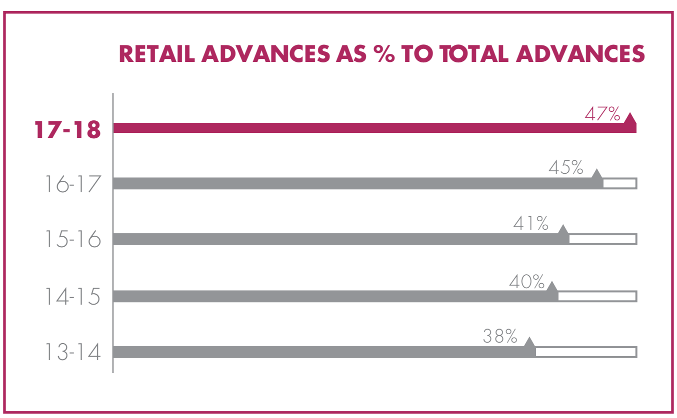
[1] includes Priority Sector Lending deposits of ₹21,479 crores (previous year ₹17,107 crores)

Total assets increased by 15% to ₹691,330 crores as on 31 March, 2018 from ₹601,468 crores as on 31 March, 2017.

Advances

Total advances of the Bank as on 31 March, 2018 increased by 18% to ₹439,650 crores from ₹373,069 crores as on 31 March 2017, largely driven by healthy growth in the Retail segment. Corporate advances comprised 40% of total loans and grew by 12% to ₹174,446 crores, Retail loans comprised 47% of total loans and increased by 23% to ₹206,464 crores, SME loans grew by 19% to ₹58,740 crores and constituted 13% of total loans.





The retail lending growth was led by auto loans, personal loans and credit cards. Mortgages continue to grow faster than the industry growth. Home loans remain the largest retail segment and accounted for 40% of retail loans, retail agricultural loans accounted for 15%, loans against property 8%, personal loans and credit cards together accounted for 14% and auto loans 10%, while non-schematic loans comprising loan against deposits and other loans accounted for 13%.

Investments

The investment portfolio of the Bank increased by 19% to ₹153,876 crores, of which investments in Government and approved securities, held mainly for SLR requirement, increased by 12% to ₹104,053 crores. Other investments, including corporate debt securities, increased by 39% to ₹49,823 crores. 85% of the government securities has been classified in the HTM category, while 79% of the bonds and debentures portfolio has been classified in the AFS category.

Liabilities and shareholder's funds

(₹ in crores)

Particulars	2017-18	2016-17	% change
Capital	513	479	7.10
Reserves and Surplus	62,932	55,284	13.83
Total shareholder's funds	63,445	55,763	13.78
Deposits	453,623	414,379	9.47
- Current account deposits	95,650	87,002	9.94
- Savings bank deposits	148,202	126,048	17.58
- CASA	243,852	213,050	14.46
- Retail term deposits	137,795	123,925	11.19
- Non-retail term deposits	71,976	77,404	(7.01)
- Total term deposits	209,771	201,329	4.19
Borrowings	148,016	105,031	40.93
- In India	76,096	51,082	48.97
- Infra bonds	13,705	13,705	-
- Outside India	71,920	53,949	33.31
Other liabilities and provision	26,246	26,295	(0.19)
Total liabilities and shareholder's funds	691,330	601,468	14.94

Deposits

The total deposits of the Bank increased by 9% to ₹453,623 crores against ₹414,379 crores last year. The high base effect of last fiscal year that saw huge deposit inflows post demonetization impacted the deposit growth in fiscal 2018. Savings Bank deposits reported a growth of 18% to ₹148,202 crores, while Current Account deposits reported an increase of 10% to ₹95,650 crores. During the fiscal 2018, the Bank reduced the interest rate on Savings Accounts by 50 bps to 3.50% for deposits up to ₹50 lakhs. As on 31 March, 2018, low-cost CASA deposits increased by 14% to ₹243,852 crores from ₹213,050 crores last year and constituted 53.76% of total deposits as compared to 51.41% last year. Savings Bank deposits on a daily average basis, increased by 16% to ₹119,578 crores, while Current Account deposits reported a growth of 23% to ₹60,154 crores. The percentage share of CASA in total deposits, on a daily average basis, was at 45.83% compared to 42.75% last year.

The Bank continued to maintain its focus on retail term deposits. As on 31 March, 2018, the retail term deposits grew 11% and stood at ₹137,795 crores, constituting 65.69% of the total term deposits compared to 61.55% last year. As on 31 March, 2018, CASA and retail term deposits constituted 84.13% of total deposits.

Borrowings

The total borrowings of the Bank increased by 40.93% from ₹105,031 crores in fiscal 2017 to ₹148,016 crores in fiscal 2018. During the fiscal, the Bank issued senior fixed rate bonds aggregating to US $ 500 million under its Global Medium Term Note (MTN) programme in the international markets. Domestically, the Bank raised ₹5,000 crores through Subordinated Debt and ₹3,500 crores through Additional Tier I bonds during the fiscal. The outstanding balance in long term infrastructure bonds as on 31 March, 2018 was ₹13,705 crores.

Capital Management

The Bank continues its endeavour for greater capital efficiency and shoring up its capital adequacy to enhance shareholder value. In order to achieve this objective, the Bank has been focusing on increasing the proportion of lower risk weighted assets. With asset quality on mend and loan mix having largely diversified, the Bank's capital management framework attains further prominence for better utilisation of capital for an optimal mix of businesses.

During the year under review, the Bank raised capital in the form of equity and debt to support future growth. It raised Tier I capital in the form of equity through preferential allotment of equity shares to select investors. The Bank mobilised an aggregate of ₹8,653.79 crores (net of share issue expenses) through this offering, by issuing 165,328,892 equity shares collectively to Bain Capital, LIC of India and other marquee investors. The equity shares offered in the preferential allotment were priced at ₹525 per share. The Bank also issued 45,357,385 warrants convertible into equity shares to entities associated with Bain Capital and Capital Group at a price of ₹565 per share. During the year, the Bank also raised capital of ₹8,500 crores through issuance of Tier I and Tier II bonds, of which Tier I was ₹3,500 crores and Tier II was ₹5,000 crores.

These measures have significantly strengthened the capital position of the Bank, particularly core Tier I capital, providing adequate support for future growth.

The Bank is well capitalised with an overall capital adequacy ratio (CAR) under Basel III being at 16.57% at the end of the year, well above the benchmark requirement of 9.00% stipulated by Reserve Bank of India (RBI). Of this, the Common Equity Tier I (CET I) CAR was 11.68% (against minimum regulatory requirement of 5.50%) and Tier I CAR was 13.04% (against minimum regulatory requirement of 7.00%). As on 31 March, 2018, the Bank's Tier II CAR under Basel III stood at 3.53%.

The Bank has implemented the Basel III capital regulation from 1 April, 2013 in a phased manner which is to be fully implemented as on 31 March, 2019. This will also align full implementation of Basel III in India closer to the internationally agreed date of 1 January, 2019.

The following table sets forth the capital, risk-weighted assets and capital adequacy ratios computed as on 31 March, 2018 and 31 March, 2017 in accordance with the applicable RBI guidelines under Basel III.

(₹ in crores)

Particulars	2017-18	2016-17
Tier I capital	67,476.27	56,039.32
Tier II capital	18,298.59	14,565.85
Out of which		
- Tier II capital instruments	16,035.00	12,366.01
- Other eligible for Tier II capital	2,263.59	2,199.84
Total capital qualifying for computation of capital adequacy ratio	85,774.86	70,605.17
Total risk-weighted assets and contingencies	517,630.78	472,313.18
Total capital adequacy ratio	16.57%	14.95%
Out of above		
- Common equity tier I capital ratio	11.68%	11.13%
- Tier I capital ratio	13.04%	11.87%
- Tier II capital ratio	3.53%	3.08%

BUSINESS OVERVIEW

An overview of the Bank's various business segments along with their performance during financial year 2017-18 and future strategies is presented below.

Retail Banking

Retail Banking – Bedrock of the Bank's performance

Retail Bank continues to be the bedrock of Bank's financial performance. Strong execution, robust distribution and digital proliferation has helped the Bank gain strong market share and improve customer experience. During the financial year 2017-18, Retail contributed 63%, 47% and 48% of the Bank's deposits, advances and fee income respectively.

The Bank has over the years developed long-term relationship with its customers by being their preferred financial solutions provider across their needs. Customer centricity and innovation remain the core pillars through which the Bank has been fulfilling the financial needs and aspirations of its customers and the society at large.

In addition to acquiring new customers, the Retail Banking strategy has been to deepen relationships with existing internal customers, led by big data analytics for growth. The Bank has created a strong and contemporary digital backend to support its operations. Further, adopting design-thinking approach, process automation and partnership-driven innovation has enabled the Bank to harness the true potential that Retail Banking in India has to offer.

India – Immense Potential for Retail Banking

India continues to offer immense potential and opportunities for the Retail Banking franchise. The Bank sees exciting times ahead with four key themes shaping the future of retail banking in the next five years -

1. Low penetration numbers across key products - low housing loan penetration (2.5%), household debt at very low level (11%), low penetration of acceptance infrastructure for digital payments (165 Point Of Sales terminals per 100,000 adults)

2. Rapid technology adoption amongst all income and social strata due to falling cost of data and internet access

3. Democratization of data with India Stack and open application programming interfaces (APIs)

4. Concerted efforts to formalize the economy through tax reforms, introduction of Goods and Services Tax (GST), digitization of high volume low value transactions, Aadhaar seeding across financial & non-financial services and the drive for affordable housing

Leveraging these macro trends has helped the Bank create 'real progress, real impact' across customer segments and businesses resulting in higher market share specifically in digital payments space. The pace at which the Bank has gained market share in digital space compared to its traditional banking business is a testimony to the Bank's predilection for digital and customer.

<u>Technology and Analytics – The Back Bone of growing Branch Network</u>

Branches are not just places where the customers transact and conduct business but also are edifices of trust. The Bank believes that branches continue to play an integral role not only in deposit mobilisation from new to bank customers, but have also been core driver of the Bank's acquisition strategy across products. Savings Bank deposits grew by 18% while the Retail Term Deposits grew by 11% during the year. As on 31 March, 2018, the Bank had over 22.5 million savings account customers, registering a growth of 11%. The sourcing of retail loans through branches has seen significant improvement over the years and contributed 50% to overall sourcing in FY18 vis-à-vis 36% in FY13.

The Bank therefore sees greater merit in a calibrated growth of its branch network through combination of advanced analytics that help in identifying high potential locations and technology tools that increase staff productivity & smaller branch formats.

During the year the Bank added 399 domestic branches/banking outlets and 1 offshore banking unit at IFSC, GIFT City, Gandhinagar. The Bank's geographical reach now extends to 29 states and 6 union territories, covering 2,163 centers and 653 districts. As on 31 March, 2018, the Bank had a network of 3,703 domestic branches/banking outlets as compared to 3,304 last year. Around 17% of the Bank's branches are in rural areas and 78% of the Bank's rural branches are in unbanked locations. As on 31 March, 2018, the Bank had 13,814 ATMs. The Bank was the first private sector Bank to introduce recyclers, which can accept and dispense cash. As on 31 March, 2018, the Bank had deployed 2,263 recyclers. The recycler handles 40% of the overall cash deposits at the Bank, leading to efficient use of Bank Staff.

The Bank has also successfully scaled up the 'Saksham' initiative, aimed at improving the customer experience by providing a single screen for instant fulfilment of various service requests. Saksham currently processes over 55 million transactions and service requests annually

Speed Banking kiosks are a flagship initiative. Walk in customers can do financial and non-financial transactions on these kiosks. The Bank has added 302 speed banking kiosks in fiscal 2017-18 and intends to keep increasing the digital footprint further.

The Bank has deployed about 20,000 biometric readers across its network to leverage eKYC (electronic know your customer) for account opening and other Aadhaar-based services thereby creating seamless authentication experience for customers even at branches. 75% of the Bank's key service requests at branches are being serviced through the instant gratification mode.

<u>Retail Advances – The Growth Engine</u>

The Retail Advances portfolio has grown at a CAGR of 26% over the last five years and stood at ₹206,465 crores as on 31 March, 2018 up 23% from ₹167,993 crores last year. The Bank continued to increase its share of retail loans to total advances, which stood at 47% compared to 33% in March 2013. The Bank has been able to grow retail advances faster than Industry by focusing on two key areas:

- Deepening within existing branches coupled with expansion in new geographies, where the Bank already had seasoned branches.

- Increased use of analytics that helped not just in identifying the right target segments but also helped in keeping risks under control.

Overall, about 50% of incremental retail loans were sourced through branches in fiscal 2018. Existing deposit customers contributed about 72% of the incremental retail loans, which in turn has helped the credit quality of retail loans to remain steady. The Bank has steadily diversified its retail loan portfolio into a broad based portfolio spanning rural loans, personal loans, small business banking loans, vehicle loans and credit cards etc. which had been dominated by home loans in the past. Secured loan products accounted for 84% of retail loans. Of the total portfolio, home loans accounted for 40%, rural loans accounted for 15%, auto loans 10% and loans against property 8%. The Bank has been comfortable taking on granular risk and the unsecured retail loans stood at 16% of the total portfolio, with personal loans and credit cards accounting for 10% and 4%, respectively.

Small Business Banking (SBB) has emerged as one of the growth engines in retail lending space with a targeted focus on small borrowers. SBB book grew by 81%, which can be attributed to the continuous iteration across sales processes, score-based decision making and strong engagement at the branch level.

<u>Building scale and leadership in traditional and newer models of Digital Payments</u>

As the economy continues to go digital, there has been a significant behavioral change in retail payments – from large value-low volume transactions using credentials that are managed by the Bank to small ticket size-high volume transactions using public credentials. This shift has presented the opportunity to broad base payments. The new age digital payments are outgrowing cash, but the opportunity remains large and compounding effect will show over time.

Digital Payments continues to be at the core to the Retail Banking strategy. UPI is at the forefront of this digital ecosystem as the Bank is leveraging UPI to attract non-Axis Bank customers. The Bank was among the early entrants to work closely with NPCI for UPI launch. The Bank has built strong technology platform and developer friendly API's that allow partners, startups to plug & play Axis UPI on their mobile applications. The Bank has used this head start to its advantage by making this platform available to multiple partners like Google Tez, Uber, Samsung Pay, LIC, IRCTC, Big Bazaar. Today the Bank has a share of 15% in UPI transactions, with over 11.5 million UPI IDs onboarded and 64% of them being non-Axis Bank customers.

The Bank's traditional cards business continues to grow and deepen the franchise. The Bank is one of the largest debit card issuers in the country, with a base of 22.34 million and going forward ~50% of cards issuance are going to be enabled for contactless payments. The Bank had over 4.48 million credit cards in force as on 31 March, 2018, making it the 4th largest credit card issuer in the country. The credit cards portfolio saw a substantial increase in spends by 54% to ₹44,328 crores from ₹28,740 crores last year.

The Bank's merchant acquiring business continues to be one of the largest acquirers in the country with over 502,226 base of installed terminals of which 225,819 terminals are enabled for accepting contactless payments. The Bank is also using digital technologies like Bharat QR to drive high volume-low value payments acceptance use cases.

<u>Rapid Adoption of Mobile and Internet Banking Channels</u>

The Bank takes a holistic view of digital that transcends beyond mobile applications and customer interfaces. Taking cognizance of the fact that with the onset of fintech startups and global technology giants, customers are now comparing buying journeys across product categories; the Bank has extensively adopted a Design thinking approach with greater use of customer usability panels to test design and flows of various digital journeys. The bank has seen immediate results of this approach.

During the year, an improved and redesigned version of Axis Mobile App was launched with several new and useful features for the customers like a dedicated loan centre, credit card spend analyzer, notifications and a newer dashboard. The focus was on increasing discoverability of various products and services within the app. The version was well received and has helped the Bank to significantly improve Google play store ratings for its App.

In November 2017, the Bank launched its first online ekYC based account Axis ASAP. Axis ASAP offers customers the opportunity to open bank accounts instantly in minutes without any paperwork. The Bank has seen a strong consumer response with the number of accounts opened already crossing the 2.5 lac mark.

The Bank launched Axis Aha! Chatbot on the website in December 2017. Axis Aha! is a conversational assistant powered by artificial intelligence and uses machine learning to assist customers with banking services. The Bank has been among the first in the industry to enable financials transactions via simple chats; Just type Pay ₹200 to Sam and Axis Aha! does the rest. Axis Aha! lets users send money, pay mobile bills, do recharges or block cards. It also answers user questions on FAQ's, loans and general help. Since inception, it has processed over 3.5 lac conversations, answered over 1.3 lac FAQs and transacted over ₹12.5 lacs.

The mobile banking user base witnessed a 72% increase in fiscal 2018 and the Bank was ranked number 1 by mobile banking transactions value in August and October 2017 as per data published by RBI. Axis Internet Banking too has witnessed strong adoption and has been awarded with prestigious Best Retail Online Banking Experience, India award at The Asset Triple A Digital Awards 2017, Hong Kong.

<u>Digital as a strong lever for enhancing service levels and productivity</u>

The Bank is making greater use of technology to further reduce account opening times. The entire sales force is equipped with tablets that helps them on-board savings accounts, current accounts and credit card customers in a paperless process. Tablet based account opening now forms the back bone of customers on-boarding journey.

Robotic Process Automation (RPA) and Artificial Intelligence (AI) were extensively adopted with the objective of improving turnaround time and efficiency. Through an extensive process redesign exercise, 90 key processes were identified for re-architecting using RPA and AI. By process Re-Engineering and digitisation, the Bank has been able to reduce the turnaround time on savings and current account opening by about 90%; and on various other processes by 50%-80%. In addition to improving efficiency, there was significant impact on customer satisfaction and risk containment as well.

Enabling Wealth Creation through Niche Offerings

During the year, Burgundy – the Bank's unique offering for its affluent customers further consolidated its portfolio. The AUM of Burgundy customers with the Bank, across banking and wealth management products, crossed the ₹1 lakh crore milestone to end the year at ₹123,298 crores (~[US$ 18.92 billion]). Savings account balances have been growing at a CAGR of 23% over the last 4 years while fee from wealth management services has been growing at a CAGR of over 55% over the last 4 years - demonstrating a healthy mix and sustainable growth for the business. Burgundy customers represent a unique blend of traditionally wealthy along with affluent millennials. On an average, each Burgundy family has availed 4.56 unique products from the Bank.

A strong and growing 30 million Indian diaspora (NRIs and PIOs) across the world look for a trusted banking partner in India; through a focused approach, the Bank has been strengthening its proposition to better serve these customers. The Bank offers a complete suite of banking and investment products under its NRI Services for Indians living and working overseas. NRIs can open an account, operate it and also invest in deposits, secondary market or mutual funds, all through the comfort of their home or office overseas by way of strong digital offerings. The Bank also offers a range of premium services to NRI customers under the NRI Burgundy and NRI Priority program.

The Bank launched two key customer centric initiatives in this space this year. The first was Dedicated Inward Remittance rates for NRI customers on wire transfers, making it absolutely transparent and simple for customers. The Bank also launched new digital remittance platform, remitmoney.com, to bring convenience in every remittance transaction to its customers. Going a step ahead and assisting NRIs beyond just financials, the Bank also tied up with Indian Health Organization (IHO) for discounted health services for the NRI Family Banking customers.

Axis Bank today is one of the leading distributors of mutual funds in India and distributes products of 13 major asset management companies. These investment products are mainly offered by the Bank's branch network and digital channels based on a thorough analysis of the customers' lifecycle and lifestyle requirements. The Bank has over 1 million mutual fund customers and generates a fee income of around 11% of the total Retail Banking fees. The Bank also offers online trading services to its customers in collaboration with Axis Securities Ltd. (a 100% subsidiary of the Bank) under the name Axis Direct. Axis Direct crossed 1.8 million total customers during the year.

Insurance penetration in India is almost half of the global average, product suitability and fitment is the key and the Bank has taken several measures to ensure customers get the product best suited for their needs. With Max Life Insurance, the Bank has now secured over 1 million lives since inception of the partnership. Partnership with Life Insurance Corporation of India has given the desired choice to prospective customers and Bank has insured 19,000 customers through LIC of India in its very 1st year of the relationship making the Bank one of the leading bancassurance partners for LIC. In General insurance, the Bank has a tie-up with Tata AIG General Insurance Company Ltd. (American International Group) and for health insurance with Apollo Munich Health Insurance Company Ltd. The Bank remains committed to bring the best of insurance products that best suit the needs of its customers and is constantly looking at more and better avenues.

Using Technology to bring the under-served into the mainstream

Financial Inclusion is an integral component of the Bank's rural strategy to further extend reach in the rural market. During financial year 2017-18, the Bank has covered 0.22 million rural people in 15,240 Financial Literacy Camps under 'Pragatishala'. The Bank launched project DigiPrayas across villages which has impacted 80,000 lives through opening of 4,500 basic savings accounts, appointing 50 Business Correspondents, seeding of 4,100 accounts with Aadhaar. Under PMJDY, Bank has opened over 0.77 million accounts of which 89% customers have been issued Rupay Cards with a total balance of ₹225 crores. Overall, the Bank has issued 0.85 million Pradhan Mantri Suraksha Bima Yojana (PMSBY) and 0.22 million Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) policies of which, the Bank has registered 599 claims under both insurance scheme. Further, the Bank has actively promoted Atal Pension Yojana (APY) wherein the Bank is ranked first amongst all private sector banks in sourcing of APY. Overall, 0.23 million customers have been enrolled under APY.

The Bank's home loan product Asha Home Loans for aspiring first time home owners belonging to the low-income group (LIG) and economically weaker segments (EWS) has seen 40% increase in book size from ₹3,131 crores as on 31 March, 2017 to ₹4,371 crores as on 31 March, 2018.

Corporate Banking

During the financial year 2017-18, the credit off take by the corporate segment was marginally better compared to previous fiscal even as the asset quality issues continued to weigh on the sector. The credit growth continued to improve through the year aided by the fading base effect of demonetisation. The tightening liquidity conditions resulted in sharp rise in bond yields towards the second half of the fiscal which helped in shifting the credit demand back from bond markets to banks.

While the basic industries like steel and construction saw pickup in loan growth, credit off take to the core industrial segments like power, metals, roads and energy remained weak due to low capex and leveraged corporate balance sheets. The Government and Regulator's efforts to alleviate and resolve the asset quality issues through implementation of Insolvency and Bankruptcy Code have been progressing well and the resolution for some of the large stressed accounts is expected in the near term. The regulator's recent guidelines on resolution of stressed assets are further likely to expedite the recognition and resolution mechanism. The ongoing NCLT resolution mechanism under IBC is likely to result in stressed assets going into the hands of stronger sponsors and this will result in consolidation of banking relationships and refinancing opportunity for the larger banks.

In the corporate segment, the Bank's strategic focus in recent years has been towards building a higher rated lending book, increase the share of working capital loans and reducing the concentration risk. During the fiscal 2018, the Bank's corporate loan growth picked up to 12% as compared to flat growth in fiscal 2017 with working capital loans growing by 63% YOY.

The Bank continues to focus on lending to higher rated corporates with operational cash flows. Approximately 86% of new sanctions in the corporate book were to companies rated 'A' and above. Presently, 77% of outstanding standard corporate loans are to companies rated 'A' and above. At the same time, we have been focussing on increasing the share of working capital facilities in the overall business composition tapping the pool of better rated corporates. The share of working capital exposures to overall corporate loan book has increased from 22% in 2017 to 32% in 2018.

The Bank's strategy of portfolio diversification through sectoral approach to credit continued where the focus was on identifying sector-specific opportunities and risks. The concentration risk continues to see a steady decline in the last few years with exposure to top 20 single borrowers as percentage of Tier-1 capital at 121% as on end March 2018, as compared to 283% at the end of fiscal 2010.

The corporate client relationship model introduced a few years ago continued to prove beneficial for the bank. The Bank along with its subsidiaries addresses most of financial services requirements of a corporate be it borrowing, trade finance, cash management, remittances, investment banking, security services etc. The holistic approach has moved the Bank away from just sales based approach of offering corporate credit to providing an entire bouquet of products and services.

The Bank continues to focus on the government business and widened its footprint in PSUs during the year. The Bank also increased its focus on tapping credit opportunities in the new Digital Age businesses through a sub-vertical New Economy Group (NEG). Further, Bank has identified the Food processing and Agro processing industries as sunrise sectors. The credit opportunities in these industries are also tapped by NEG. The loan book of NEG business has grown strongly by 584% in fiscal 2018.

International Banking

The International Banking strategy of the Bank continues to revolve around leveraging its relationships with corporates in India and non-resident Indians, by providing banking solutions at overseas centres. The Bank, through its international operations, leverages the skills and strengths built in its domestic operations. It also widens the horizon of the product offerings covering a varied spectrum of corporate and retail banking solutions across client segments in various geographies. The Bank has strategic international presence in seven countries through its branches in Singapore, Hong Kong, DIFC – Dubai, Colombo and Shanghai, representative offices at Dubai, Abu Dhabi, Sharjah and Dhaka; an off-shore banking unit in International Financial Service Centre (IFSC), Gujarat International Finance Tec-City (GIFT City), Gandhinagar and a wholly-owned overseas banking subsidiary in the United Kingdom. During the year, the Bank witnessed opening of its sixth branch, an offshore banking unit at IFSC, GIFT City, Gandhinagar. GIFT City Branch will make its contribution towards government's initiatives of growth of IFSC in India besides consolidating its corporate banking business there. The bank also opened its fourth Representative Office at Sharjah, UAE in March 2018. The Representative Office will promote the retail business emanating from the affluent and mass affluent segment of NRIs in UAE, as is being done by existing Representative Offices. The Bank continues to offer corporate banking, trade finance, treasury and risk management solutions through the branches at Singapore, Hong Kong, DIFC, Shanghai, Colombo and GIFT City and retail liability products from its branches at Hong Kong and Colombo. The Bank's Gulf Co-operation Council (GCC) initiatives in the form of representative offices in UAE and alliances with banks and exchange houses in the Middle East provide support for leveraging the business opportunities emanating from the large NRI diaspora present in these countries. The representative office at Dhaka promotes trade finance business arising between Bangladesh and India & other Asian financial markets where Bank has a presence.

During the year under review, emphasis continued towards trade finance business and value added services. As on 31st March, 2018, the total assets at overseas branches stood at USD 9.36 billion as compared to USD 8.37 billion last year. Axis Bank UK Limited (ABUK), the Bank's overseas banking subsidiary, completed its fifth year of operations during the year under review. The total assets of ABUK stood at USD 1,040 million as on 31 March, 2018, as against USD 823 million as on 31 March, 2017.

Treasury

The Bank's Treasury function comprises Asset Liability Management (ALM), Proprietary trading business in Interest rates & Equity, Foreign Exchange & Derivatives and Arrangership business.

The ALM group manages the regulatory requirements of Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR) and Liquidity Coverage Ratio (LCR). The group also manages the liquidity, interest rate and currency risks in the Bank's portfolio, under the guidance of the Asset Liability Committee (ALCO) of the Bank. ALM group is responsible for overall liquidity management of the domestic book and longer term liquidity management of the overseas branches across geographies.

The proprietary trading group in Government securities within Treasury plays an important role of market making, participating in primary auctions of RBI etc. The Bank also holds one of the largest Corporate bond investment portfolio with 95% of them have rating of atleast 'A' and runs limited trading book in Equity, Commercial papers and Certificate of deposits.

Forex Trading Group is a major participant in the Foreign Exchange & Derivatives market. The group provides risk management and hedging solutions to a wide range of corporate customers and financial institutions. The Bank was awarded the First Rank by Euromoney in their FX Survey 2016 in eight categories amongst Asian Corporate Respondents and in eleven categories amongst Indian Corporate Respondents.

The Bank continues to remain a dominant player in the Debt Capital Market (DCM) Segment. During the year, the Bank arranged ₹184,104 crores of bonds and debentures for various PSUs and corporates. The Bank has been ranked number one in the Bloomberg Official League Table for domestic bonds in India for the 11th consecutive year for calendar year 2017. Bank has also been ranked number one arranger as per Prime Database for the nine months ended December 2017.

In International Debt Capital Markets business, the Bank has been a leader in this segment covering USD/EUR bonds, Masala bonds, Green bonds etc. The Bank was the Lead Manager in the very first Masala Bond issue and the first Green Masala Bond issued by domestic companies.

During the year, the Bank was awarded Best DCM House in India by Finance Asia and Best Bond Adviser – Domestic India-2017 at The Asset Triple A Country Awards. The Bank was also ranked among the Top banks in the secondary market in Asia currency bonds (India)-Corporate Bonds by The Asset Benchmark Research.

Transaction Banking

Transaction Banking unit focuses on the flow businesses, i.e. current accounts, collection & payments solutions, trade services, forex remittances and capital market solutions. It caters to corporates, SMEs, financial institutions, Government segment and also to retail customers for their forex requirements such as forex cards and wire transfers.

The key financial deliverables of the business are current account float balances and fee income. Current account balances grew from ₹87,002 crores as on 31 March, 2017 to ₹95,650 crores as on 31 March, 2018, a year on year growth of 10%. Daily average balances in current accounts grew 23%, from ₹48,800 crores in fiscal 2017 to ₹60,154 crores in fiscal 2018. The business generated a fee income of ₹2,396 crores in fiscal 2018, a growth of 18% year on year.

The key themes that the business has been focusing on are deepening share of wallet for existing clients, offering digital solutions to customers and enhancing customer service. The relationship managers and branches are continuously equipped with analytical tools and learning interventions to help cross-sell the large suite of transaction banking products to customers.

Current Accounts

The Bank has over 1.9 million current accounts served through a range of customised, sector specific offerings. The Bank has made significant investments and enhancements in its online banking platforms for driving digital adoption and channel migration. Further, the Bank continues to focus on deepening the current account relationships by cross-selling other products such as tax payments, cash management solutions, loans, forex and trade products.

Cash Management Solutions

The Bank provides comprehensive and customizable cash management solutions that enable faster fund movement by leveraging the Bank's extensive physical network backed by state-of-the-art technological systems. To provide a seamless experience to its customers, the Bank has integrated all its digital products onto its new Corporate Internet Banking platform. The Bank also provides digital bulk payment solutions that include front-end file-upload for various payments and ERP integration for high-transacting corporates. The enhanced collections product suite includes new features like National Automated Clearing House (NACH) Debit, Unified Payments Interface (UPI), Aadhaar E-sign mandate and innovative easy-to-use Point of Sale machines, increasing the breadth of options available to customers.

Government Business

The Bank has been authorised by Reserve Bank of India and Government of India (GOI) to handle all Government Banking transactions which includes the following:

- Collection of Direct taxes
- Collection of GST in all branches in online as well as offline mode
- Disbursement of Central Civil as well as Defence Pensions
- Accredited by Reserve Bank of India as one of the authorized banker for Ministry Of Urban Development, Ministry of Housing and Poverty Alleviation, Controller General of Accounts and Institute of Government accounts and finance

The Bank is a participating entity in the Government's Public Financial Management System (PFMS). PFMS monitors different social sector programmes in India and tracks the disbursement of funds in relation to such programmes, using an online management information system and decision support system. The Bank also is associated with the e-Governance initiatives of five states and union territories, namely Andhra Pradesh (e-Seva), Karnataka (Bangalore One and Karnataka One), Chandigarh UT (Sampark), Chhattisgarh (Chhatisgarh Online information system for Citizen Empowerment), Uttar Pradesh (e-Suvidha) aimed at providing better services to the citizens. Further, the Bank is also involved in various digital initiatives of GOI which includes e-Procurement, e-mandi, e-nagarpalika, direct benefit transfers, smart city, online payment gateways and cashless initiatives through various modes.

Trade, Forex and risk management Services

The Bank offers a complete suite of Trade finance and foreign exchange business solutions through Forex B category branches spread across the country. The Bank also offers a variety of hedging solutions such as exchange and interest rate derivative structures, including forwards, options and swaps in accordance with the regulatory guidelines and derivative policy of the Bank. Overall, client risk management service continues to be a strong business franchise for the Bank with total annual turnover expected to reach close to ₹4 lac crores in this financial year. In addition to the services offered through branch and subsidiary network spread across India, the Bank also leverages its tie-ups with reputed correspondent banks across the world to offer these services to overseas customers.

The Bank is one of the few private sector banks on-boarded as advisory bank in Government e-Marketplace (GeM). This tie-up enables the Bank to offer automated solution for advising electronic performance guarantees (e-PBG) to Govt. departments/organisations/ PSUs with value added features like integrated responses and faster turnaround time.

International Retail

The Bank offers a range of forex and remittances products to its retail customers, which include forex cards, inward and outward wire transfers, traveller's cheques and foreign currency notes, remittance facilities through online portal as well as through collaboration with correspondent banks and exchange houses. The Bank offers remittances facility to NRI customers through the Bank's Sri Lanka Branch and Axis Bank UK Ltd., for remittances to India. Additionally, the Bank offers remittances from Gulf Co-operation Council (GCC) region to Sri Lanka through tie-up with four exchange houses.

The Bank continues to have a market leadership position in forex cards with 16 currency options other than INR being offered. Additionally, the Bank offers Miles & More Multi-Currency Forex Card in association with Lufthansa airline aimed at frequent flyers, an industry first in this segment. In line with the continuing focus on enabling digital channels for its customers, the Bank has enabled Axis Mobile app for the standalone forex card holders. The aggregate load value on forex cards crossed USD 9 billion during the year.

The volumes of retail remittances also rose by 8% during the year and the Bank processed outward remittances of USD 4 billion and inward remittances of USD 9.3 billion.

Custodial and Capital Market Services

The major activities undertaken by the Capital Market Division are fund based and non-fund based credit facilities, clearing bank activities, Professional Clearing Member Services (PCM), NSCCL custodian services, fund accounting services, IPOs, dividend distribution & escrow services.

The Bank acts as a clearing bank and professional clearing member across exchanges in India providing clearing member services and funds clearing solutions to exchange members. The Bank is also a SEBI registered custodian of securities servicing various segment of clients viz. Foreign Portfolio Investments, Foreign Direct Investments, Portfolio Management Service Providers and Foreign Venture Capital Investors etc. Assets under custody services are over ₹58,224 crores.

Lending to Small and Medium Enterprises

Small and Medium Enterprises (SME) play a crucial role in shaping the economic growth and development of the nation. The sector has also been regarded for fostering entrepreneurship, employment generation and innovation. The government has in the recent years provided major impetus through various programs and schemes to strengthen the SME sector. During the year, while the implementation of GST led to formalisation of businesses for SMEs after initial disruptions during the transition phase, the subsequent measures like rationalisation of GST rates and change in the criteria for classification of MSMEs are likely to aid the SME growth.

The Bank, by virtue of its understanding and expertise in SME business, is committed to provide timely, adequate and hassle free credit to the SMEs across sectors. The Bank, through its 66 dedicated SME Centres and more than 3,500 Branches, is able to offer best-in class lending and other banking services to customers. The Bank's SME Business comprises of three business verticals namely Medium Enterprises Group (MEG), Small Enterprises Group (SEG) and Supply Chain Finance (SCF).

The Bank has a wide range of regular and customised products designed for SME customers across manufacturing, trade and services sectors including Working Capital, Term Loan, Trade Finance, Project Finance and Bill / Invoice Discounting etc. The SME Business in the Bank continues to focus towards lending to the Priority sector (PSL) and is a significant contributor to the Bank's overall PSL portfolio.

During the fiscal, the Bank's SME advances grew at 19% to ₹58,740 crores from ₹49,172 crores last year. The SME portfolio of the Bank constituted 13% of the Bank's total advances as on 31 March, 2018.

With a commitment to support the SME growth, the Bank has taken its Evolve series - an educational initiative for SMEs - to a new level. The 4th edition of Evolve was organised around the concept of How Family Business may be transformed into successful business in 30 cities where more than 3,000 SMEs participated. Similar to last three events, the fourth edition of Evolve series was much appreciated by all the participants and has become a signature initiative in building the SME capacity. These initiatives were aligned to relevant government initiatives/national priority programs such as 'Make in India', 'Skill India' and 'Digital India'.

Despite the challenging environment, the asset quality in SME segment has remained relatively stable and the focus remains on building a quality portfolio by acquiring better rated SME customers. Advanced business analytics is being used to identify potential borrower across various sectors. The Bank also uses the Early Warning Signals tool which helps the Bank to identify unfavourable sectoral trends early in the cycle and take corrective action if necessary. We continue to source good rated Customers and maintain quality of portfolio.

Business Intelligence Unit

Artificial Intelligence and machine learning are changing lives globally at rapid pace. Businesses are adopting AI and machine learning across industries to revolutionize customer experience, personalization and decision making.

The Business Intelligence Unit along with Thought Factory (Axis Innovation Lab), is setting up an AICoE (Artificial Intelligence Centre of Excellence) to build and enhance customer facing solutions such as creation of personalized product recommendations, improved customer targeting by smart micro-segments through identification of latent behavior patterns, identification of customer base for pre-approved loans and planning of branches and ATM locations. This Centre will also help identifying fraudulent card transactions, identifying point of compromise at ATMs in case of skimming and to prioritize investigation on complex money laundering transactions.

This year, the Bank is going live with its Big Data Lake project for implementing scalable analytical solutions to bring personalized banking services for its customers in real time. As a first for Micro Finance Industry, the Bank has built an integrated Tab sourcing and Big Data platform to understand borrower's behavior for better credit decision making and underwriting. At Axis Bank we are investing significantly in tools and technology infrastructure for understanding unstructured data (like email text, voice data from call center, video data from CCTV cameras etc.) to build customer centric solutions on top of it.

Risk Management

The risk management objective of the Bank is to balance the trade-off between risk and return and ensure that the Bank operates within the Board approved risk appetite statement. An independent risk management function ensures that the risk is managed through a risk management architecture as well as through policies and processes approved by the Board of Directors encompassing independent identification, measurement and management of risks across the various businesses of the Bank. The risk management function in the Bank strives to proactively anticipate vulnerabilities at the transaction as well as at the portfolio level, through quantitative or qualitative examination of the embedded risks. The Bank continues to focus on refining and improving its risk measurement systems including automation of processes wherever feasible not only to ensure compliance with regulatory requirements, but also to ensure better risk-adjusted return and optimal capital utilisation, keeping in view its business objectives. Pursuant to review of the risk profile of the Bank, the Board has not come across any element of risk which would threaten the existence of the Bank.

The overall risk appetite and philosophy of the Bank is defined by its Board of Directors. The Risk Appetite framework provides guidance to the management on the desired level of risk for various types of risks in the long term and helps steer critical portfolio decisions. Further, the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank assesses all the significant risks associated with various businesses. The independent risk management structure within the Bank is responsible for managing the credit risk, market risk, liquidity risk, operational risk, other Pillar II risks like reputational risk and strategic risk and exercising oversight on risks associated with subsidiaries. The risk management processes are guided by well-defined policies appropriate for the various risk categories viz. credit risk, market risk, operational risk, liquidity risk, counterparty risk, country risk, reputational risk, strategic risk and subsidiaries risk, supplemented by periodic validations of the methods used and monitoring through the sub-committees of the Board. The Risk Management Committee (RMC), a committee constituted by the Board, approves policies related to risk and reviews various aspects of risk arising from the businesses undertaken by the Bank. The Committee of Directors (COD) and the Audit Committee of the Board (ACB) supervises certain functions and operations of the Bank, which ultimately enhances the risk and control governance framework within the Bank. Various senior management credit and investment committees, Credit Risk Management Committee (CRMC), Asset-Liability Committee (ALCO), Operational Risk Management Committee (ORMC), Subsidiaries Governance Committee (SGC), Reputation Risk Management Committee (RRMC), Information Security Committee (ISSC), Central Outsourcing Committee (COC) and Business Continuity Planning Management Committee (BCPMC) operate within the broad policy framework of the Bank.

Credit Risk

Credit risk is the risk of financial loss if a client, issuer of securities that the Bank holds or any other counterparty fails to meet its contractual obligations. Credit risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, borrower or obligor. The goal of credit risk management focuses on maintaining asset quality and concentrations at individual exposures as well as at the portfolio level.

Internal rating forms the core of the risk management process for wholesale business with internal ratings determining the acceptability of risk, maximum exposure ceiling, sanctioning authority, pricing decisions, review frequency. For the retail portfolio including small businesses and small agriculture borrowers, the Bank uses different product-specific scorecards. Large, risky or complex exposures require to be independently vetted by the risk department for each incremental transaction whereas small, templated exposures are extended within the approved product policies. Both credit and market risk expertise are combined to manage risks arising out of traded credit products such as bonds and market related off-balance sheet transactions.

Credit models used for risk estimation are assessed for its discriminatory power, calibration accuracy and stability independently by a validation committee.

During the year the Bank has brought greater alignment in bank level appetite and the operational limits. The key risk metrics are monitored regularly and deviations are discussed with business to decide on the course of remedial action. The governance around deviation from internal limits has also been considerably strengthened. Asset quality target on incremental corporate loan business have been considerably tightened over the past few years. While parts of corporate portfolio remain under stress, key asset quality metrics have all moderated during the year. Concentration limits have also been tightened over the past few years.

Market Risk

Market risk is the risk of losses in 'on and off-balance sheet' positions arising from the movements in market price as well as the volatilities of those changes, which may impact the Bank's earnings and capital. The risk may pertain to interest rate related instruments (interest rate risk), equities (equity price risk) and foreign exchange rate risk (currency risk). Market Risk for the Bank emanates from its trading and investment activities, which are undertaken both for the customers and on a proprietary basis. The Bank adopts a comprehensive approach to market risk management for its banking book as well as its trading book for both its domestic and overseas operations. The market risk management framework of the Bank provides necessary inputs regarding the extent of market risk exposures, the performance of portfolios vis-à-vis the market risk limits and comparable benchmarks which provides guidance to the business in optimizing the risk-adjusted rate of return of the Bank's trading and investment portfolio.

Market risk management is guided by well laid down policies, guidelines, processes and systems for the identification, measurement, monitoring and reporting of exposures against various risk limits set in accordance with the risk appetite of the Bank. Treasury Mid-Office independently monitors the Bank's investment and trading portfolio in terms of risk limits stipulated in the Market Risk Management Policy and reports deviations, if any, to the appropriate authorities as laid down in the policy. The Bank utilises both statistical as well as non-statistical measures for the market risk management of its trading and investment portfolios. The statistical measures include Value at Risk (VaR), stress tests, back tests and scenario analysis while position limits, marked-to-market (MTM), stop-loss limits, trigger limits, gaps and sensitivities (duration, PVBP, option greeks) are used as non-statistical measures of market risk management.

Historical data calculated at a 99% confidence level for a one-day holding period over a simulation and its variants are used to compute VaR for the trading portfolio time horizon of 250 days. VaR models for different portfolios are back-tested on an ongoing basis and the results are used to maintain and improve the efficacy of the model. VaR measurements are supplemented with a series of stress tests and sensitivity analyses as per a well laid out stress testing framework.

Liquidity Risk

Liquidity is a bank's capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses. Liquidity risk is the inability of a bank to meet such obligations as they become due, without adversely affecting the bank's financial condition. The Asset Liability Management Policy of the Bank stipulates a broad framework for liquidity risk management to ensure that the Bank is in a position to meet its liquidity obligations as well as to withstand a period of liquidity stress from bank-level factors, market-wide factors or a combination of both.

The liquidity profile of the Bank is monitored for both domestic as well as overseas operations on a static as well as on a dynamic basis by using the gap analysis technique supplemented by monitoring of key liquidity ratios and conduct of liquidity stress tests periodically. The Bank has laid down liquidity risk policies for its overseas branches in line with host country regulations and the asset-liability management framework as stipulated for domestic operations. Periodical liquidity positions and liquidity stress results of overseas branches are reviewed by the Bank's ALCO.

The Bank has integrated into the asset liability management framework the liquidity risk management guidelines issued by RBI pursuant to the Basel III framework on liquidity standards. These include the intraday liquidity management and the Liquidity Coverage Ratio (LCR). The Bank maintains the regulatory mandated LCR as per the transitional arrangement laid down by RBI and also ensures adherence to RBI guidelines on monitoring and management of liquidity including liquidity ratios.

Operational Risk

Operational risks may emanate from inadequate and/or missing controls in internal processes, people and systems or from external events or a combination of all the four. The Bank has in place an Operational Risk Management (ORM) Policy to manage the operational risk in an effective, efficient and proactive manner. The policy aims at assessing and measuring the magnitude of risks, monitoring and mitigating them through well-defined framework and governance structure.

The RMC at the apex level is the policy making body and is supported by the Operational Risk Management Committee (ORMC), responsible for the implementation of the Operational Risk framework of the Bank and the management of operational risks across the Bank.

All new products and processes, as well as changes in existing products and processes are subjected to risk evaluation by the Operational Risk team. The overall responsibility of new products is vested with the Bank's Product Management Committee and Change Management Committee. Outsourcing arrangements are examined and approved by the Bank's Outsourcing Committee after due recommendations from the Operational Risk team. The IT Security Committee of the Bank provides directions for mitigating operational risk in the information systems. The Bank has set up a comprehensive Operational Risk Measurement System (ORMS) for documenting, assessing and periodic monitoring of various risks and controls linked to various processes across all business lines. Over the year, the Bank has focused on strengthening the operational and information security risk frameworks by implementing several initiatives.

The Business Continuity Planning Management Committee (BCPMC) exercises oversight on the implementation of the approved Business Continuity Plan (BCP) framework which has been put in place to ensure continuity of service to its large customer base. The effectiveness of the approved Business Continuity Plan (BCP) framework is tested for all identified critical internal activities to ensure readiness to meet various contingency scenarios. The learning from the BCP exercises are used as inputs to further refine the framework.

Subsidiary Governance

The Bank currently has eleven subsidiaries. The oversight of Subsidiaries is an essential element for the implementation of robust corporate governance across group entities and is an integral feature of a well-managed business, capable of creating value through enhanced reputation and investor confidence. Towards this objective, the Bank has implemented an integrated framework to align governance practices at Axis Group level which is overseen by the Board and Board level committees. The governance framework comprises risk, compliance, audit and finance frameworks and encompasses a set of policies including inter alia, Policy for Oversight of Subsidiaries, Arm's Length Policy, Subsidiary Risk Management Policy etc. for operationalization of the governance framework.

Information Technology and Cyber Security

The Bank has undertaken various technology enabled business initiatives to realize the vision of customer centricity and to respond to customer demand in real time by knowing its customers and their behaviour and to offer a single view across all the bank's products and services.

Reliable business processes and improved customer service continued to be the key business capabilities that IT delivered for the Bank. With new customers entering formal banking system and the volume of transactions increasing rapidly, the need for robust and dependable technology has increased significantly. The Bank's IT infrastructure was augmented to build capabilities. The Bank upgraded its core systems, moved to next versions of applications and adopted modern technology stack for better scalability.

The Bank has adopted a holistic cyber security program with a comprehensive Cyber Security Policy (CSP) and standards based on industry best practices with compliance to regulatory guidelines. The Bank has created its cyber security design and framework based on National Institute of Standards and Technology (NIST) standard. The Bank's cyber security framework is built around five fundamental areas including Identify, Protect, Detect, Respond and Recover. The Bank has a 24 X 7 Security Operations Centre and Cyber Security Operations System.

Digital-first application architectures were created that takes advantage of the new capabilities of business analytics. Using data collected in a mobile world and providing real-time analytics, the Bank was able to build objective measures by which it was able to respond to the unpredictability of the changing consumer behaviour.

The Bank also took significant steps in the area of Robotics Process Automation (RPA) and Blockchain technology this year. The Bank has implemented Straight through processing (STP) and automation through advanced techniques of RPA and Machine Learning to reduce human intervention and errors and deliver improved throughput. Blockchain has emerged as a potentially disruptive force capable of transforming financial services industry by making transactions faster, cheaper, more secure and transparent. The Bank implemented Blockchain Inter Ledger protocol technology solution to build a faster and more efficient cross-border remittance network.

Compliance

The Compliance function is one of the key elements in Bank's corporate governance structure. It ensures strict observance of all statutory provisions in various legislations such as Banking Regulation Act, Foreign Exchange Management Act, Prevention of Money Laundering Act, Reserve Bank of India Act, etc. as well as other regulatory guidelines issued from time to time, standards and codes prescribed by BCSBI, FEDAI, FIMMDA, etc. and also the Bank's internal policies and fair practice code. The Compliance function assists the Board and Top Management in managing the compliance risk that is the risk of legal or regulatory sanctions, financial loss or reputational loss that the Bank may suffer as a result of its failure to comply with the applicable laws, regulations or code of conduct applicable to banking activities.

The Bank is committed to adhere to the highest standards of compliance vis-à-vis regulatory prescriptions and internal guidelines. The Bank has a robust Compliance Policy, outlining compliance philosophy of the bank and roles and responsibilities of the Compliance Department. The Compliance function plays a crucial role in ensuring that the overall business of the Bank is conducted in accordance with regulatory prescriptions. The Compliance function aims to improve compliance culture within the Bank through various enablers like dissemination of regulatory changes, percolation of compliance knowledge through training, newsletters, e-learning initiatives and other means of communication apart from direct interaction. To ensure that all the businesses of the Bank are operating within the ambit of Compliance Framework, the Compliance Department is involved in vetting all new products and processes. It evaluates the adequacy of internal controls and examines the systemic correction required, based on its analysis and interpretation of the regulatory doctrine and the deviations observed during compliance monitoring and testing programme. It also ensures that internal policies address the regulatory requirements comprehensively. The Audit Committee of the Board reviews the performance of the Compliance Department and the status of compliance with regulatory guidelines on a periodic basis.

As the focal point of contact with RBI and other regulatory entities, the Compliance Department periodically apprises both the Bank's management as well as the Board of Directors on the status of compliance in the Bank and the changes in regulatory environment. The Bank has put in place an Enterprise-wide Governance Risk and Compliance Framework, an online tool, which is pivotal in addressing operational, compliance and financial reporting risk, bringing efficiency in processes and improvement in compliance levels besides facilitating annual assessment of these risks. The Compliance Department also propagates and monitors a Group Compliance approach encompassing the Bank and its subsidiaries.

Internal Audit

The Bank's Internal Audit function provides an independent view to its Board of Directors and Senior Management on the quality and efficacy of the internal controls, risk management systems, governance systems and processes in place on an on-going basis. This is provided to primarily ensure that the business and support functions are in compliance with both, internal and regulatory guidelines. In line with the RBI's guidelines on Risk Based Internal Audit (RBIA), the Bank has adopted a robust internal audit policy. The Risk Based Internal Audit has been designed after factoring regulatory guidelines and also international best practices. The policy has a well-defined architecture for conducting Risk Based Internal Audit across all audit entities. The audit policy articulates the audit strategy in terms of a concerted focus on strategic and emerging business risks. These inputs form a key step in the identification of the audit universe for the audit planning exercise. The audit frequencies are in sync with the risk profile of each unit to be audited. This is in alignment with guidelines relating to Risk Based Internal Audit. The scope of Risk Based Internal Audit includes examining the adequacy and effectiveness of internal control systems, external compliances and also evaluating the risk residing at the audit entities. Further to augment the internal audit function, concurrent audit, thematic audit and integrated audit reviews have been integrated into the internal audit process in order to make the function more robust.

The Internal Audit functions independently under the supervision of Audit Committee of the Board, thereby ensuring its independence. The Board reviews the efficacy of the internal audit function, effectiveness of the internal controls laid down by the Bank and compliance with internal as also regulatory guidelines.

Corporate Social Responsibility (CSR)

The primary purpose of Axis Bank's CSR philosophy is to make a meaningful and measurable impact on the lives of economically, physically and socially challenged communities across India, by actively supporting initiatives that aim at creating suitable conditions for their sustainable livelihoods. As a financial institution, the Bank believes that it can play an active role in stimulating India's socio-economic development as well as its ecological balance. The Bank is also making efforts to align its CSR activities with some of the Sustainable Development Goals laid out by United Nations in 2015.

The CSR activities of the Bank are guided by its Corporate Social Responsibility (CSR) Policy which has been formulated and adopted by the Bank in compliance with the provisions of Section 135 of the Companies Act, 2013 and is accessible on the Bank's website www.axisbank.com.

The prescribed CSR expenditure for the Bank for fiscal 2018 in terms of the Section 135 of the Companies Act, 2013 and Rules framed thereunder was ₹186.82 crores, against which the Bank has spent ₹133.77 crores towards various CSR initiatives. The details of initiatives taken by the Bank on CSR during the year as per annexure attached to the Companies (Corporate Social Responsibility Policy) Rules, 2014 are given as an annexure to the Directors' Report.

The Bank pursues its CSR activities either directly or through the Axis Bank Foundation (ABF), directly, or through any other entity as deemed suitable by the CSR Committee of the Board. The CSR activities undertaken directly by the Bank focus on poverty alleviation, rural development through promoting financial literacy and enabling financial inclusion, environmental sustainability, education and skill development. With over 3,703 branches across the country, the Bank actively tries to leverage its geographical spread to expand the reach and impact of its initiatives. During the year, the Bank directly supported 15 such programs.

By reaching out to the rural populace through these interventions, the Bank aims to help the intended participants generate sustainable sources of income for their households. The Bank has collaborated with reputed NGOs and Trusts to have a deeper penetration in the rural areas to support livelihood programs that are sustainable and replicable. In its endeavour to foster inclusiveness, the Bank has tied up with a reputed NGO to create awareness on the Right of Persons with Disabilities (RPWD) Act and will train organizations involved in skilling the Persons with Disabilities (PWDs) to ensure the absorption of PWDs in the workforce.

The Bank has also taken a pioneering step to bridge the human resource gap faced by the development sector by supporting the 'Buddha Fellowship' initiative wherein young graduates from IIM, IIT and other reputed institutions will get an opportunity of two years of rigorous engagement with the development sector – on field work in NGOs and government and mentorship by senior leaders from corporate and development sector to groom them into a development entrepreneur.

Understanding the need to propagate the importance of health in the rural areas, the Bank conducted a health camp offering basic diagnostic services. Additionally, Financial Literacy sessions were conducted as part of the Mass Awareness Camp (MAC) for the participants of Joint Liability Group (JLG) and other community members. The mass awareness camp is designed to involve the entire community at large to be a part of the financial learning process. A skit was prepared on the overview and the benefits of banking. The activities are part of a larger intervention undertaken by the Bank with the rural communities on Financial Literacy that will include vocational training and financial awareness campaigns for low-income households.

Towards promoting Financial Inclusion at a pan-India level, the Bank engages Business Correspondents (BCs) to act as banking intermediaries to impart the financial literacy programs leading to a deeper percolation and adoption of financial products and services. In FY 2017-18, the Bank enrolled 7.7 lac members for various social security schemes through its various banking channels. During the year, the Bank conducted specialized knowledge sharing sessions for SMEs wherein industry domain experts share knowledge and discuss case studies focusing on SME sector growth and development. The various sessions covered more than 3,000 SMEs through 30 knowledge sharing sessions held in 30 cities. The Bank also conducts knowledge sessions on global trade through its Forex Club initiative, reaching 6,500 MSMEs of which 60% were New To Bank (NTB).

In line with the national priority to eliminate open defecation from the country under the 'Swachh Bharat Mission', the Bank supported various initiatives towards an ODF-free India, such as in the greater Nagpur region, where the Bank partnered with a nationally recognized NGO to design a communication strategy to take the message to the general public and specifically to school students.

Towards promoting greater environmental sustainability, the Bank has been working towards reducing its carbon emissions through installation of solar panels at select locations and remotely managed smart energy systems. As on March 31, 2018, the Bank had an installed capacity of 5.05 MW. The Bank is also supporting an initiative wherein 3,80,000 trees will be planted in around five states viz. Andhra Pradesh, Rajasthan, Gujarat, Odisha and Maharashtra that will improve vegetation in common lands, arrest and reverse land degradation, besides helping in reducing pressure on the forests and common lands. This initiative is expected to improve availability of fodder, fuel wood, biodiversity, water, nutrients thereby improving livelihoods of poor rural households. Additionally, ABF, through its partners, undertakes tree plantation drives at locations across India. During the reporting period, 14.35 lac saplings were planted.

During the year, Axis Bank embarked on an ambitious endeavour to reach out to the remote communities in the Ladakh region of Jammu & Kashmir and launched a three year program 'Axis DilSe – Connecting Remote Communities' aimed at transforming over 100 village schools in Leh and Kargil districts by creating physical and educational infrastructure. The initiative is in alignment with the Government of India's Border Area Development Program (BADP).

The Axis Bank Foundation (ABF), set up as a Public Charitable Trust in 2006 has partnered with NGOs primarily working in the areas of Rural Livelihood and Vocational Training. Within Rural Livelihoods, the core focus areas are Watershed Management and Agriculture Productivity, Livestock Enhancement and Financial Inclusion. The initiatives undertaken in these areas have helped in enhancing agricultural output through improved farm practices, thereby making multiple cropping possible. The initiatives also support communities in better livestock rearing thereby creating an alternative stream of income, which can supplement and improve overall income. Many of the ABF-supported programs are closely aligned with the Government of India's rural development schemes such as The Mahatma Gandhi National Rural Employment Guarantee Act and Pradhan Mantri Krishi Sichai Yojana.

The Foundation's programs also aim to strengthen the role of women in rural economies. As part of ABF's financial inclusion initiatives, a total of 13,396 Self Help Groups (SHGs) have been formed with 159,654 women members. These SHGs have recorded a savings of ₹28.95 crores and borrowings of ₹55.30 crores from the formal sector.

During the reporting period, ABF achieved its stated mission of creating 1 million livelihoods well before the stated target completion date of 31 December 2017, of which 63% are women. The Foundation has now committed itself to supporting 2 million households by 2025.

The various Livelihood programs of the Bank and ABF seek to provide vocational training to unemployed youth, including Persons with Disabilities (PwD), improving their ability to find employment and strengthen their self-dependence, in alignment with national schemes such as Skill India Mission. In the reporting year, 21,510 youth have been trained, of which 67% have been placed.

'Axis Cares' is the employee engagement platform that enables the workforce of the Bank to engage with various initiatives of the Foundation and support them through payroll donations.

The Bank's CSR agenda is closely guided and monitored by the Board level CSR Committee of the Bank and its top management. The Bank and ABF follow the highest fiduciary responsibility to ensure a thorough due diligence and monitoring of projects, partners and measurement of impact. From time to time, members of the CSR Committee or top management visit project intervention sites to directly interact with implementation partners and participants.

During the year, the Bank was rewarded by the 'FICCI CSR Summit & Awards 2017 in the 'Women Empowerment Category' in recognition of its CSR efforts and impacts created.

Additional details of the Bank's community development efforts can be accessed through the Bank's standalone annual sustainability report, the Bank's 'CSR & Sustainability' web-section on www.axisbank.com and ABF's website www.axisbankfoundation.org.

Human Resources

This year, the Bank entered the 25th year of its journey. The Bank continues to focus on capability building, keeping the future in mind. The Bank has made intensive efforts to ensure that employees' capabilities are developed so that employees can handle challenges of future while staying abreast with the functional domain knowledge of Banking. The Bank ended the year with a workforce strength of 59,614 employees. Some key focus areas of the Bank were:

Building Bankers the Axis Way: The Bank takes significant efforts to enhance the employee's capabilities by focusing on developing their core functional knowledge and building on their banking skills. Through its various learning interventions, the Bank continues to provide platforms for employees to improve on their Banking domain knowledge and skills. The Bank's online learning and testing platform, Axis Competency Profiler, assesses employees on their functional competence and creates a pool of functionally strong employees. The Bank has collaborations with the best names in their respective fields of expertise, to bring learning academies to our employees. These Academies provide employees the opportunity to gain levels of mastery in Core Banking areas like the Credit, Risk, Trade & Forex Academies in collaboration with CRISIL to build deep knowledge in these areas.

This learning mindset is strengthened when subject matter experts within the Bank are encouraged to nurture a culture of learning and sharing. The Axis Learning Achievers program and the Axis Business Clinics provides leaders with teachable points of view while assimilating story telling as a powerful medium of learning. Using the cascade format of facilitation, the Banking on Compliance program drives ethical decision making, KYC/AML knowledge and importance of compliance in every transaction the Bank undertakes.

Reinforcing Meritocracy: The Bank's integrated Performance Management & Capability Development system - ACElerate – helps in fostering high performance as well as building capability. Capability development interventions are provided to high performing employees to hone their skills further and help them perform at the next level. More than 24,600 employees underwent a 2-day behavioural training program customized to their grade and their role challenges. Enhancement Program was offered to poor performers as a lever to opt for stretch targets and have a chance at upgrading their rating retrospectively. The Bank's promotion process allows for the best performers to shine through, regardless of their age, gender, past performance & background. A young and engaged workforce with an average age of 29.5 years and the Bank's policy on being an equal opportunity employer continue to significantly contribute towards the Axis Bank brand.

Leadership development across levels has been the Bank's continued focus. 'Hire at frontline and grow from within' is the strategy deployed across the Bank. Inter-linkages across the different academic tie-ups ensure that the best talent are placed across the organization in roles that add value while bring in new perspectives and points of view.

The Bank follows an institutionalized approach of providing differentiated learning opportunities to the Top Talent. In order to gain a better understanding of how the Digital Wave is disrupting businesses and reshaping strategies, the Bank partnered with INSEAD, one of the world's pre-eminent Business Schools, to bring our Leaders a world-class program in the shape of the Axis INSEAD Digital Leadership Academy. Additionally, developmental interventions in the form of executive coaching, mentoring and feedback tools were introduced and extended to a wider audience to facilitate their leadership journey.

Axis Blitz Voices continued, where our leaders travelled to 27 locations and met nearly 5,000 employees to listen to their voices. The Bank introduced an integrated employee survey architecture to be able to hear from employees at various stages of their employee lifecycle.

The Bank has been continuously enhancing employee experience through personalized human connect as well as technology enabled connect. The best-in-class technology is deployed to automate HR processes & the internal employee portal, MyConnect provides employees with a seamless and digitally enhanced HR experience.

Partnering with external stakeholders: The Bank continued giving back to the community via the Axis DilSe initiative. The DilSe program saw 108 schools across the remotest part so of Kargil and Ladakh being adopted by 20 senior leaders for a period of 3 years. Providing playgrounds, libraries, solar panels, digital learning, desks and chairs are part of the program. 31 employees along with the leaders spent time with the children, villagers and teachers to drive home the importance of education and the importance of working towards fulfilling their dreams.

Through the fulfilment of its HR agenda, the Bank continues to strive towards its pledge of serving its customers, shareholders, employees & communities.

Subsidiary Performance

During fiscal 2018, the Bank's subsidiaries reported healthy growth in revenue and earnings of 31% and 5% respectively.

Axis Finance Limited, the Bank's fast growing NBFC that caters to the unique financing requirment of retail and wholesale customers, reported 54% YoY growth in total loans with 64% growth in retail loans. Axis Finance's net profit increased by 27% and contributed 44% to total subsidiaries' earnings.

Axis Capital, the Bank's institutional equities and investment banking franchise has been the leader in equity and equity linked deals over the last decade and had another great year with 42% market share of the IPO market. Axis Capital contributed 29% to the total earnings of the subsidiaries.

Axis AMC and Axis Securities continued to contribute towards the Bank's Retail Franchise building strategy and strengthen the bond with its customers. Axis AMC reported 45% YoY growth in average AUM with 26% growth in total number of folios and contributed 9% to total subsidiaries' earnings. Axis Securities, one of the fastest growing brokerage firms in India reported 33% growth in cumulative client base to 1.84 million and contributed 13% to subsidiairies' net profits.

During the fiscal, the Bank acquired Freecharge, one of the India's leading digital payment companies that has a current user base of 61.5 million, GMV of over ₹2,000 crores and ~110 million transactions. The Bank believes that the Freecharge's unique value proposition in the digital payments space and the strength of its acquisition engine would help to build the Axis franchise further and create significant value for the Bank. With Digital Payments as a hook, the Bank intends to leverage the platform for digital distribution of retail products by targeting digitally native mobile first customers. The post-acquisition activities at Freecharge remain on track with total payment volumes up 36% and monthly active users increasing by 44% during the period October 2017 to March 2018.

A.TReDs Limited, the Bank's subsidiary that was set up in partnership with m-Junction, was one of the three entities allowed by RBI to set up the Trade Receivables Discounting System (TReDS), an electronic platform for facilitating cash flows for MSMEs. The Bank's digital invoice discounting platform 'Invoicemart' for MSMEs has done exceptionally well with market share of nearly 43% among all TReDS platforms. It currently has more than 350 particpants on the platform and has clocked more than ₹410 crores in financed throughput by e-discounting nearly 14,300 invoices.

Safe Harbor

Except for the historical information contained herein, statements in this Annual Report which contain words or phrases such as "will", "aim", "will likely result", "would", "believe", "may", "expect", "will continue", "anticipate", "estimate", "intend", "plan", "contemplate", "seek to", "future", "objective", "goal", "strategy", "philosophy", "project", "should", "will pursue" and similar expressions or variations of such expressions may constitute "forward-looking statements". These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. These risks and uncertainties include, but are not limited to our ability to successfully implement our strategy, future levels of non-performing loans, our growth and expansion, the adequacy of our allowance for credit losses, our provisioning policies, technological changes, investment income, cash flow projections, our exposure to market risks as well as other risks. Axis Bank Limited undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof.