Message from the Non-Executive Chairman

A year of transformation

Dear Shareholders,

The world is going through an extraordinary time, as the pandemic hits its businesses, economies and lives.

The world's economic landscape was already fraught with uncertainties, ranging from trade tensions between US and China to Brexit, which led to volatility in global oil prices and financial markets.

For India, the financial year 2019-20 started on a positive note with a landslide victory for the incumbent BJP led government, raising hopes for ongoing reforms. The government did not disappoint on this front and brought about some landmark changes such as a sharp reduction in the corporate and Income Tax rates – both applicable subject to the tax payer agreeing to forego all forms of tax exemption.

However, despite policy actions by both the government and RBI, the uncertainties with regard to the Twin Balance Sheet problem persisted – troubles in the NBFC sector did not dissipate and deleveraging in the corporate sector continued. Core inflation remained on a downward trajectory and the government announced reforms in the agriculture, coal and fertilizer sectors and in regulations pertaining to labour.

The RBI supported the economy with a 110 bps cut in the repo rate starting from April 2019 before pausing post October 2019 as a reaction to the spike in inflation. However, following the COVID-19 crisis, it resumed its rate cut cycle with a 75 bps cut in March 2020 and further 40 bps in May 2020.

From October 1, 2019, the RBI attempted to improve transmission of its policy rate cuts by making it mandatory for banks to link all fresh retail and SME loans to an external benchmark. It has been a consistent endeavor of the RBI to maintain adequate liquidity in the system and they have also announced some targeted long-term repo operations for the banks to enable them to invest in investment grade bonds of NBFCs.

During the year, the banking sector saw significant developments including a mega merger of PSU banks which involved the folding of 10 banks into four. The government announced a substantive recapitalization of PSU banks. The industry also witnessed the first instance of a financial sector entity, a large HFC, being admitted for bankruptcy proceedings. The RBI also acted boldly to provide liquidity support to the banking system to ensure that

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> **Dr. Rajiv B Lall**
> Non-Executive Chairman
> IDFC FIRST Bank

there was no systemic contagion from the problems at YES Bank. YES Bank itself had to be rescued with equity infusion from SBI led consortium of stronger banks.

Towards the end of the financial year FY20, in view of economic disruption caused by the pandemic, the RBI announced an interest rate moratorium and ring-fenced banks from the impact of the same by announcing that regulatory forbearance on account of moratoria will not be accounted for as a default.

Looking ahead, the banking sector could see some challenging times. Credit growth has been slowing over time given the risk aversion of lenders and the declining demand from borrowers affected by the economic disruption related to the pandemic. Credit growth slumped to 6.1% by end-March 2020 from 13% in end-March 2019. Balance sheets of banks were on the mend in 2019, but the pandemic could temporarily upend this process.

With most forecasts anticipating a contraction in economic activity due to significant disruptions caused by the pandemic, FY21 is likely to remain a challenging year for the Indian economy and the banking sector.

A year of transformation

IDFC FIRST Bank has started FY21 with a position of strength.

In the year gone by, FY20, the Bank weathered several challenges, some quite unprecedented. Despite this, its performance has been extraordinary.

In its first full year of operations as a merged entity, the Bank has strengthened and significantly transformed its balance sheet. Under the leadership of V Vaidyanathan, the Bank has struck the right balance across all dimensions – from diversifying the liabilities book, retailising assets, improving NIMs and strengthening structural liquidity and improving credit quality.

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These are tough times, and during these times, we stand by not only for our customers but also our communities. We are committed to strengthening communities through our social responsibility and philanthropy initiatives.

On behalf of the Board, management and employees, I want to thank shareholders for their continued trust in the Bank.

We are building a bank that we expect will stand the test of time. I am confident the Bank's inherent strengths and principles will enable us to endure and thrive.

Best regards,

Dr. Rajiv B Lall
Non-Executive Chairman
IDFC FIRST Bank