

Directors' Report

Dear Shareholders,

Your Directors are pleased to present the Sixth Annual Report of IDFC FIRST Bank Limited ('IDFC FIRST Bank' or the 'Bank') together with the audited financial statements for the financial year ended March 31, 2020.

FINANCIAL HIGHLIGHTS

Particulars	(₹ in crores)	
	FY 2020	FY 2019
Deposits	65,108	70,479
Borrowings	57,397	69,983
Investments	45,405	58,475
Advances	85,595	86,302
Total Assets / Liabilities	149,200	167,185
Total Income	17,589	12,800
Profit before Depreciation and Tax	(2,073)	(483)
Net Profit	(2,864)	(1,944)
Appropriations		
Transfer to Statutory Reserve	-	-
Transfer to Capital Reserve	166	2
Transfer to Special Reserve	-	-
Transfer from Investment Reserve	-	-
Dividend paid (includes tax on dividend)	-	294*
Balance in profit and loss account carried forward	(3,560)	(530)
Capital adequacy ratio (Basel III)	13.38%	15.47%
Gross NPA %	2.60%	2.43%
Net NPA %	0.94%	1.27%
Return on Assets	(1.79%)	(1.20%)

* Dividend amount pertains to FY 2017-18 which was declared and paid in FY 2018-19.

Note: In view of amalgamation of erstwhile Capital First Limited with IDFC Bank Limited from the appointed date of October 01, 2018, the figures for FY 2019-20 are not comparable with FY 2018-19.

STATE OF AFFAIRS OF THE BANK

The Bank has successfully diversified its business mix and added new revenue streams after the Merger. Now it has expanded its reach to serve new customer segments both on the retail as well as wholesale side of the business. The achievements during the last financial year FY 2019-20 are mentioned below –

1. Strong Growth in Retail Assets:

- Retail Book increased 40% Y-o-Y to ₹ 57,310 crores as on March 31, 2020 from ₹ 40,812 crores as on March 31, 2019.
- Retail Funded Assets constitutes 54% of Funded Loan Assets as on March 31, 2020 compared to 37% as on March 31, 2019. Including the PSL buyout portfolio, the underlying assets are retail loans, the retail assets contribution to overall funded assets stood at 61% as of March 31, 2020.

- Wholesale Book decreased by 27% from ₹ 53,649 crores as on March 31, 2019 to ₹ 39,388 crores as on March 31, 2020.
- Within Wholesale Book, the Infrastructure loans decreased by 31% from ₹ 21,459 crores as on March 31, 2019 to ₹ 14,840 crores as on March 31, 2020.

2. Strong Growth in Retail Liabilities

- The Total CASA Deposits increased to ₹ 20,661 crores as on March 31, 2020 from ₹ 7,893 crores as on March 31, 2019, Y-o-Y increase of 162%.
- CASA Ratio improved to 31.87% as on March 31, 2020 from 11.40% as on March 31, 2019.
- Strong CASA growth of ₹ 12,769 crores during FY20 and ₹ 4,458 crores during Q4 FY20, despite the disturbance of COVID and one of the private sector bank issues.

- Retail Deposits (Retail CASA and Retail Term Deposits) increased to ₹ 33,924 crores as on March 31, 2020 from ₹ 13,214 crores as on March 31, 2019, Y-o-Y increase of 157%.
- IDFC FIRST Bank Fixed Deposit program assigned highest safety rating of FAAA by CRISIL.
- Bank consciously reduced Certificate of Deposits (CD) from ₹ 28,754 crores as on March 31, 2019 to ₹ 7,111 crores as on March 31, 2020, a Y-o-Y reduction of 75%, as CD are short term and institutional borrowing in nature, and replaced them with retail FD and CASA money, thus strengthening and diversifying the liabilities significantly.

3. Strong growth in Core Earnings: (Q4 data are given, as figures of FY 2018-19 are not comparable with FY 2019-20 due to merger)

- Strong NII Growth: NII grew by 40% Y-o-Y to ₹ 1,563 crores in Q4 FY20 as compared to ₹ 1,113 crores in Q4 FY19.
- Strong NIM improvement: NIM has improved to 4.24% in Q4 FY20 as compared to 3.03% in Q4 FY19 and 3.86% in Q3 FY20.
- Strong growth in Total Income (NII + Fees + Trading Gain): Grew 67% Y-o-Y to ₹ 2,314 crores in Q4 FY20 from ₹ 1,386 crores in Q4 FY19. Fee Income as a % of Total Income (net of Trading Gain) stood at 22% for Q4 FY20.
- Core Pre-provision Operating Profit (PPOP Net of treasury income), grew 70%, from ₹ 275 crores in Q4 FY19 to ₹ 468 crores in Q4 FY20.
- Provision: The Bank was required to make COVID-19 related provision of ₹ 25 crores pertaining to accounts where asset classification benefit was given. The Bank has provided the entire amount in Q4 FY20 itself and has additionally taken ₹ 200 crores of COVID-19 related provisioning proactively for over-dues of 1-89 days as of February 29, 2020 taking total COVID-19 provisions to ₹ 225 crores. Including this, the total provisions for Q4FY20 was ₹ 679 crores.
- Profit After Tax: The PAT for Q4 FY20 is reported at ₹ 72 crores as compared to Loss of ₹ 218 crores for Q4 FY19. For the full year FY20, the Bank made a net loss of ₹ 2,864 crores mainly because of the provisions taken on the legacy loans primarily in infrastructure, telecom and financial sector corporate clients totaling to ₹ 2,688 crores, revaluation of DTA due to change in the Tax rate change by the Govt. of India amounting to ₹ 750 crores and lastly the additional COVID-19 impact related provisions amounting to ₹ 225 crores.

4. Asset Quality of the Bank remains high

- Bank's Gross NPA ratio as of March 31, 2020 stood at 2.60% as compared to 2.43% as of March 31, 2019. The Gross NPA ratio without considering the impact of moratorium would have been 2.88% as of

March 31, 2020. Gross NPA ratio as of December 31, 2019 was 2.83%.

- Bank's Net NPA ratio as of March 31, 2020 stood at 0.94% as compared to 1.27% as of March 31, 2019. The Net NPA ratio without considering the impact of moratorium would have been 1.14% as of March 31, 2020 which would have been still lesser than Net NPA ratio of 1.27% as of March 31, 2019. Net NPA ratio as of December 31, 2019 was 1.23%.
- Provision Coverage Ratio (PCR) has improved to 64.53% as of March 31, 2020 as compared to 48.18% as of March 31, 2019 and as compared to 57.34% as of December 31, 2019.

5. Strong Asset Quality on Retail Loan Book:

- Retail Asset Gross NPA ratio stood at 1.77% as of March 31, 2020 as compared to 2.18% as of March 31, 2019 and 2.26% as of December 31, 2019. Without moratorium, the Retail Asset Gross NPA ratio as of March 31, 2020 would have been 2.22%.
- Retail Asset's Net NPA ratio stood at 0.67% as of March 31, 2020 as compared to 1.24% as of March 31, 2019 and 1.06% as of December 31, 2019. Without moratorium, the Retail Asset Net NPA ratio as of March 31, 2020 would have been 0.99%.

6. Strong Capital Adequacy:

- Capital Adequacy Ratio is strong at 13.38% with CET-1 Ratio at 13.30% as of March 31, 2020.
- The Bank announced it plans to mobilize ₹ 2,000 crores of fresh equity capital during Q1 FY21, process to complete by 1st week of June 2020.
- Post the capital raise, the Capital Adequacy Ratio would be around 15%.

7. Franchisee:

- As on March 31, 2020, the Bank has built a national footprint through the operation of 464 branches (out of which 295 are Urban Branches and 169 are Rural Branches) across many cities in India, 652 Corporate Business Correspondent ('BC') branches, 356 ATMs, 3 Central Processing Centers and 1 Clearing Hub.

Points of Presence comparison chart:

Particulars	FY 2019-20	FY 2018-19
Urban Branches	295	133
Rural Branches	169	109
ATMs*	356	113
Asset Service Branches	128	102
Rural BC Branches (IDFC FIRST Bharat Limited)	380	354
Other BC Branches	272	100

*Excluding white label ATMs

- The Bank offers a wide gamut of products to cater to the needs of customers from all segments which can be viewed on the Bank's website: www.idfcfirstbank.com.

UPDATE ON IMPACT OF COVID 19

Late December 2019, a cluster of pneumonia cases of unknown cause was reported by health authorities in Wuhan, Hubei Province, People's Republic of China.

As a precautionary measure and with pro-active readiness, our Bank started monitoring and preparing early from January 22, 2020:

- **Alert & Procurement of Personal Protective Equipments ('PPEs')**: News on this matter was monitored closely, updates shared with the management and alerts sent to employees; PPEs including masks and sanitizers were procured early.
- **Policies**: Work from Home and Quarantine Policies were formalized and published.
- **Remote Access Infrastructure**: VPN infrastructure was readied before lockdown including movement of laptops, desktops to staff residence

A COVID Center headed by V. Vaidyanathan, Managing Director & Chief Executive Officer ('MD & CEO'), Madhivanan B., Chief Operating Officer ('COO') and the management team, along with Crisis Management Team, provided strong leadership and tracked progress on a daily basis. The team monitored and provided necessary directions from time to time and successfully managed the crisis.

Various forms of **communication** advisories on the disease, symptoms, safeguards, restrictions and the like were sent to the management and staff since January 22, 2020, as the disease progressed from a Public Health Emergency of International Concern and evolved into a Pandemic, leading to complete lockdown in India.

All operating premises of the Bank are sanitized and kept safe for staff and customers. Daily disinfection (multiple times) is done, sanitizers are deployed across premises and branches, checking and monitoring of staff's temperature is undertaken for any symptoms, and immediate quarantine is advised in case of even the most minor symptoms, based on the Bank's Quarantine policy.

The **Lockdown Strategy** adopted by the Bank covers the following:

Branch Operations – All branches across the country are operated as per authorities defined operating windows with skeletal staff (on rotation).

Essential Activities – Our Bank supported essential activities like Cash Deposits & Withdrawals, Clearing of Cheques, Remittances and Government transactions.

Digital Banking – All digital banking channels of the Bank were running seamlessly with critical support team resources available for managing sudden spikes.

Split Operations and Work from Home – The Bank successfully implemented 'Work from Home' for employees

Customer Service – The Bank adequately equipped its Customer Service Agents with capabilities to work from home. The staff operated from their Homes as well as Offices via call and e-mail without any disruption to services.

ATM & Branch Cash Adequacy – Adequate measures were taken to ensure supply of cash to Bank's branches and ATMs.

Regulatory Submissions – The Bank's Compliance Team worked diligently, pro-actively updated and responded to all the Statutory and Regulatory bodies queries.

IDFC FIRST Bank is fully functional and provides critical banking services to all its customers.

Moratorium, as a relief measure to the borrowers

The coronavirus pandemic and the lockdown in the country, impacted the income of many, especially the self-employed. Against this backdrop, the Reserve Bank of India ('RBI') vide its circulars issued on March 27, 2020 and subsequently amended, advised certain regulatory measures to mitigate the burden of debt servicing and to ensure continuity of viable businesses. Lenders could use their discretion to allow deferment of loan instalments falling due between March 01, 2020 and August 31, 2020. This was essentially a 'pause' in contracted repayment obligations and interest on the loan continued to accrue.

The said moratorium and further extensions made by the RBI, provided relief to many borrowers, whose livelihood and income had suffered on account of the pandemic.

The Bank has been fully supportive of RBI's move and has provided moratorium facility to borrowers, thereby deferring their instalments until the end of the loan tenure along with accrued interest for the moratorium period. No charges have been applied on accounts during this period.

This has enabled borrowers, especially small and medium sized businesses who have availed the facility, to cope with the difficult business conditions caused by the pandemic. The Bank proactively communicated all necessary information related to moratorium to borrowers, through its website, SMSs, emails, social media and through conversations with its customer service teams.

DIVIDEND

During FY 2019-20, the Bank had incurred losses. Further, it may be noted that RBI vide its circular no. RBI/2019-20/218 DOR.BP.BC.No.64/21.02.067/2019-20 dated April 17, 2020 has directed that banks shall not make any further dividend pay-outs from the profits pertaining to the financial year ended March 31, 2020 until further instructions. RBI advised that in an environment of heightened uncertainty caused by COVID-19, it is important that banks conserve capital to retain their capacity to support the economy and absorb losses.

Accordingly, the Directors did not recommend dividend on equity shares for the FY 2019-20.

In accordance with Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time ('Listing Regulations'), our Bank has formulated a Dividend Distribution Policy, which ensures a fair balance between rewarding its Shareholders and retaining enough capital for the Bank's future growth.

This Policy is available on the Bank's web-link: www.idfcfirstbank.com/Investor-relation/corporate-governance.html.

PREPAREDNESS ON IMPLEMENTATION OF INDIAN ACCOUNTING STANDARDS ('IND-AS')

The RBI vide Circular RBI/2018-2019/146 DBR. BP.BC.No.29/21.07.001/2018-19 dated March 22, 2019 decided to defer the implementation of Ind-AS for banks till further notice.

The Bank has made significant progress on Ind AS implementation and in fact, since the Bank is an associate company of the Promoter Group - IDFC Limited, which is a Non-Banking Finance Company ('NBFC') that falls under the 'Ind AS Road map' mandatorily applicable from April 01, 2018. Accordingly, the Bank has been preparing and submitting special purpose "Fit-for-Consolidation" consolidated financials under Ind-AS to IDFC Limited with the transition date as April 01, 2017. Under the RBI guidelines, banks are not allowed to early adopt Ind AS and should be guided by the RBI guidelines. Accordingly, the general purpose financial statements of the Bank presented in the Annual Report are not under Ind AS.

Further, the Bank also submits quarterly Standalone Proforma financials in the format as prescribed by the RBI. These submissions are reviewed by the management and the Audit Committee of the Bank before submission to the RBI. The working group of the Bank prepares quarterly pro-forma Ind-AS financials as required by the RBI.

The implementation of IND-AS is expected to result in significant changes to the way the Bank prepares and presents its financial statements. The areas that are expected to have significant accounting impact on the application of IND-AS are summarized below:

1. Financial assets (which include advances and investments) shall be classified under amortized cost, fair value through other comprehensive income (a component of Reserves and Surplus) or fair value through profit/ loss categories on the basis of the nature of the cash flows and the intention of holding the financial assets.
2. Interest will be recognized in the income statement using the effective interest method, whereby the coupon, fees net of transaction costs and all other premiums

or discounts will be amortized over the life of the financial instrument.

3. The impairment requirements of IND-AS 109, Financial Instruments, are based on an Expected Credit Loss ('ECL') model that replaces the incurred loss model under the extant framework. The Bank will be generally required to recognize either a 12-Month or Lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. IND-AS 109 will change the Bank's current methodology for calculating the provision for standard assets and non-performing assets ('NPAs'). The Bank will be required to apply a three-stage approach to measure ECL on financial instruments accounted for at amortized cost or fair value through other comprehensive income. Financial assets will migrate through the following three stages based on the changes in credit quality since initial recognition:

Stage 1: 12 Months ECL - For exposures which have not been assessed as credit-impaired or where there has not been a significant increase in credit risk since initial recognition, the portion of the ECL associated with the probability of default events occurring within the next twelve months will need to be recognized.

Stage 2: Lifetime ECL - For credit exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL will need to be recognized.

Stage 3: Lifetime ECL - Credit Impaired Financial assets will be assessed as credit impaired when one or more events having a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will need to be recognized.

4. Accounting impact on the application of IND-AS at the transition date shall be recognized in Equity (Reserves and Surplus) as and when it becomes statutorily applicable to the Bank.

SHARE CAPITAL

Paid-up Equity Share Capital

During FY 2019-20, 2,82,26,604 equity shares of ₹ 10 each were issued and allotted to the eligible employees of the Bank on exercise of Options granted under IDFC FIRST Bank Limited Employee Stock Option Scheme 2015 ('IDFC FIRST Bank ESOS-2015').

As on March 31, 2020, the issued, subscribed and paid-up equity share capital of our Bank was ₹ 48,09,90,30,160 comprising 4,80,99,03,016 equity shares of ₹ 10 each.

Issue of Equity Shares on Preferential basis ('Preferential Issue')

Our Bank has grown steadily on its business and financial parameters during the recent years. Our Bank is one of India's fastest growing private sector banks with an expanding presence across the country.

The Board of Directors of the Bank at their Meeting held on May 01, 2020, subject to approval of the shareholders and such other approvals as may be required, approved the Preferential Issue, involving the issue and allotment of up to **86,24,40,704 (Eighty-Six Crores Twenty-Four Lakh Forty Thousand Seven Hundred and Four)** equity shares of face value of ₹ 10/- (Rupees Ten only) each fully paid-up, at a price of ₹ **23.19/-** per equity share (including premium of ₹ 13.19/- per share), aggregating up to ₹ **2,000 crores** (rounded off) on a preferential basis to the below mentioned Promoter and Non-Promoter Investors, the offer/issue price being determined in accordance with the applicable provisions of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ('SEBI ICDR Regulations').

Name of the Investors/ Allottees	No. of Shares to be allotted	Category
IDFC Financial Holding Company Limited	34,49,76,282	Promoter Group
ICICI Prudential Life Insurance Company Limited	25,87,32,212	Non-Promoter Group
Dayside Investment Ltd (affiliated entity of Warburg Pincus)	8,62,44,070	Non-Promoter Group
HDFC Life Insurance Company Limited	8,62,44,070	Non-Promoter Group
Bajaj Allianz Life Insurance Limited	8,62,44,070	Non-Promoter Group
Total Shares	86,24,40,704	

In view of the pandemic situation of COVID-19 and pursuant to the guidelines and notification issued by the Ministry of Home Affairs, Government of India and in light of circulars issued by the Ministry of Corporate Affairs, Government of India (the 'MCA') vide its General Circular No. 14/2020 dated April 08, 2020 and General Circular No. 17/2020 dated April 13, 2020 (the 'MCA Circulars') and pursuant to Section 110 of the Companies Act, 2013 and the Rules made thereunder, our Bank proposed to seek shareholders' approval for this Preferential Issue through Postal Ballot by mechanism of 'Remote E-voting' process, which will remain open for exercising votes from **Tuesday, May 05, 2020 at 09:00 a.m.** India Standard Time ('IST') till **Wednesday, June 03, 2020 at 05:00 p.m. (IST)** (both days inclusive).

The object of the Preferential Issue was to strengthen the Capital Adequacy Ratio of the Bank and ensure it is adequately maintained over and above the regulatory minimum and also with a view to augment funds to meet the short-term and long-term working capital requirements of the

existing business operations and support its future growth plans and for general corporate purposes.

As a result of the Preferential Issue, there will be no change in the control or management of the Bank. However, voting rights will change in tandem with the shareholding pattern.

Further, this Preferential Issue was made pursuant to Sections 42, 62(1)(c) and other applicable provisions, if any, of the Companies Act, 2013, read with the Companies (Prospectus and Allotment of Securities) Rules, 2014 and other relevant rules made thereunder, in accordance with the guidelines, rules and regulations of the Securities and Exchange Board of India ('SEBI'), including Chapter V of SEBI ICDR Regulations, the relevant provisions of the Banking Regulation Act, 1949, the rules, circulars, directions and guidelines issued by the RBI, and subject to the MCA Circulars issued in April 2020. The Bank has ensured to comply with all legal and statutory formalities.

Post the above Preferential Issue, the issued, subscribed and paid-up equity share capital of our Bank will be ₹ 56,72,34,37,200 comprising 5,67,23,43,720 equity shares of ₹ 10 each.

Reserve Bank of India has vide its letter dated May 10, 2020, acknowledged the proposed increase in Authorized Share Capital and consequent amendment to be carried out in the Memorandum of Association of the Bank, subject to compliance with relevant statutes and circulars/ instructions/ guidelines issued by RBI from time to time and shareholders' approval.

Our Bank has not issued any equity shares with differential voting rights.

Authorised Share Capital

In order to meet Bank's growth objectives, business expansion plans and to further strengthen its financial position, the Bank felt the need to infuse additional funds in the form of further capitalization and to generate long term resources by issuing securities.

Considering the proposed Preferential Issue and allotment of equity shares on preferential basis and in view to have an adequate Authorised Share Capital, the Board of Directors of the Bank at their Meeting held on May 01, 2020, approved to increase the Authorised Share Capital of the Bank to ₹ 75,38,00,00,000/- (Rupees Seven thousand five hundred thirty eight crores only) divided into 7,50,00,00,000 (Seven hundred fifty crores) equity shares of ₹ 10/- (Rupees Ten only) each and 38,00,000 (Thirty eight lakh) preference shares of ₹ 100/- (Rupees One hundred only) each, by creation of additional 2,17,50,00,000 (Two hundred seventeen crores and fifty lakh) equity shares of ₹ 10/- (Rupees Ten only) each and the consequent alteration of its Memorandum of Association, subject to approval of the Regulatory Authorities and the shareholders of the Bank by aforesaid Postal Ballot.

The Authorised Share Capital of the Bank, pre and post increase, is tabulated as under:

Type	Face Value (₹)	Pre – Increase Authorised Share Capital (as on March 31, 2020)		Post – Increase Authorised Share Capital	
		No. of shares	Amount (₹)	No. of shares	Amount (₹)
Equity Shares	₹ 10/-	5,32,50,00,000	₹ 53,25,00,00,000	7,50,00,00,000	₹ 75,00,00,00,000
Preference Shares	₹ 100/-	38,00,000	₹ 38,00,00,000	38,00,000	₹ 38,00,00,000
Total			₹ 53,63,00,00,000		₹ 75,38,00,00,000

CAPITAL ADEQUACY

Currently, the Bank is required to maintain a minimum total Capital Adequacy Ratio of 10.875%, of which minimum Tier 1 is 8.875% including Capital conservation buffer.

Our Bank is well capitalised and has a Capital Adequacy Ratio ('CAR') under Basel III as at March 31, 2020 of 13.38% (as against the RBI minimum requirement of 10.88%) & with Tier-I Capital Adequacy Ratio being 13.30%.

With Preferential Issue of ₹ 2,000 crores (rounded off), our Bank is availing an insurance for an emerging COVID situation, that positions itself for strong growth going forward and take the capital adequacy of our Bank to around 15%. At such capital adequacy, our Bank shall be one of the highest CET-1 capitalized banks in the country, which is far higher than the regulatory requirements.

At high levels of Capital Adequacy, our Bank will continue to enjoy the highest levels of confidence from the Indian financial ecosystem including capital market participants, depositors and our customers.

With the strong opportunities in India (India is an emerging economy and an underserved and under-penetrated market), the strong asset track record (combined with Capital First and IDFC Bank) combined with robust liability franchise, our Bank is well placed to grow its business in the future. Also, the capital raise does give the buffer on account of unforeseen circumstances on account of COVID.

As a Bank, it is our role to be strong and be strong custodians of public depositors/ shareholders and such Preferential Issue will help to further strengthen the balance sheet immensely.

RATINGS

Credit rating details for 80CCF Long Term Infrastructure Bonds, Private Placement Bonds and other instruments of IDFC FIRST Bank is available on the Bank's web-link: www.idfcfirstbank.com/Investor-relation/ifb-credit-ratings.html.

Our Bank is rated 'FAAA' by CRISIL for ₹ 50,000 crores Fixed Deposit Program, which is the highest level of safety rating by CRISIL.

During the FY 2019-20, our Bank has not issued any Senior Unsecured Redeemable Long-Term Bonds in the nature of Non-Convertible Debentures and/ or non-equity regulatory capital instrument.

DEPOSITS

Being a Banking Company, the disclosures required as per Rule 8(5)(v) & (vi) of the Companies (Accounts) Rules, 2014, read with Sections 73 and 74 of the Companies Act, 2013 are not applicable to our Bank.

As per the applicable provisions of the Banking Regulation Act, 1949, details of the Bank's deposits have been included under Schedule 3 - Deposits, in the preparation and presentation of the financial statements of the Bank.

RBI COMPLIANCES

As a Banking Company, our Bank always aims to operate in compliance with applicable RBI guidelines and regulations and employs its best efforts towards achieving the same.

During the period under review, the Bank has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above, to the extent applicable. During the financial year ended March 31, 2020, Reserve Bank of India (RBI) has vide its letter dated March 4, 2020, imposed a monetary penalty of ₹ 10,000/- on the Bank with respect to certain deficiencies observed on note/ coin exchange and clean note policy during the incognito visit at one of the branch.

LOANS, GUARANTEES OR ACQUISITION OF SECURITIES

Pursuant to Section 186(11) of the Companies Act, 2013, loans made, guarantees given or securities provided or acquisition of securities by a Banking Company in its ordinary course of business are exempted from disclosure requirements under Section 134(3)(g) of the Companies Act, 2013.

PERFORMANCE AND CONTRIBUTION OF SUBSIDIARY AND ASSOCIATE COMPANIES

IDFC FIRST Bank has one wholly owned Subsidiary Company, namely IDFC FIRST Bharat Limited ('IDFC FIRST Bharat'), which was formerly known as IDFC Bharat Limited.

IDFC FIRST Bharat is acting as a Business Correspondent ('BC') for distribution of the products of IDFC FIRST Bank and has given an added momentum to the financial inclusion plan of the Bank.

The Board of Directors and Shareholders of IDFC FIRST Bharat had approved the change of name of the Company from 'IDFC Bharat Limited' to 'IDFC FIRST Bharat Limited' and the consequential amendment to the Memorandum and Articles of Association of the Company.

The name of the Subsidiary has changed from 'IDFC Bharat Limited' to 'IDFC FIRST Bharat Limited' with effect from April 29, 2019 by virtue of 'Certificate of Incorporation pursuant to change of name' issued by the ROC, Chennai.

During FY 2019-20, IDFC FIRST Bharat has sourced ₹ 6,989 crores, of which ₹ 5,855 crores is in Joint Liability Group ('JLG'), ₹ 520 crores is in Micro Enterprises Loan ('MEL') and ₹ 588 crores is in Micro Housing Loan ('MHL') products, ₹ 28.3 crores is in Two Wheeler ('TW') products and ₹ 15.3 crores is in Housing Loan & Loan Against Property ('HL/LAP') products as a BC to IDFC FIRST Bank. The year end portfolio outstanding disbursed by IDFC FIRST Bharat for the financial year ended March 31, 2020 has increased to ₹ 5,891 crores as compared to ₹ 3,732 crores for the financial year ended on March 31, 2019.

IDFC FIRST Bank's policy for determining material subsidiaries is available on the Bank's web-link: www.idfcfirstbank.com/investor-relation/corporate-governance.html.

In accordance with the provisions of Section 129(3) of the Companies Act, 2013 read with the Companies (Accounts) Rules, 2014, the Bank has prepared its consolidated financial statements, which forms part of this Annual Report.

Further, pursuant to Section 136(1) of the Companies Act, 2013, the Annual Report of the Bank, containing therein its standalone and consolidated financial statements has been hosted on the Bank's website: www.idfcfirstbank.com under the 'Investor Relations' section.

In addition thereto, the Annual Report of IDFC FIRST Bharat containing therein its audited financial statements has also been hosted on the Bank's website: www.idfcfirstbank.com under the 'Investor Relations' section.

IDFC FIRST Bank has only one Associate Company as on March 31, 2020, viz Millennium City Expressways Private Limited, in which it holds 29.98% equity stake.

The highlights on performance of the Subsidiary and Associate Company and their contribution to the overall performance of the Bank can be referred to in Form AOC-1, appended as **ANNEXURE 1**.

PROMOTER

Pursuant to the RBI Guidelines for 'Licensing of New Banks in the Private Sector' dated February 22, 2013, the Promoter - IDFC Financial Holding Company Limited ('IDFC FHCL') is required to hold a minimum of 40% of the paid-up voting equity capital of the Bank which shall be locked in for a period of five years from the date of commencement of business of the Bank i.e. from October 01, 2015. Further, the shareholding by IDFC FHCL in the Bank in excess of 40% of the total paid-up voting equity capital was required to be brought down to 40% within three years from the date of commencement of business of the Bank. Also, in the event

of the Bank raising further voting equity capital during the first five years from the date of commencement of business, IDFC FHCL should continue to hold 40% of the enhanced voting equity capital of the Bank for a period of five years from the date of commencement of business of the Bank. Accordingly, as and when equity shares are allotted by IDFC FIRST Bank pursuant to the ESOP Scheme or by way of any other allotment, IDFC FHCL purchases new shares for maintaining 40% shareholding in the Bank.

EMPLOYEES

The statement containing particulars of employees as required under Section 197(12) of the Companies Act, 2013 read with Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 may be obtained by the shareholders by writing to the Head - Legal and Company Secretary of our Bank.

Disclosures pertaining to remuneration and other details as required under Section 197(12) of the Companies Act, 2013 read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is appended as **ANNEXURE 2**.

EMPLOYEE STOCK OPTION SCHEME

The Employee Stock Option Scheme ('IDFC FIRST Bank ESOS - 2015'/'ESOS') was framed with an object of encouraging higher participation on the part of employees in the Bank's financial growth and success. An effective stock option scheme enables retention of talent and aligning employee interest to that of the Shareholders.

IDFC FIRST Bank ESOS - 2015 was approved by the shareholders at their meeting held on December 09, 2014. The shareholders at the 5th Annual General Meeting ('AGM') held on July 25, 2019 approved increase in Employee Stock Options ('ESOP') pool from 6% to 8% of the paid-up share capital of the Bank, from time to time and revised the exercise period within a period of 3 (three) years from the date of Vesting.

There were 25,63,39,705 Options outstanding at the beginning of FY 2019-20. During FY 2019-20, 4,10,26,000 Options were granted to the eligible employees under IDFC FIRST Bank ESOS-2015.

Further, 3,49,45,742 Options had lapsed/ forfeited, and 2,82,26,604 Options were exercised during the year ended March 31, 2020. Accordingly, 23,41,93,359 Options remained outstanding as on March 31, 2020. All Options vests in a graded manner and are required to be exercised within a specific period in accordance with IDFC FIRST Bank ESOS-2015 and Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014, as amended from time to time.

The Bank has used the intrinsic value method to account for the compensation cost of Stock Options to employees of

the Bank. Intrinsic value is the amount by which the quoted market price of the underlying share on the date, prior to the date of the grant, exceeds the exercise price on the Option. IDFC FIRST Bank ESOS - 2015 is administered by the Nomination & Remuneration Committee ('NRC') of the Board of the Bank.

Apart from above, there has been no material change in IDFC FIRST Bank ESOS - 2015 during FY 2019-20 and the said IDFC FIRST Bank ESOS - 2015 is in compliance with the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014, as amended from time to time.

The details and disclosures with respect to ESOS as required under Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 and circulars issued thereunder, have been uploaded on the Bank's website: www.idfcfirstbank.com under the 'Investor Relations' section.

Further, disclosure as per the 'Guidance Note on Accounting for Employee Share-based Payments' issued by the Institute of Chartered Accountants of India, are appearing in the Notes to the Standalone Financial Statements of IDFC FIRST Bank, forming part of this Annual Report.

DIRECTORS AND KEY MANAGERIAL PERSONNEL

Appointment & Cessation

All appointments of Directors are made in accordance with the relevant provisions of the Companies Act, 2013 and the Rules framed thereunder, the Listing Regulations, the Banking Regulation Act, 1949 and the rules, guidelines and circulars issued by the RBI from time to time.

The NRC conducts due diligence before appointment of Directors and ensures adherence to 'Fit and Proper' criteria, as prescribed by RBI.

During the year under review, the Board of Directors on the recommendation of the NRC, had re-appointed Mr. Anand Sinha (DIN: 00682433) as a Independent Director of the Bank for a second term of four (4) consecutive years effective from August 01, 2019 to hold office up to July 31, 2023 or for such other period, subject to approval of the shareholders of the Bank and other applicable statutory/regulatory approvals.

Mr. Sanjeeb Chaudhuri (DIN: 03594427) was appointed as an Additional Director in the category of Independent Director of the Bank for a period of four (4) consecutive years, effective from May 10, 2019 to hold office up to May 09, 2023, subject to approval of the shareholders of the Bank and other applicable statutory/regulatory approvals.

Accordingly, the shareholders at its 5th Annual General Meeting of the Bank held on July 25, 2019 approved the following appointment:

- Appointed Mr. Pravir Vohra (DIN: 00082545) as an Independent Director for a period of three (3) years with effect from August 01, 2018.
- Appointed following Directors on the Board of IDFC FIRST Bank for a period of five (5) years with effect from December 18, 2018:
 - [a] Dr. (Mrs.) Brinda Jagirdar (DIN: 06979864) as an Independent Director;
 - [b] Mr. Hemang Raja (DIN: 00040769) as an Independent Director;
 - [c] Mr. Aashish Kamat (DIN: 06371682) as an Independent Director; and
 - [d] Mr. Vishal Mahadevia (DIN: 01035771) as a Non-Executive Non-Independent Director.
- Re-appointed Mr. Anand Sinha (DIN: 00682433) as an Independent Director for a second term of four (4) years with effect from August 01, 2019.
- Appointed Dr. Rajiv B. Lall (DIN: 00131782) as the Part-Time Non-Executive Chairman of the Bank for a period of two (2) years with effect from December 19, 2018.
- Appointed Mr. V. Vaidyanathan (DIN: 00082596) as Managing Director and Chief Executive Officer for the period of three (3) years with effect from December 19, 2018.
- Appointed Mr. Sanjeeb Chaudhuri (DIN: 03594427) as an Independent Director for a period of four (4) years with effect from May 10, 2019.

During the year under review, Mr. Desh Raj Dogra (DIN: 00226775) tendered his resignation from the Board of IDFC FIRST Bank effective from April 04, 2019 in order to avoid potential conflict of interest with his other Board memberships.

Brief profiles of all the Directors of the Bank are available on the Bank's web-link: www.idfcfirstbank.com/about-us/board-of-directors.html under the 'Board of Directors' section.

None of the Directors of the Bank are disqualified in accordance with Section 164 of the Companies Act, 2013.

Further, the Bank had received declaration from all the Independent Directors ('IDs'), at the time of appointment and also at the first meeting of the Board of Directors held in FY 2019-20, that they meet the criteria of independence specified under sub-section (6) of Section 149 of the Companies Act, 2013, read with Rule 5 of the Companies (Appointment and Qualification of Directors) Rules, 2014 and Regulation 16(1)(b) of the Listing Regulations, for holding the position of ID and that they shall abide by the 'Code for Independent Directors' as per Schedule IV of the Companies Act, 2013. In the opinion of the Board, the IDs possess the requisite integrity, experience, expertise and proficiency required under all applicable laws and the policies of the Bank.

Further, all the IDs of the Bank have complied and affirmed to abide by Rule 6 (Creation and Maintenance of Databank of Persons Offering to become Independent Directors) of the Companies (Appointment and Qualification of Directors) Rules, 2014, as amended from time to time, and have also declared their enrollment in the databank of Independent Directors maintained by Indian Institute of Corporate Affairs ('IICA').

Further, it is reported by the Bank's Secretarial Auditor that during the financial year under review, the Board of Directors of the Bank is duly constituted with proper balance of Executive Director, Non-Executive Directors and Independent Directors. The changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Companies Act, 2013 and Listing Regulations.

Further, as per the Listing Regulations, the certificate from the Bank's Secretarial Auditor, being a Company Secretary in Practice, has also been received and forms part of Corporate Governance Report stating that none of the Directors on the Board of the Bank have been debarred or disqualified from being appointed or continuing as directors of Companies by the Securities and Exchange Board of India/ Ministry of Corporate Affairs or any such statutory authority.

FRAMEWORK FOR APPOINTMENT OF DIRECTORS

The Bank has in place a framework for Board Diversity, Fit & Proper Criteria and Succession Planning for appointment of Directors on the Board of the Bank.

FAMILIARISATION PROGRAMMES FOR BOARD MEMBERS

At the time of appointment, all Directors of our Bank are familiarized with their roles, responsibilities, rights and duties along with a brief overview of our Bank's operations in a nutshell.

The Board members are further provided with necessary documents, reports and internal policies to enable them to familiarize with the Bank's procedures and practices.

Periodic presentations are made at the Board and Committee meetings on business and performance of the Bank, global business environment, business strategy and associated risks, responsibilities of the Directors etc.

Detailed presentations on the Bank's business and updates thereon were made at the meetings of the Board and Committees held during the year.

The details of the said programmes are available on the Bank's web-link: www.idfcfirstbank.com/Investor-relation/corporate-governance.html.

BOARD EVALUATION

The Board of Directors has carried out an annual evaluation of its own performance, Board Committees, and Individual

Directors pursuant to the provisions of the Companies Act, 2013 and Listing Regulations for the financial year 2019-20. Additionally, the necessary evaluation was carried out by the NRC and IDs at their respective meetings held for the purpose.

The detailed process indicating the manner in which the annual evaluation has been carried out pursuant to Listing Regulations and Companies Act, 2013 is provided in the Corporate Governance Report, which forms part of this Annual Report.

NUMBER OF MEETINGS OF THE BOARD

The Board met seven (7) times during FY 2019-20 viz., April 05, 2019, May 10, 2019, July 24, 2019, October 24, 2019, January 29, 2020, March 19, 2020 and March 27, 2020; details of which are given in the Corporate Governance Report, which forms part of this Annual Report. The maximum interval between any two consecutive meetings did not exceeded 120 days.

BOARD COMMITTEES

In compliance with various regulatory requirements, several Board-level Committees have been constituted to delegate matters that require greater and more focused attention.

Details on the constitution, brief terms of reference, meetings held and attendance of all the Board-level Committees are given in the Corporate Governance Report which forms part of this Annual Report.

A brief overview of some of the Board-level Committees is furnished below:

Audit Committee

The Audit Committee met seven (7) times during FY 2019-20 i.e. on May 10, 2019, May 20, 2019, July 24, 2019, August 02, 2019, October 24, 2019, January 29, 2020, and March 27, 2020.

All recommendations made by the Audit Committee during the year were accepted by the Board.

Further, the Audit Committee comprises of the following members as on the date of this report:

Mr. Aashish Kamat	- Chairperson Independent Director
Mr. Pravir Vohra	- Member Independent Director
Mr. Sanjeeb Chaudhuri	- Member Independent Director
Mr. Sunil Kakar	- Member Non-Executive - Non-Independent Director

Nomination and Remuneration Committee (NRC) / Remuneration Policy

The NRC is constituted in compliance with the RBI Guidelines, Section 178 of the Companies Act, 2013 and Listing Regulations.

The NRC met six (6) times during FY 2019-20 on May 09, 2019, July 24, 2019, September 05, 2019, October 24, 2019, January 29, 2020 and March 27, 2020.

Further, the NRC comprised of the following members as on the date of this report:

Mr. Hemang Raja	- Chairperson Independent Director
Mr. Aashish Kamat	- Member Independent Director
Dr. (Mrs.) Brinda Jagirdar	- Member Independent Director
Mr. Vishal Mahadevia	- Member Non-Executive Non-Independent Director

In line with the provisions of the Companies Act, 2013 and RBI guidelines issued in this regard, from time to time, our Bank has a stable framework for remuneration of the various categories of persons at IDFC FIRST Bank and accordingly has two separate remuneration policies as given below:

I. Remuneration Policy for the Whole Time / Executive Directors, Non-Executive/ Independent Directors, Key Managerial Personnel and Senior Management Personnel.

The various components of remuneration itemized in this policy inter-alia are as follows:

For Whole Time / Executive Directors:

- [a] Fixed Pay as decided by the NRC and the Board within the overall approval of the RBI;
- [b] Variable Pay in the form of annual performance bonus will be determined based on the Bank, business units and individual performance and other evaluation criteria and is not an entitlement;
- [c] Retiral benefits, allowances, perquisites and other benefits;
- [d] Stock Options;
- [e] Directors and Officers Liability Insurance Policy;
- [f] Severance Pay, if mandated by any applicable laws.
- [g] Malus / Clawback

For Non-Executive / Independent Directors:

- [a] Commission to Non-Executive / Independent Directors (other than the Part - time Chairperson);
- [b] Remuneration to Non-Executive Part-time Chairperson;
- [c] Sitting Fees and Other Expenses; and
- [d] Directors and Officers Liability Insurance Policy.

For Key Managerial Personnel ('KMP') and Senior Management Personnel ('SMP'):

- [a] Fixed Pay as decided by the NRC and the Board;
- [b] Variable Pay in the form of annual performance bonus will be determined based on Bank, business unit and

individual performance and other evaluation criteria and is not an entitlement;

- [c] Retiral benefits, allowances, perquisites and other benefits;
- [d] Stock Options;
- [e] Directors and Officers Liability Insurance Policy;
- [f] Severance Pay, if mandated by any applicable laws.
- [g] Malus / Clawback.

II. Remuneration Policy for Employees (Including Risk-Takers) except for the Whole Time / Executive Directors, Non-Executive / Independent Directors, KMP and SMP.

The various components of remuneration itemized in this policy inter-alia are as follows:

- [a] Fixed Pay;
- [b] Variable Pay in the form of annual performance bonus will be determined based on Bank, Business unit and individual performance and other evaluation criteria and is not an entitlement.

The organization has a robust policy around performance management which has a direct bearing on Variable Pay. The organization applies the malus model through the performance management framework.

In the event of significant negative contributions of the Bank and/ or the relevant line of business in any year, the deferred compensation (if any) would be subjected to clawback arrangement;

- [c] Statutory Bonus, as may be mandated by any applicable laws;
- [d] Stock Options;
- [e] Severance Pay, if mandated by any applicable laws.

The principles for remuneration at IDFC FIRST Bank are guided by the Bank's philosophy for driving employee performance to achieve its medium term and long-term objectives, balanced with prudent risk taking and are in compliance with the RBI's Guidelines on Compensation of Whole-Time Directors/ Chief Executive Officers/ Risk takers and Control function staff, etc. dated January 13, 2012.

Both the remuneration policies are available on the Bank's web-link: www.idfcfirstbank.com/Investor-relation/corporate-governance.html.

Our Bank also has a process in place for identification of independence, qualifications and positive attributes of its Directors. The NRC ensures a transparent nomination process to the Board of Directors with diversity of gender, thought experience, knowledge and perspective in the Board.

The NRC, after taking into consideration the Remuneration Policy for the Whole Time/ Executive Directors, Non-Executive/ Independent Directors, KMP and SMP, recommends their remuneration to the Board for its approval.

Corporate Social Responsibility (CSR) Committee

The CSR Committee met one (1) time during FY 2019-20 on May 09, 2019. The CSR Policy of the Bank is available on the Bank's web-link: www.idfcfirstbank.com/Investor-relation/corporate-governance.html.

The CSR initiatives of the Bank in FY 2019-20 were implemented through various implementation agencies/ partners. In order to achieve impact and scale, the CSR activities undertaken during the year mainly focused on areas: [a] Livelihoods, [b] Health and Sanitation, [c] Education, [d] Women Empowerment, and [e] Others (Disaster Relief).

The amount spent for CSR contribution by the Bank for FY 2019-20 was ₹ 7,24,29,374.

Details of the CSR initiatives undertaken by IDFC FIRST Bank through various implementation partners/ agencies are given in **ANNEXURE 3**.

Further, the CSR Committee comprises of the following members as on the date of this report:

Mr. V. Vaidyanathan	- Chairperson MD & CEO
Dr. (Mrs.) Brinda Jagirdar	- Member Independent Director
Mr. Hemang Raja	- Member Independent Director

KEY MANAGERIAL PERSONNEL

As on the date of this report, the following officials of the Bank are the 'Key Managerial Personnel' pursuant to the provisions of Section 203 of the Companies Act, 2013:

Mr. V. Vaidyanathan

Managing Director and Chief Executive Officer

Mr. Sudhanshu Jain

Chief Financial Officer and Head - Corporate Centre (appointed with effect from March 27, 2020)

Mr. Satish Gaikwad

Head – Legal and Company Secretary

During the year under review, consequent to Mr. Pankaj Sanklecha's appointment as the Chief Risk Officer of the Bank, he stepped down as the Chief Financial Officer and Head - Corporate Centre of the Bank with effect from close of business hours of December 27, 2019.

INTERNAL FINANCIAL CONTROLS

The Bank has adequate internal controls and processes in place with respect to its financial statements that provide reasonable assurance regarding the reliability of

financial reporting and preparation of financial statements. These controls and processes are driven through various policies, procedures and certifications which also ensure the orderly and efficient conduct of the Bank's business, including adherence to Bank's policies, safeguarding of assets, prevention and detection of frauds and errors, accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. The controls and processes are being reviewed periodically. The Bank has a mechanism of testing the controls and processes at regular intervals for their design and operating effectiveness to ascertain the reliability and authenticity of financial information.

INFORMATION / CYBER SECURITY FRAMEWORK

IDFC FIRST Bank since its inception has put in place a robust Information/ Cyber Security Framework. Our Bank being a green field setup, has Information Security woven into our banking platform and seamlessly merges both culturally and technologically. A dedicated team of security professionals are part of the Information Security Group ('ISG') who govern the Information Security practices in the Bank. Our Bank has put in place state of the art security technologies including several industry 'firsts' technology solutions and adopted 'defense in depth' approach & industry best practices as part of our security framework and architecture. This year the Bank has put substantial effort in redesigning the cyber security framework and posture. Besides this a complete review of the overall security practices was also undertaken leading to several changes in processes and automation of some of the key security assessments undertaken in the Bank. Our Bank is mindful of the need to always be on the guard and monitors its environment 24x7x365. Given the changing threat landscape and evolving technology platforms, the attempt is to progressively move towards adoption of proactive and adaptive platforms for automated detection, response and recovery.

INTERNAL OMBUDSMAN

In compliance with regulatory guidelines, the Bank has appointed Mr. Dayanand P. Kasabe, a senior retired Central Banker as Internal Ombudsman for a period of 3 years with effect from December 03, 2018, as per the Internal Ombudsman Scheme, 2018 to enhance our Bank's customer grievance redressal mechanism and to improve service delivery.

STATUTORY AUDITORS

In terms of RBI circular DBS.ARS.BC.04/08.91.001/2017-18 dated July 27, 2017 and titled 'Appointment of Statutory Central Auditors (SCAs) – modification of rest period', an audit firm, after completing its four (4) years tenure in a particular private / foreign bank, will not be eligible for appointment as SCA of the same bank for a period of six (6) years. This practice is based on the guidelines on periodical rotation and resting of statutory auditors.

In terms of Section 30(1) of the Banking Regulation Act, 1949, the Statutory Auditors of banks are required to be appointed

in the AGM, with the prior approval of RBI. The Audit Committee and the Board of Directors of the Bank, vide circular resolutions dated April 20, 2019 and April 23, 2019 respectively, approved the appointment of Statutory Auditors of the Bank for FY 2019-20 in the order of preference with a panel of 3 auditors for onward submission to the RBI.

In accordance with the aforesaid circular and post receipt of RBI approval, B S R & Co. LLP, Chartered Accountants (Firm Registration No. 101248WW-100022), were appointed as the Statutory Auditors of the Bank by the shareholders at its 5th AGM held on July 25, 2019 for a period of one (1) year from the 5th AGM.

The Audit Committee and the Board of Directors of the Bank at their respective Meetings held on May 22, 2020, basis the approval received from RBI, approved the appointment of B S R & Co. LLP, Chartered Accountants as the Statutory Auditors of the Bank for the second year 2020-21 i.e. from the conclusion of 6th AGM till the conclusion of 7th AGM to be held in 2021, subject to other necessary approvals including that of shareholders at the ensuing AGM.

AUDITORS' REPORT

There were no qualifications, reservations, adverse remarks or disclaimers made by the Statutory Auditors in their report for the financial year ended March 31, 2020.

SECRETARIAL AUDIT

Pursuant to the provisions of Section 204 of the Companies Act, 2013 read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Bank had appointed M/s. Bhandari & Associates, Company Secretaries to undertake the Secretarial Audit of the Bank for the financial year ended March 31, 2020.

The Bank provided all assistance and facilities to the Secretarial Auditors for conducting their audit.

The Secretarial Audit Report is appended as **ANNEXURE 5** to this report.

There were no qualifications, reservations, adverse remarks or disclaimers made by the Secretarial Auditors in their report for the financial year ended March 31, 2020.

COMPLIANCE WITH APPLICABLE SECRETARIAL STANDARDS

The Bank has generally complied with the applicable Secretarial Standards issued by the Institute of Company Secretaries of India.

CONCURRENT AUDIT

Our Bank has a regular and well-defined process of concurrent audits for important functions such as treasury, trade finance operations, retail operations, wholesale operations, information technology, data center, etc. in line with the extant regulatory guidelines. Reputed Chartered

Accountant / CERT-IN certified firms carry out these Concurrent Audits. Key findings of these audits are placed before the Audit Committee of the Board on a quarterly basis.

REQUIREMENT FOR MAINTENANCE OF COST RECORDS

The Bank is not required to maintain cost records as specified by the Central Government under Section 148(1) of the Companies Act, 2013.

AWARDS AND RECOGNITIONS

During the year under review, our Bank was recognized in various ways and the significant awards presented to our Bank are listed below:

- "Most Promising New Bank in India 2019" by Capital Finance International (CFI);
- CNBC Awaaz "Entrepreneur of the Year" Award, 2019; &
- "Prestigious Brands of India 2020" by Herald Global and BARC Asia.

INSTANCES OF FRAUD, IF ANY, REPORTED BY THE AUDITORS OR THE MANAGEMENT

No offence of fraud was reported by the Auditors of the Bank under Section 143(12) of the Companies Act, 2013. The details of provisioning pertaining to Fraud Accounts during the year under review are provided in Note No. 18.17 to the Standalone Financial Statements as at March 31, 2020.

RISK MANAGEMENT FRAMEWORK

Our Bank promotes a strong risk culture throughout the organization. A strong risk culture is designed to help reinforce the Bank's resilience by encouraging a holistic approach to management of risk & return and an effective management of risk, capital and reputational profile.

Consequent to the amalgamation of erstwhile Capital First Group with IDFC Bank, effective December 18, 2018, Bank has re-aligned its key policies and Risk Framework forming an overall Risk Framework of the merged entity. Our Bank operates within an effective Risk Management Framework to actively manage all the material risks faced by the Bank, in a manner consistent with the Bank's risk appetite. Our Bank aims to establish itself as an industry leader in the management of risks and strive to reach the efficient frontier of risk and return for the Bank and its shareholders. The Board has ultimate responsibility for the Bank's Risk Management Framework. It is responsible for approving the Bank's risk appetite, risk tolerance and related strategies and policies. The Board is assisted by Risk Management Committee of the Board ("RMC") and is supported by various management committees as part of the Risk Governance framework to ensure that Bank has sound system of risk management and internal controls. The RMC assists the Board in relation to the oversight and review of the Bank's risk management principles and policies, strategies, appetite, processes and controls.

The RMC of the Board reviews risk management policies of the Bank pertaining to credit, market, liquidity and operational risks. The Committee also reviews the Risk Appetite & Enterprise Risk Management framework, Internal Capital Adequacy Assessment Process ('ICAAP') and Stress Testing. ICAAP & Stress Testing requires the Bank to undertake rigorous, forward-looking assessment of risks by identifying severe events or changes in market conditions which could adversely impact the Bank.

Our Bank has in place a Board approved Risk Management Policy. The Policy aims at establishing a risk culture and governance framework to enable identification, measurement, mitigation and reporting of risks within the Bank in line with the Bank's risk appetite, risk - return trade-off and the escalation & accountability framework.

Our Bank manages its capital position to maintain strong capital ratios well in excess of regulatory and Board approved minimum capital adequacy at all times. The strong Tier I capital position of the Bank is a source of competitive advantage and provides assurance to regulators, credit rating agencies, depositors and shareholders. Capital management practices are designed to maintain a risk reward balance, while ensuring that businesses are adequately capitalized to absorb the impact of stress events including pandemic risks.

VIGIL MECHANISM/ WHISTLE BLOWER POLICY

The Bank has implemented a Whistle Blower Policy in compliance with the provisions of the Listing Regulations, Companies Act, 2013 and RBI notification on Introduction of 'Protected Disclosures Scheme for Private Sector and Foreign Banks'. Pursuant to this policy, the Whistle Blowers can raise concerns relating to reportable matters (as defined in the policy) such as breach of IDFC FIRST Bank's Code of Conduct, employee misconduct, fraud, illegal unethical imprudent behavior, corruption, safety and misappropriation or misuse of Bank funds/ assets etc.

Further, the mechanism adopted by the Bank encourages the Whistle Blower to report genuine concerns or grievances and provides for adequate safeguards against victimization of Whistle Blower to those who avail such mechanism and also provides for direct access to the Chairman of the Audit Committee, in exceptional cases.

The Audit Committee reviews the functioning of the Vigil Mechanism from time to time. None of the Whistle Blowers has been denied access to the Audit Committee of the Board. The Whistle Blower Policy is available on the Bank's web-link: www.idfcfirstbank.com/Investor-relation/corporate-governance.html. The Whistle Blower Policy is communicated to the employees and is also posted on the Bank's intranet.

In addition to the above, the Bank has formulated a Vigilance Policy for effectively managing the risks faced by the Bank on account of corruption, malpractices and frauds.

Mr. Avinash Saraiya is the Chief Vigilance Officer of the Bank.

PREVENTION OF SEXUAL HARASSMENT OF WOMEN AT THE WORKPLACE

Our Bank has an Internal Committee to investigate and inquire into sexual harassment complaints in line with The Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013.

Our Bank has in place a policy on Anti-Sexual Harassment, which reflects the Bank's zero-tolerance towards any form of prejudice, gender bias and sexual harassment at the workplace. Our Bank has set up an Internal Complaints Committee ('ICC') to receive and redress complaints of sexual harassment. Our Bank undertakes ongoing trainings to create awareness on this policy.

During the year under review i.e. FY 2019-20, six sexual harassment complaints were filed, out of which five complaints were closed during the year. One complaint was received in the month of March 2020, hence, under work in progress and shall be resolved within the timelines.

During FY 2019-20, employees were given online training and classroom training was imparted to all ICC members in order to understand the Policy on Prevention of Sexual Harassment and framework for reporting and resolving instances of sexual harassment, details of which have been mentioned in the Business Responsibility Report, which is hosted on the Bank's web-link: www.idfcfirstbank.com/Investor-relation/corporate-governance.html.

SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS/ COURTS/ TRIBUNALS

There were no significant and material orders passed by the regulators or courts or tribunals impacting the going concern status or the operations of the Bank.

MATERIAL CHANGES AND COMMITMENTS AFFECTING THE FINANCIAL POSITION OF THE BANK

There are no material changes and commitments, affecting the financial position of the Bank between the end of the financial year of the Bank i.e. March 31, 2020 and the date of the Board Meeting in which the Directors' Report was approved i.e. May 22, 2020.

RELATED PARTY TRANSACTIONS

All the related party transactions that were entered into during the financial year were on arm's length basis and in the ordinary course of business of the Bank. IDFC FIRST Bank have always been committed to good corporate governance practices, including matters relating to related party transactions.

All the related party transactions are placed before the Audit Committee for approval. Prior omnibus approval is obtained from the Audit Committee for foreseen related

party transactions. Prior omnibus approval is also obtained for unforeseen related party transactions subject to their value not exceeding ₹ 1 crore per transaction. The required disclosures are made to the Audit Committee on a quarterly basis for all the related party transactions.

Pursuant to the provisions of Companies Act, 2013 and Rules made thereunder, Listing Regulations and in the backdrop of the Bank's philosophy on such matters, the Bank has in place a Board approved policy on related party transactions. The said policy is also uploaded on the Bank's web-link: www.idfcfirstbank.com/Investor-relation/corporate-governance.html. Since all related party transactions entered into by the Bank were in the ordinary course of business and on arm's length basis, Form AOC-2 as prescribed under Section 134(3)(h) of the Companies Act, 2013 is not applicable to the Bank.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The provisions of Section 134(3)(m) of the Companies Act, 2013 read with Rule 8(3) of the Companies (Accounts) Rules, 2014 relating to conservation of energy and technology absorption are given as under:

Detailed initiatives taken for conservation of energy has been mentioned in the Business Responsibility Report, which is hosted on the Bank's website: www.idfcfirstbank.com under the 'Investor Relations' section.

Also, our Bank has been increasingly using information technology in its operations, for more details, please refer Management Discussion and Analysis Report, which forms part of this Annual Report.

Further, Foreign Exchange earnings and outgo are part of the normal banking business of the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management Discussion and Analysis Report for the year under review, as required by Regulation 34(2)(e) of the Listing Regulations, forms part of this Annual Report.

CORPORATE GOVERNANCE

Your Directors ensure the Bank's prosperity by collectively directing its affairs, while meeting the appropriate interests of its Shareholders and other Stakeholders.

Our Bank is committed to achieve the highest standards of Corporate Governance. A separate section on Corporate Governance standards followed by our Bank and the relevant disclosures, as stipulated under Listing Regulations, Companies Act, 2013 and Rules made thereunder forms part of this Annual Report.

A Certificate from the Secretarial Auditors of the Bank, M/s. Bhandari & Associates, Company Secretaries, confirming compliance to the conditions of Corporate Governance as stipulated under Listing Regulations is enclosed at the beginning of the Corporate Governance Report and forms part of this Annual Report.

CEO & CFO CERTIFICATION

Certificate issued by Mr. V. Vaidyanathan, MD & CEO and Mr. Sudhanshu Jain, Chief Financial Officer and Head - Corporate Centre of the Bank, in terms of Regulation 17(8) of Listing Regulations, for the year under review was placed before the Board of Directors and forms part of this Annual Report.

BUSINESS RESPONSIBILITY REPORT

The Business Responsibility Report, in terms of Regulation 34(2)(f) of Listing Regulations, describing the initiatives taken by IDFC FIRST Bank from an environmental, social and governance perspective is hosted on the Bank's website: www.idfcfirstbank.com under the 'Investor Relations' section and constitutes a part of this Annual Report. Any shareholder interested in obtaining soft copy of the same may write to the Head - Legal and Company Secretary of the Bank by sending an e-mail on bank.info@idfcfirstbank.com. The same will be replied by the Bank suitably.

ANNUAL RETURN

An extract of the Annual Return as of March 31, 2020 pursuant to the sub-section (3) of Section 92 of the Companies Act, 2013 read with Rule 12 (1) of the Companies (Management and Administration) Rules, 2014 and forming part of this report is placed on the Bank's website: www.idfcfirstbank.com under the 'Investor Relations' section as per provisions of Section 134(3)(a) and is also set out in **ANNEXURE 4** to this Annual Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 134(5) of the Companies Act, 2013, it is hereby confirmed that:

- [a] in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- [b] the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as on March 31, 2020 and of the loss of the Bank for that period;
- [c] the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities;

- [d] the Directors had prepared the annual accounts on a going concern basis;
- [e] the Directors had laid down internal financial controls to be followed by the Bank and that such internal financial controls are adequate and were operating effectively; and
- [f] the Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively

GREEN INITIATIVE

To support the 'Green Initiative', shareholders who have not updated their e-mail addresses are requested to update the same with their respective Depository Participants (DPs), in case shares held are in electronic form or communicate their e-mail address to the Registrar and Share Transfer Agent i.e. KFin Technologies Private Limited or to the Bank, in case shares are held in physical form, so that future communications can be sent to shareholders in electronic mode. Note on Green Initiative forms part of the 6th AGM Notice.

ACKNOWLEDGMENT

Your Directors take this opportunity to express their deep and sincere gratitude to our Customers, Business Partners,

Business Correspondents and Vendors for the trust and confidence reposed by them in the Bank. We would like to thank our Shareholders, Bondholders, Investors and Financial Institutions for their co-operation and assistance during the year under review.

Your Directors would like to place on record their appreciation for the support received from IDFC Group, Government of India, State Governments, various Ministries, Reserve Bank of India ('RBI'), Securities and Exchange Board of India ('SEBI'), Insurance Regulatory and Development Authority of India ('IRDA'), Financial Intelligence Unit-India (FIU-IND), Stock Exchanges ('National Stock Exchange of India Limited' & 'BSE Limited'), Depositories, Rating Agencies, Unique Identification Authority of India ('UIDAI'), National Payments Corporation of India ('NPCI'), The Clearing Corporation of India Limited ('CCIL'), Indian Banks' Association ('IBA'), Fixed Income Money Market and Derivatives Association of India ('FIMMDA') and all other regulatory agencies and associations with which the Bank interacts.

Your Directors sincerely acknowledge the commitment and hard work put in by all employees of the Bank through its transformational journey. Their valuable contribution has enabled the Bank to make significant progress towards achieving its objective of becoming a diversified universal Bank, with a focus on retail banking.

For and on behalf of the Board of Directors of
IDFC FIRST Bank Limited

Dr. Rajiv B. Lall
Chairman
DIN: 00131782

Date: May 22, 2020
Place: Mumbai