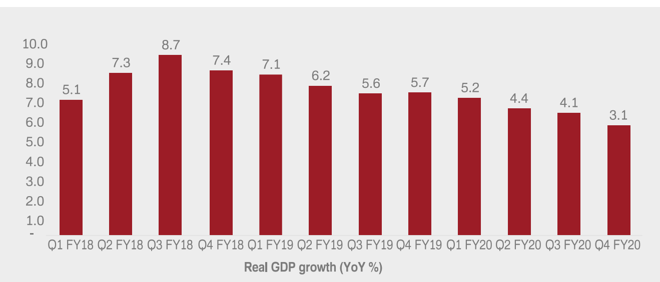
Management Discussion and Analysis

Macro-economic environment

The financial year that passed would remain etched in the memory as one of the most challenging in near-time history for global economic prospects. Escalation of trade tensions between the US and China, growing probability of disorderly Brexit, volatility in global oil prices and financial markets dominated the landscape in most part of calendar year 2019. Global trade contracted as a result and this had its knock-on effect on investments and manufacturing production and led to Central Banks across the world easing monetary policy as a counter-cyclical measure. Even as the above uncertainties eased, the world was gripped by the COVID-19 pandemic that led governments the world over to announce lockdowns so as to protect their population from the disease, leading to economic disruptions – both on the supply as also the demand sides.



Domestic growth on a slow lane

Domestically, the economic slowdown started in FY19 when Q1 FY19 growth registered at 7.1%, down from 7.4% in Q4 FY18. The fall in economic growth continued through FY19 and even manifested itself in FY20. In Q4 FY19 the GDP growth registered at 5.7%, and was more or less steady at 5.6% in Q1 FY20 but fell to 5.1% in Q2 FY20. Growth was expected to recover in H2 FY20 on the back of favourable base effect, transmission of past monetary policy actions and reform measures announced by the government. The government facilitated faster resolution of stressed assets, released recapitalisation funds for the PSU banks, enacted changes to FDI and ECB regulations and also brought in certain initiatives for the export and the real estate sector. A landmark reform from the government was to reduce the corporate income tax rates, that are now comparable to ASEAN economies and was expected to bring in more investment into the country.

Contrary to expectations, high frequency indicators of both urban and rural demand continued to show weakness in H2 FY20. Trends in passenger vehicle sales, two-wheeler sales, production of consumer durables, capital goods production and infrastructure and construction goods, etc., all remained muted. GDP for Q3 FY20 was even lower at 4.7%, with the manufacturing sector showing a contraction in Q2 FY20 and Q3 FY20. Importantly, India entered a lockdown in the last week of March, 2020 and the data released for March indicated a very sharp contraction of 16.7% in industrial production, while manufacturing contracted by 20.6%. PMI industries have subsequently fallen to a contraction zone in April at 27.4.

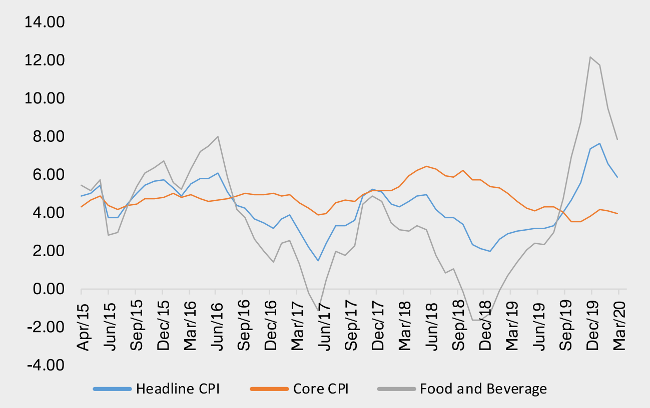
On the side of aggregate demand, private consumption expenditure, one of the biggest stay for domestic demand faltered in FY20, with growth in the first three quarters at 5.5% compared to 7.2% average for the full year FY19. The Government's final consumption expenditure cushioned the fall in the GDP with an average growth of 11.3% in first three quarters of FY20, compared to 10.2% average in whole of FY19. With growth being on the slow lane and capacity utilisation falling, and deleveraging exercise by the corporates in a risk-averse atmosphere led to a slump in investments. Gross fixed capital formation was at -1.7% average growth in first three quarters of FY20, compared to a 10% rise in FY19. Exports were weak but imports were even more weak that prevented the external sector from being a drag on the economy.

The slowdown in investment activity reflected itself in a decline in the financial flows from the banks and non-banks to the commercial sector. Overall Bank's credit growth was at 6.1% by the end of FY20 compared to a growth of 13% as at end-March FY19. The Credit to industries is reported to have grown at just 0.7% in March 2020, compared to 6.9% in March 2019. Credit to large industries tended to suffer the worst. Bank credit to the services sector had grown by 17.8% in March 2019 but reported a growth of 7.4% in March 2020. Within the services sector, credit flows from the banking sector to the non-banking sector was at 40.5% in May 2019, but the growth dipped to 25.9% in March 2020. Personal loan growth also fell but the extent of erosion was small from 16.4% in March 2019 to 15% in March 2020.

Inflation spiked on food price increases

Headline CPI inflation witnessed a slightly upward tilt in H1 FY19 but still remained contained within the 4% levels. While core inflation managed a gradual fall in H1 FY20, food inflation tended to rise, especially due to a rise in the price of vegetables and pulses. The price increase for vegetables worsened in H2 FY20 on account of unseasonal rains spoiling the later part of Kharif harvest. Within vegetables, the price of onion was main reason that pushed vegetable prices to rise by a YoY level of 60% in December 2019. The unseasonal rains also led to a delay in the seasonal winter moderation in the price of some other vegetables and also led to an increase in the prices of cereals. Cereal

Throughout the last five years in India, Core Inflation has remained broadly steady and reduced in the last financial year



Other elements within the food basket that saw an increase in the inflation level - mostly in the second half of the year were eggs (10.5% in January 2020 from 0.6% in July 2019) and milk (6% as of March 2020 from 1.8% in September 2019).

Fuel prices moved lower in H1 FY20 and even saw a five-month deflation period between July-November 2019. However, it increased sharply thereafter to touch 6.6% in March 2020 from -2.2% in September 2019. Announcements of higher mobile tariffs, higher gold prices and also higher prices for service for laundry, beauticians, bus fares, etc. lent some upward bias to core inflation, especially in the last quarter of FY20, after having come down consistently through the remaining part of the year.

Impact of all the above was Headline CPI inflation breaching the upper tolerance level of 6% in December 2019 and recorded the highest level of 7.6% in January 2020 before moderating to 5.8% in March 2020. On an average basis, Headline CPI inflation was at 4.8% in FY20 (3.4% in FY19) with food inflation averaging at 6.1% (0.7% in FY19) and core CPI inflation averaging at 4% (5.8% in FY19).

Monetary policy in an atmosphere of higher inflation and lower growth

To spur private investments, RBI cut the policy rate by 25 bps to 6% in the April meeting, but with a neutral stance. With signs of a widening of the negative output gap, the MPC again reduced the repo rate by 25 bp in its June 2019 meeting but now changed the stance of monetary policy from neutral to accommodative. This was followed up by an unconventional dose of reduction by 35 bps in the policy repo rate in August, 2019 (as the MPC members thought that a standard 25 bps cut might prove to be inadequate in view of the weakening growth outlook while a 50 bps reduction might be excessive).

H2 FY20 started off with a 25 bps reduction in October, 2019 with the repo rate going down to 5.15%. Further, the RBI committed itself to an accommodative stance as long as necessary to revive growth. The spiking up of inflation led to the MPC to hold back on any changes in the policy rate in December 2019 and February 2020, despite a weakening domestic demand conditions. The critical struggle for the RBI for most of its rate cutting cycle was to try and ensure transmission of its policy rate cuts to the real sector of the economy. In an effort to push transmission, the RBI introduced linking of fresh retail loans and loans to MSMEs to an external benchmark, starting October 1, 2019.

The COVID-19 outbreak and the lockdown led to the RBI to advance its MPC meeting of April to March, where it announced a cut of 75 bps to the policy rate, bringing it down to 4.4%. The gap between the repo rate and the reverse repo rate was widened to 40 bps from the traditional 25 bps, so as to incentivise banks to lend, rather than passively return the surplus liquidity back to the RBI. The RBI also took a slew of measures to ensure that the liquidity does not dry up and introduced Targeted Long Term Repo Operations whereby the funds would be earmarked for investments in corporate bonds, commercial papers and non-convertible debentures, the rates of which had risen due to liquidity. The RBI also cut CRR by 100 bps to 3%. Further, in light of the COVID-19 related disruptions, the RBI announced a three-month moratorium of payments of instalments on term loans, three-month deferment of interest payments on working capital loans. Further, in May 2020, this moratorium was extended for three more months till end of August 2020 by the RBI. Importantly, the RBI said that these regulatory forbearances will not qualify as a default, effectively ring-fencing asset quality of banks and thus prevent any adverse swing in the NPA cycle during a phase when the lockdown is likely to lead to large cash-flow mismatches for all economic agents.

External sector

External sector dynamics remained comforting for India. Average CAD/ GDP in FY19 was at 2.2%, in Q1 FY20 it was 2% that came down to 0.9% in Q2 FY20 and dipped further to 0.2% as of Q3 FY20 for which data is available at this point. The sequential reduction in CAD was possible due to lower trade deficit. True, The fall in the global trade (28.7%) did affect India's exports that contracted by 35% in March 2020 (average contraction in FY20 by 4.3%). On the other hand, in March 2020 imports contracted by 28.7% (average contraction in FY20 at 7.5%). The sharp contraction in imports were due to a fall in the global oil prices as also due to lower capital goods imports on account of domestic slowdown in investment demand and hence a fall in capital goods imports.

Capital flows, on the other hand remained comfortable over the first three quarters of the financial year and cumulated to US $ 63 bn. FDI flows remained healthy at US $ 32 bn in the first three quarters while FPI flows in the same period were at US $ 15.1 bn. The spread of the pandemic and the global risk aversion in the last quarter of FY20, led to significant portfolio (debt+equity) outflows. In February and March 2020 alone, the outflows were to the extent of US $ 15 bn and for the full year FY20 the outflows on this account was at US $ 5 bn.

Management Discussion and Analysis Contd...

Despite the comfort from the current account side, INR witnessed sporadic depreciation pressures during the year against the USD on account of global risk aversions on account of US-China trade wars, a sudden spurt in the global oil prices around September and October 2019 and now due to the global spread of the pandemic. However, given the capital inflows and the improving CAD in the first three quarters of the FY20, the RBI was able to build up foreign exchange reserves. FX reserves peaked at US $ 487 bn on March 6, 2020 before ending the year at US $ 475 bn, a net gain over last March by US $ 64 bn. On the other hand, foreign currency assets peaked at US $ 451 bn on March 6, 2020 and ended the year at US $ 440 bn, a net gain over last March by US $ 56 bn.

Outlook

The world economy is facing an unprecedented uncertain environment due to the health emergency outbreak of the COVID-19 pandemic. No forecasting of economic growth appears safe as it would significantly hinge on the spread of the virus, that in turn will determine how long respective governments will have to keep restrictions on economic activity in place. Having said, IMF does predict the world to be in a recession zone in 2020. Governments and Central Banks world over have taken up "what ever it takes" strategy to fight the pandemic. US has provided a fiscal push of around 12% of its GDP, US Fed slashed its policy rate by 150 bp very quickly and has initiated other unconventional measures such as corporate bond purchases and an unlimited Quantitative Easing. The ECB has also announced a New Pandemic Emergency Purchase Programme for EUR 750 bn.

India implemented first phase of lockdown for 21 days on March 24, 2020 in one of the most stringent fashions and this is expected to have affected both the supply and the demand sides of the economy. The lockdown has entered its fourth phase and in each phase there has been an attempt to ease out restrictions on economic activity. The Finance Ministry announced a package for ₹ 1.7 trn on March 24, 2020 aimed at easing the burden for migrant and casual labourers. Subsequently, both the Central Government and the RBI together announced measures of ₹ 20 trn – aimed at both the supply side as also the demand side of the economy, that also includes long-term reforms measures. The RBI on its part has sought to ease liquidity for the system and has attempted to provide incentives to boost credit – especially for the NBFC/ HFC/ MFI segments.

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Financial Summary

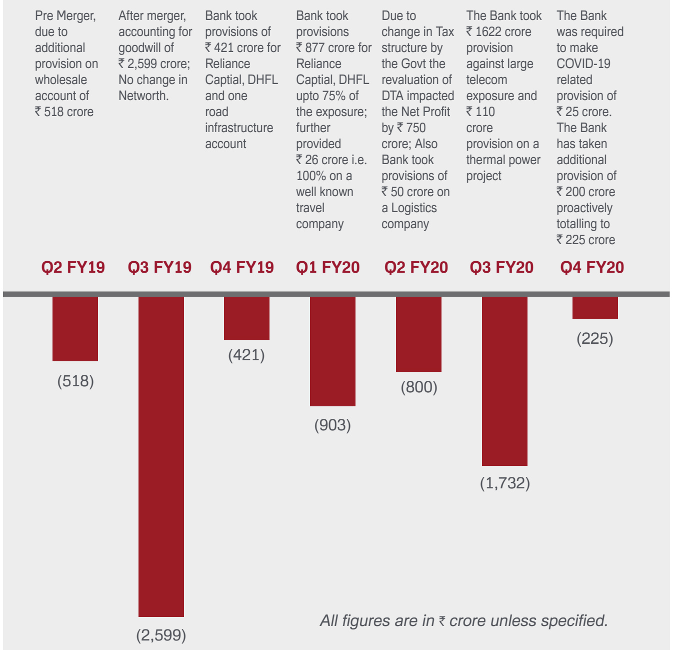
FY20 has been a challenging yet a transformational year for IDFC FIRST Bank. Over the past six quarters, including the first three quarters in the last financial year FY20, the Bank reported losses due to credit provisioning on account of certain legacy wholesale and infrastructure loans as well as due to revaluation of Deferred Tax Assets (DTA) because of change in the corporate tax rate. .

Sudhanshu Jain
Chief Financial Officer
& Head Corporate Centre

"We aim to deliver sustainable growth and enhanced returns for our shareholders within the guardrails of sound risk management and high corporate governance standards."

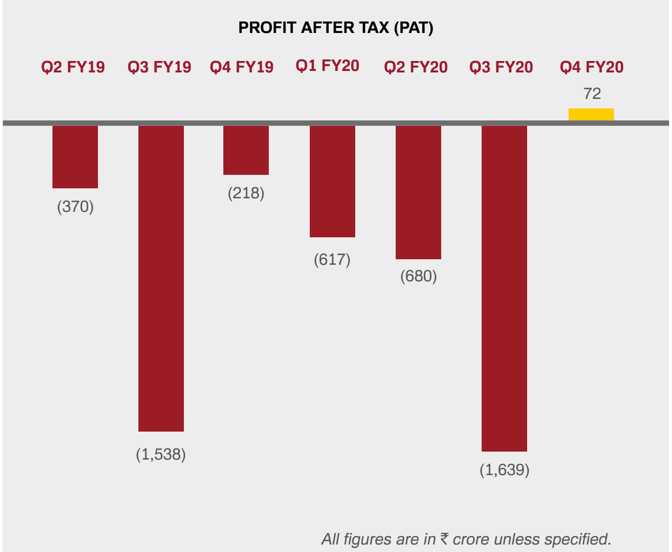
Such impacts over the quarters are depicted below:

Additional Provisions and Tax Line impacts on P&L of the Bank which were unanticipated and one-time in nature



This has resulted in net losses for the Bank as the Bank's core Pre-provisioning Operating Profit was not high enough to absorb such level of negative impacts on the P&L.

Trend of Profitability for the Bank



Such losses have impacted the Net worth of the Bank, which has reduced by ₹ 3,136 crore (17%) from ₹ 18,376 crore as of December 31, 2018 to ₹ 15,240 crore as of December 31, 2019. As a result, the Book Value per Share (BVPS) of the Bank has reduced from ₹ 38.43 as of December 31, 2018 to ₹ 31.82 as of December 31, 2019.

While this was playing out, the Bank has built a strong foundation which includes:

- Sharp rise in the CASA Balance and Retail Deposits
- Sharp rise in the CASA Ratio
- Developed strong offerings and Intellectual Property for Retail Deposits.
- Increased the presence through expansion of Branch Network
- Strong growth in the Retail Loan Book
- Building Capabilities and Intellectual Property through Analytics and Digital Intervention for Retail Asset Growth
- Rebalancing the Composition of the Book with reduction of Corporate and Infrastructure Loans
- Improvement in the Net Interest Margin and Core Profitability (Pre-provisioning Operating Profit)

The Bank posted a profit of ₹ 72 crore for the last quarter of the last financial year, Q4 FY20, despite the trouble in the Indian Banking sector, the COVID-19 pandemic outbreak related lockdown and additional provisional for the COVID-19 impact following the guidelines by the RBI. This has marginally improved the Net Worth and BVPS for the Bank.

We are proud to report that while we were reporting such financial results our customer deposits consistently grew every quarter and our transparent communications helped in increasing our customers' confidence. Thus the liability, especially deposit franchisee significantly got strengthened during the year and the core retail deposits grew by ₹ 20,710 crore, a growth of 157%.

The fundamental building block of the transformation journey of the Bank has been the retailisation of the assets and liabilities. As stated in its long term strategic goal after the merger in December 2018.

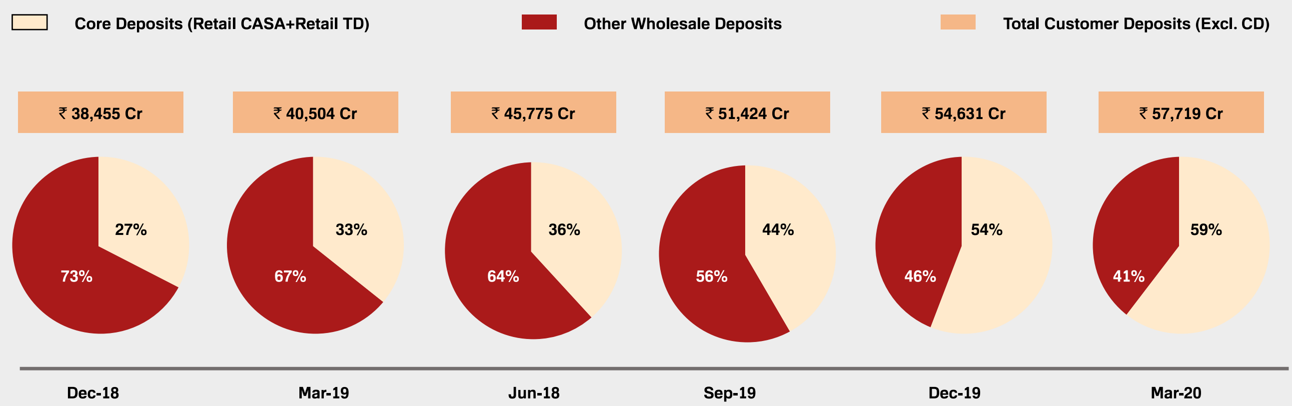
1. The Bank steadily diversified its funded assets in favour of the Retail Loan Assets.

2. The Bank made significant progress in retailising its deposit base in favour of the retail deposits including Retail CASA and Retail Term Deposits as they are much stickier, granular and sustainable in nature.

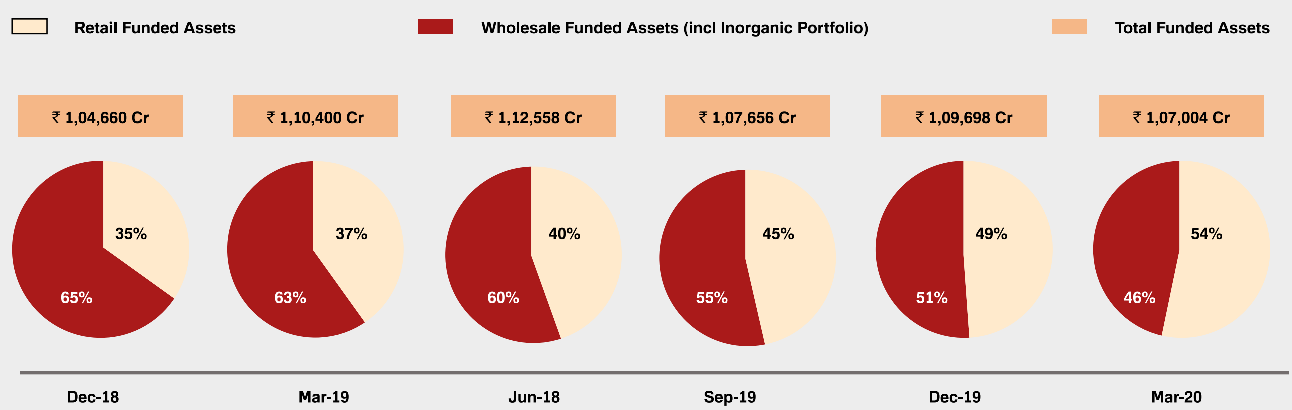
Such transformation of both loan assets and deposits are evident through the performance in the last five quarters.

Management Discussion and Analysis Contd...

The Bank, as a strategy, continuously increased the proportion of retail deposits to the overall deposits



The Bank, as a strategy, continuously increased the proportion of retail assets to the overall funded assets



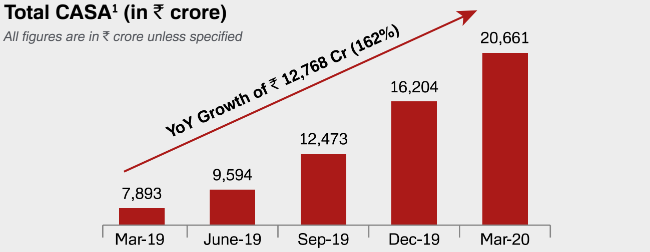
Liabilities – Driven by the Strong Retail Deposits Growth

CASA Deposits

The CASA franchise of the Bank has grown strongly. The CASA Deposits[1] of the Bank has grown by 162% from ₹ 7,893 crore as of March 31, 2019 to ₹ 20,661 crore as of March 31, 2020. The CASA to Total Deposits ratio of the Bank has improved to 31.87% as on March 31, 2020 as compared to 11.40% as on March 31, 2019.

Total CASA[1] (in ₹ crore)

All figures are in ₹ crore unless specified



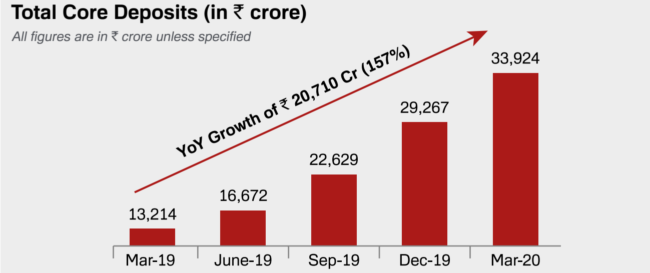
1: Excluding CASA deposits from one large government banking account which keeps temporary balance with us.

Core Deposits

The Core Deposits (Retail CASA and Retail Term Deposits) of the Bank increased by 157% from ₹ 13,214 crore as on March 31, 2019 to ₹ 33,924 crore as on March 31, 2020. The Core Deposits now contribute about 27.76% to the total deposits and borrowings of the Bank.

Total Core Deposits (in ₹ crore)

All figures are in ₹ crore unless specified

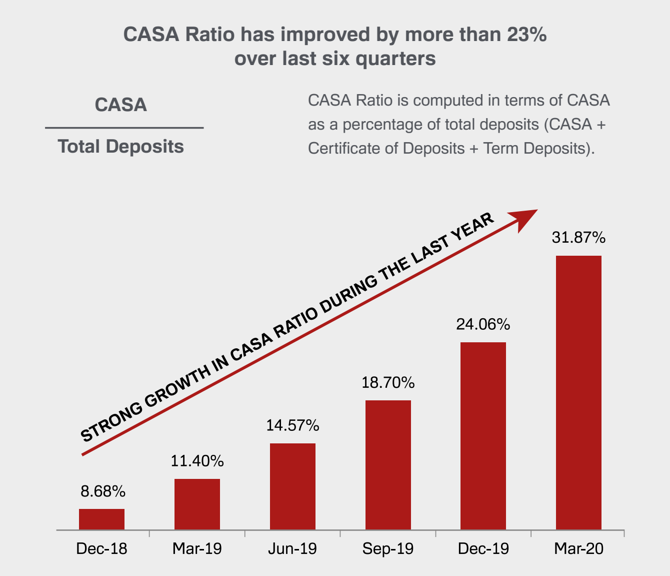


Total Customer Deposits

Total Customer Deposits (CASA, Retail Term Deposits and Wholesale Term Deposits) have increased by 43% from ₹ 40,504 crore as of March 31, 2019 to ₹ 57,719 crore as of March 31, 2020. The Bank is primarily focused on growing the Retail CASA and Retail Term Deposits which has reduced the dependency on Wholesale Term Deposits.

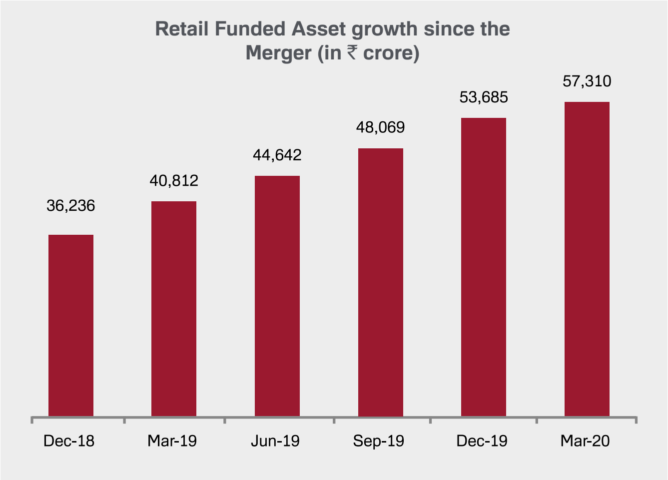
Gradual improvement in the CASA ratio

During FY20, CASA Ratio of the Bank has consistently improved every quarter and within a year it has grown from 11.40% as on March 31, 2019 to 31.87% as on March 31, 2020, thus surpassing the management guidance of achieving CASA Ratio of 30% in five years.

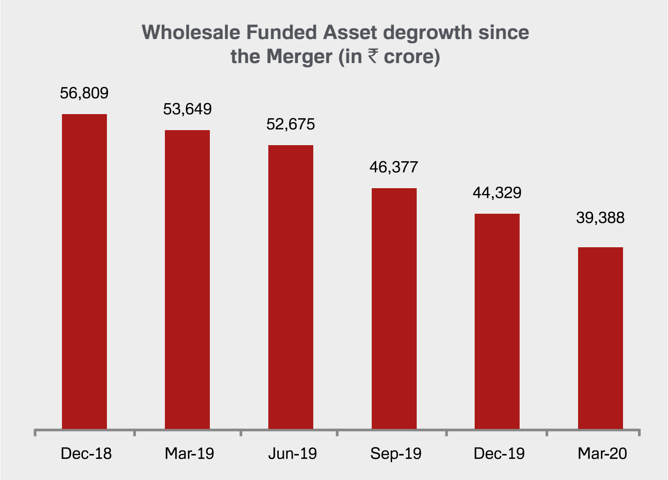


Funded Assets

Total Funded Loan Assets, including advance, credit investments and PSL buyouts (as per internal classification) gross of Inter-Bank Participation Certificates (IBPC), stood at ₹ 1,07,004 crore as on March 31, 2020, compared to ₹ 1,10,400 crore for as on March 31, 2019. Out of the total book, the Retail Loan Book increased by 40% to ₹ 57,310 crore as on March 31, 2020, compared to ₹ 40,812 crore as on March 31, 2019.

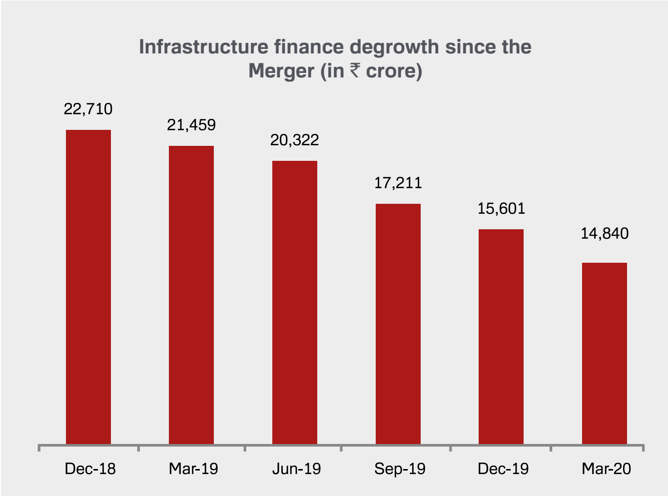


As per the stated strategy to reduce the concentrated exposure, the Bank reduced its Wholesale Funded Assets by 27% from ₹ 53,649 crore as on March 31, 2019, to ₹ 39,388 crore as on March 31, 2020, in line with the guidance given at the time of merger.



Reduced exposure to the troubled sectors

Within the Wholesale Funded Assets, the Infrastructure Financing portfolio decreased by 31% from ₹ 21,459 crore as on March 31, 2019 to ₹ 14,840 crore as on March 31, 2020.

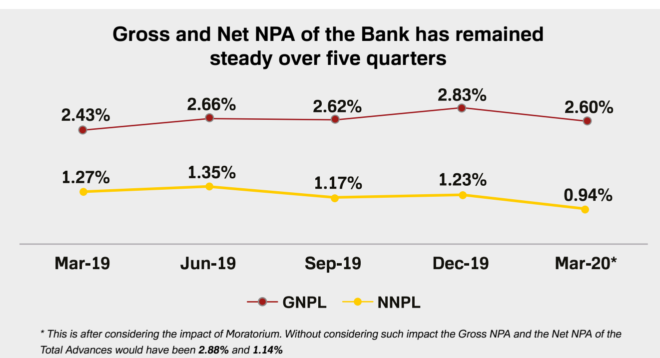


Management Discussion and Analysis Contd...

Asset Quality

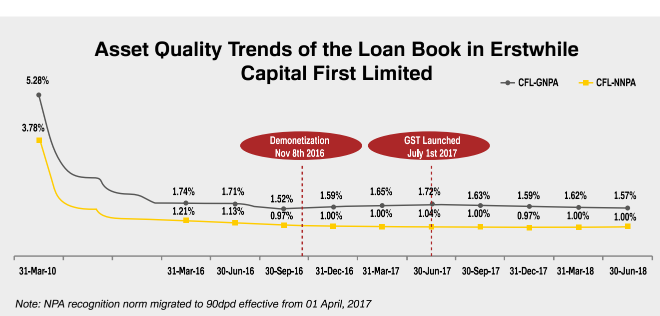
During FY20, the Bank continued to maintain high asset quality for its loan book. Gross NPA reduced sequentially from 2.83% as of December 31, 2019, to 2.60% as of March 31, 2020. The Gross NPA ratio without considering the impact of moratorium would have been 2.88% as of March 31, 2020. Gross NPA as of March 31, 2019 was 2.43%.

The Bank's Net NPA reduced sequentially from 1.23% as of December 31, 2019, to 0.94% as of March 31, 2020. 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 of 1.23% as of December 31, 2019. Net NPA as of March 31, 2019 was 1.27%.

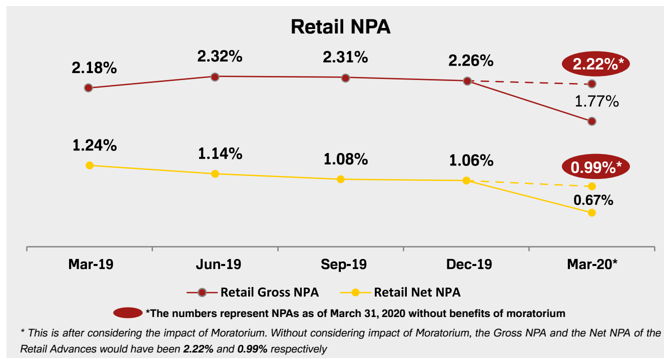


Provision Coverage Ratio (PCR) improved to 64.53% as of March 31, 2020, as compared to 48.18% as of March 31, 2019.

Although, some of the industry experts may wonder whether such low NPA for the Bank at this stage can be sustainable going forward, but the main ingredient of the overall loan book of the Bank is the retail loan book and the growth of retail loan book is the key component of the entire business model. Most of the Retail Loan Book have come from the Capital First business model, being powered up at the bank now, where the asset quality trends have been consistently good (GNPA ~2%, NNPA ~1%) over the eight years of operation and marginal



movements quarter on quarter even out over time.Even the retail loan book of erstwhile IDFC Bank had high asset quality and there were no issues whatsoever with the retail loan book. As of March 31, 2020 after considering the moratorium impact, the Gross NPA % of the Retail Loan Book was at 1.77% (as compared to 2.26% as of December 31, 2019) and Net NPA % of the Retail Loan Book of the Bank was at 0.67% (as compared to 1.06% as of December 31, 2019).



The Figures for the March 2020 include the benefit of the moratorium granted as per the RBI notification where the overdue accounts which might have slipped to become NPA in March 2020, have not been considered while computing the NPA figures as they have been granted moratorium and put under standstill status during the entire moratorium period. Even without such benefits in the computation of the NPA, the Gross and Net NPA of the Retail Loan Book of the Bank would have been stable at 2.22% and 0.99% respectively, lesser than the NPA figures as of December 31, 2019.

Capital Adequacy

The Bank has maintained a healthy Capital Adequacy Ratio over the years, at well above levels as directed by RBI. As of March 31, 2020 the Capital Adequacy Ratio is 13.38% with Tier-I Capital Adequacy Ratio at 13.30%.

The Bank has raised ₹ 2,000 crore (rounded off) of fresh equity capital through preferential route from reputed investors. Including this fresh equity capital, the Capital Adequacy Ratio, when calculated basis the March 31, 2020 financials, would improve to around 15%.

Net Worth (Share Capital and Reserves & Surplus)

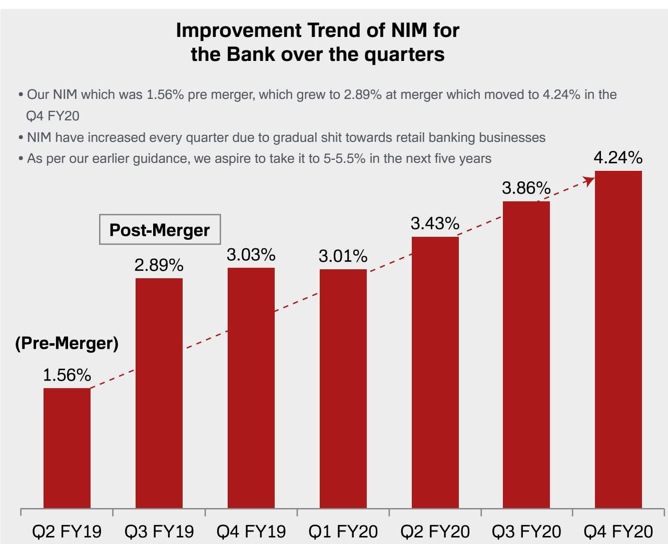
The Net worth of the Bank stood at ₹ 15,343 crore as of March 31, 2020 as compared to ₹ 18,159 crore as of March 31, 2019. The decline is primarily due to the additional provisioning on Stressed Loans and the re-measurement of deferred tax assets/ liabilities as per the revised tax rate by the Government. The Bank henceforth would be subjected to the tax rate of 25.18% going forward. This has resulted in the Book Value to come down to ₹ 31.90 as of March 31, 2020. Post the preferential issue of ₹ 2,000 crore as mentioned earlier, the Book Value per share based on March 31, 2020 will be ₹ 30.57.

Profit and Loss Statement

Net Interest Income

The Bank reported a Net Interest Income (interest earned less interest expended) of ₹ 5,635 crore and Total Income (Net Interest Income plus other revenues) of ₹ 7,796 crore for the year ended March 31, 2020. The Net Interest Income of the Bank in Q4 FY20 was of ₹ 1,563 crore, an increase of 40%, as compared to ₹ 1,113 crore in Q4 FY19.

The Net Interest Margin (Net Interest Income as % of Interest Earning Assets) for the year was 3.62% without including one-time non-recurring income amount of ₹ 43 crore. The quarterly annualised NIM for the quarter ended March 31, 2020 was 4.24% as compared to 3.03% for the quarter ended March 31, 2019.



Non-Interest Income

The Fees and commission Income for the year ended March 31, 2020 was ₹ 1,550 crore of which Trade and cash Management Fees contributed 15% amounting to ₹ 238 crore. The Fee and Commission Income of the Bank for Q4 FY20 was of ₹ 432 crore, an increase of 40%, as compared to ₹ 310 crore for Q4 FY19.

The Trading Gain for the year ended March 31, 2020 was ₹ 612 crore. For Q4 FY20 the trading gain was of ₹ 319 crore as compared to trading loss of ₹ 36 crore during Q4 FY19.

The underlying non-funded trade outstanding book of our Bank decreased by 6% from ₹ 27,027 crore as on March 31, 2019 to ₹ 25,450 crore as on March 31, 2020.

Operating Expenses

The Operating expenses for the year ended March 31, 2020, were ₹ 5,421 crore. During Q4 FY20 the Operating Expenses of the Bank were of ₹ 1,527 crore as compared to ₹ 1,148 crore during Q4 FY19.

The Cost to Income Ratio (excluding Trading Gain) has improved to 76.54% in Q4 FY20 as compared to 80.68% in Q4 FY19.

Pre-Provision Operating Profit

The Pre-Provision Operating Profit for the year ended March 31, 2020 was ₹ 2,376 crore. Excluding Trading Gain, the Pre-Provision Operating Profit was ₹ 1,764 crore for the year ended March 31, 2020. Excluding trading gain, the Core PPOP (Core Pre-Provisioning Operating Profit defined as Total Income net of trading gain and operating expenditure) grew by 70% from ₹ 275 crore during Q4 FY19 to ₹ 468 crore during Q4 FY20.

Provisions

The provisions including provisions for NPAs, other stressed assets and write-offs for the year ended March 31, 2020 was at ₹ 4,754 crore. This was primarily because of additional provisioning taken towards certain stressed wholesale credit exposures including a large telecom player, certain infrastructure company, a logistics player as well as two large financial services companies Reliance Capital and Dewan Housing Finance where the financial conditions deteriorated during the last financial year as also known in the public domain.

During Q4 FY20, the total provisions were ₹ 679 crore which included ₹ 225 crore of COVID-19 related provision. The normalised provisions for the retail advances for the same quarter was ₹ 349 crore. Following the RBI guidelines as provided in the notification as on April 17, 2020, the Bank was required to make COVID-19 related provision of ₹ 25 crore pertaining to accounts where asset classification benefit was given which was supposed to be distributed across Q4 FY20 and Q1 FY21. However, the Bank has provided the entire amount in Q4 FY20 itself. The Bank additionally took ₹ 200 crore of COVID-19 related provisioning proactively for over-dues of 1-89 days as of 29 February, 2020 taking total COVID-19 provisions to ₹ 225 crore.

Net profit (Loss)

For the last financial year FY20, the Bank posted net loss of ₹ 2,864 crore as compared to net loss of ₹ 1,944 crore for the year FY19. This was primarily driven by the higher provisioning on certain Wholesale Credit Exposures of ₹ 2,688 crore, DTA revaluation impact of ₹ 750 crore on the tax line and ₹ 225 crore of additional COVID-19 related provisioning. For the first nine months of operation in FY20, the Bank posted ₹ 2,936 crore of losses but posted net profit of ₹ 72 crore in last quarter, Q4 FY20.

Retail Liabilities

As mentioned above, during the year, the Bank's CASA Deposits as well as Retail Term Deposits posted strong growth, as these Core Deposits (Retail CASA and Retail Term Deposits) increased to ₹ 33,924 crore during the financial year FY20. This signifies the sticky and sustainable nature of the growing deposit balance. The Bank's Fixed Deposits have been assigned the highest rating "FAAA/ Stable" by CRISIL.

Building on the mantra of Customer First, the Bank made rapid progress in FY20. The retail liabilities team worked toward building a superior banking experience for customers, backed by advanced digital platforms and analytics. The '**Always You First'** customer experience was delivered across all channels (i.e. business correspondents, branches, banker on call). The Bank's contemporary digital channels enabled the teams to be more efficient, productive and contribute significantly to business growth.

FY20 stands as a testimony to Bank's commitment to growth. The Bank serves its customers through 464 branches and 356 ATMs across 20 states and 66 districts.

The ***One IDFC FIRST App offers*** over 120+ business and personal services including UPI. The Bank recently launched watch banking, which enables customers to access their bank account and transact on their smart watch. The Bank's digital platforms are easy to use and transact; 70% of the Bank's active customer base is regularly transacting on various digital platforms.

Products and Initiatives:

A slew of initiatives in FY20 enabled customers to make most of their Savings Accounts and Fixed Deposits. The Bank continued to make savings a lot easier and encouraging by offering an interest rate of 7% p.a. on the Savings Account for balances of ₹ one lakh and more. For balances below ₹ one lakh, the Bank offers an interest rate of 6% p.a. This competitive banking proposition has helped us garner significant growth in deposits from an existing customer base as well as new customers. In addition to this, the online Savings account journey was re-vamped to make it leaner and more customer-friendly in order to re-inforce the position of the Bank as a truly digital Bank. To enhance the Bank's deposit suite further, customer-centric products were launched like FD Multiplier, FD Health Secure, Health First Savings account during FY20, as value-adds to the portfolio.

The Bank remained committed to nurture relationships and create an exceptional customer experience, through digital solutions and personalised guidance and advice.

The NRI business grew significantly during the year and focussed on catering to the specialised needs of this segment. The preference for the Bank's products and services is evidenced by the significant growth in its balances and number of customers.

The Bank's endeavour has always been to offer the best-in-class products and digital platforms to entrepreneurs and small business customers. With this objective, the Freedom current account, account with competitive transaction charges across all domestic and international trade transactions was launched. This provided customers the ability to access their account anytime and from anywhere without being concerned about charges. The Bank also launched the merchant acquiring solution to strengthen its proposition.

The Bank extended the benefits enjoyed by large corporates to small businesses on netbanking where all entity types can enjoy limit management, add makers and multiple authorisation levels to secure their online transactions. The online trade portal and google-based doorstep banking services with real time tracking and alerts, ensure efficient banking so that customers can focus on growing their business un-interrupted.

Listed below are some of the key digital initiatives that enabled the Bank to deliver improved customer experience:

- Paperless Digital Account Opening – Online Account Opening Process on a real time based on the customer's Aadhaar number. The account is ready to use for debits, credits with real time access to Net Banking, Mobile app and a virtual ready-to-use debit card.

- One App – Offering over 120+ services on One mobile app, the Bank is amongst the leading banks to merge business and personal services in one app including UPI.

- Watch Banking – Digital banking has evolved from desktop/ laptop to mobile and now to watch banking. Offering a host of services like view accounts and balances, fund transfer and bill payments.

- Mutual funds – With IDFC FIRST Bank mobile app, customers can invest in SIPs and lumpsum purchases online. The Bank also provides a list of recommended funds to choose from and help customers invest wisely. Further, user onboarding and investment account creation is instantaneous and online.

The Bank has won awards including the prestigious Asian Private Banker – Best Private Bank Digital Innovation and Services.

Amit Kumar
Head - Retail Liabilities

> We are delighted and humbled by the overwhelming response from our customers to our products and services as we continue to reach more markets, open more Branches and further enhance our Digital Banking capabilities. We stay committed to our ethos of Customer First to serve all financial needs of our customers viz. Savings, Investments, Protections, Payments and Loans for Individuals and Business solutions including Trade Finance, Foreign Exchange and Remittance Services, Business Lending etc., for the MSME and SME customers.

Wealth Management

With a view to ensuring customers' financial well-being, the Bank enabled access to good quality wealth management solutions to all segments of customers - starting from high net worth individuals and businesses to middle and lower income groups as well.

In addition to a team of high quality private bankers addressing the financial needs of premium customers, the Bank offers an award-winning digital wealth platform to ensure every customer of the Bank has access to equally good quality investment and protection solutions. The renowned 'Asian Private Banker' institute has awarded IDFC FIRST Bank the Best Private Bank for Digital Innovation in Wealth Management across Asia Pacific which is yet another testimony to our ambition of providing a truly simplified and digitalised user experience to our customers.

Business Banking and KCC

Business Banking unit caters to MSME entities operating across the country with product suites including both Fund and Non-Fund facilities to meet working capital, capex and transactional banking requirements. The business unit not only has presence in urban locations but has also established its presence in semi-urban and rural locations. The team is based in branches only and works in tandem with branch banking in all these geographies.

The Bank offers secured working capital facility under Kisan Credit Card (KCC) scheme to customers/ farmers involved in agricultural activities. The credit assessment is based on the cropping pattern, credit bureau and reference checks as well as legal and technical valuation of the security. This facility provides adequate and timely credit for crop cultivation, harvest expenses, machinery maintenance and household consumption. The Bank serves more than 1,800 customers across geographies from rural and semi-urban locations through doorstep banking, dedicated relationship managers and digital solutions.

Government Banking

IDFC FIRST Bank's Government Banking Group establishes and maintains strategic partnerships with Central and State Governments, Central and State Public Sector Undertakings and other government entities. Over the years, the group deepened the Bank's relationships with the Government and has now become a preferred banking partner for managing their collections and payments. It is now focussed on broadening this through new relationships.

The Group continues to place emphasis on new-age, digitally enabled solutions, value added services to Government clients, in line with various e-Governance initiatives. This includes customisation of client requirements which revolve around Cash Management Services, Transaction Banking Solutions and unique offerings.

Some of the key digital initiatives are:

- Authorisation of the Bank in the State of West Bengal for 'Schematic Bank Account Management System (SBMS)'
- Transactional Banking services for development of Railway Stations across the country
- Confirmation of Bank Guarantees to Government Undertakings using SFMS
- Account Management Services to Provident Fund/ Gratuity/ Pension/ Other Trusts of various Public Sector Undertakings.
- Beginning of new relationships with 'Namami Gange' and 'Smart City' projects
- New engagements with State Government Departments for handling disbursement of scheme funds
- Extending online collection facilities to various Public Sector Undertakings and Autonomous Bodies to support their Digital initiatives

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Retail Assets

The Bank's retail lending business gained significant momentum as retail assets grew to ₹ 57,310 crore as on March 31, 2020, from ₹ 40,812 crore as on March 31, 2019, reflecting a year-on-year growth of 40%. Retail loans as a proportion of total funded assets improved to 54% as on March 31, 2020, from 37% as on March 31, 2019. This was in keeping with the Bank's stated strategy of increasing the retail loan book vis-à-vis the large wholesale loans.

During the year under review, our Bank focused on building a world class lending franchise for both consumers as well as small businesses.

The Consumer Durable loans segment saw significant increase in breadth and scale, backed by automation for greater reach and faster decision-making. This gave our Bank the competitive advantage, enabling it to differentiate its offering in a fast evolving lending space. The Consumer Durable loan book grew by 21% during the year. This portfolio has almost 10 years' vintage as it was grown since 2011 through Capital First business model.

Within this space, the Bank also expanded its loan offering to include consumption finance, making the Bank more relevant in everyday lives of consumers. The consumer durable loan proposition was successfully introduced in rural locations through the Bank's liability and rural banking branches.

The Bank also accelerated cross-sell for SMEs through a combination of pre-approved and pre-qualified programmes.

During FY20, our Bank embraced the fintech ecosystem through partnership with industry-leading players to make new and innovative credit products available for the masses. The partnership with Flipkart for its PayLater product enabling millions of customers across India gain access to credit, to fund their purchases in a most convenient manner. The Bank also enabled its customers with pre-approved loans to utilise this limit for funding purchases from various online and offline merchants.

In the Personal Loan business, the Bank spread its wings across 63 locations in India. The Bank enhanced its digital presence by launching a new customer facing mobile app - IDFC FIRST Loans App; customers can now apply for personal loans 24x7 through the app and get instant decision on their loan application. The Personal Loan book grew by 35% during the year. This portfolio has over nine years' vintage as it was grown since 2011 through Capital First business model.

The Two-Wheeler loan book grew 28% despite industry de-growth and challenging market conditions. Demand from rural markets for the Bank's Two-Wheeler loan offering grew significantly during the year. The Bank also grew its Used-Car financing book in a significant way through many ways including online portals and other channel partners. The Bank looks forward to continue its growth journey in this product segment going forward. This portfolio has over eight years' vintage as it was grown since 2011 through Capital First business model.

Pradeep Natarajan
Head - Retail Assets

> We understand that assets is an important part of the growth strategy of the Bank and we are making all efforts to grow it in a responsible manner.

The SME Retail business gained significant traction during the year with the Bank's Loan Against Property (LAP) business registered a steady growth through different categories in SME segment. The unsecured business loans and professional loans, primarily availed for the shorter term working capital purposes, also grew in a robust manner. The Bank has strong underwriting framework with decentralised decisioning systems. Most of this portfolio is very well seasoned as it has a vintage of about 10 years since 2010 through Capital First platform.

Rural Banking - Growing Responsibly, Sustainably and Profitably

The Bank is committed to financial inclusion and serving the bottom of the pyramid of the population in India. IDFC FIRST Bank's Rural division is focused on serving unbanked locations across the length and breadth of our country.

In FY20, the rural banking team stayed on course to grow responsibly, sustainably and profitably.

Increase in Breadth and Depth of Engagement

In FY20, the rural banking division expanded its presence by increasing branch footprint from 109 to 169. The Bank increased its employee strength in the rural business, expanded the product suite across assets and liabilities, targeting various segments across rural India in partnership to be the enabler of growth in the heartland of the country. The three pillars supporting expansion during the year have been – build out of liabilities franchise in rural India, with purpose to assist in increasing the local businesses and accelerating the mortgage proposition.

Rural banking continues to have a focused approach towards rural and semi-urban markets with products which are cost effective, easy to process, technology driven and serve the needs of everyone. The Bank's rural products are aimed at supporting local businesses and enterprises that boost rural economy. Other products like Sakhi Shakti - JLG Group Loan, Commercial Vehicle Loan, Equipment Hypothecation Loan and Loan Against Property are also provided in the rural markets where the Bank has built presence and have enabled livelihoods across states.

The Bank's 7% rate of interest offered on Savings Account, is like an investment for consumers in rural markets and plays an instrumental role in building the habit of thrift in rural households. Additionally, the liabilities proposition is leading to a shift of behaviour from keeping family funds at home to holding it in a formal banking channel. The Bank's product proposition remains committed to serving the last mile customer and ensures that it plays its part in the financial inclusion of the nation.

Wholesale banking

The current financial year was one of the most challenging one for the Indian Corporate sector and the Bank witnessed a number of large houses getting into financial trouble. our Bank has continued the strategy of transition its exposure from Infrastructure lending and large ticket lending to a more diversified and mid-sized lending. Even so, our Bank continues to be a full-service Corporate Bank with coverage across Large Corporates, Emerging Large Corporates, NBFCs and Financial Institutions. We offer all products encompassing Lending, Transaction Banking, Financial Markets and Liabilities. Further, the Bank continues to focus on improving profitability through improving its lending yields and improving product penetration across its clients.

Corporate Coverage

The Bank's Corporate Coverage Group has focused on reducing the Bank's balance sheet risk profile from long-term and big-ticket Infrastructure legacy assets to predominantly loans to operating mid-sized and more granular corporate banking assets.

In the year under review, the Corporate Coverage Group successfully reduced its Infrastructure Legacy Assets exposure by one-third over previous year. Similarly, certain large-ticket exposures to corporate entities were also reduced. A combination of these have led to the overall Wholesale Bank book reduce by 27% in its size over this year. Going forward, our Bank will continue to work towards reducing its exposure to infrastructure assets and will be adding exposure to other manufacturing, services and financial firms.

You will be pleased to know that the credit rating threshold for initiating a relationship with the Bank continues to be in a healthy zone with most of the business being initiated with the better performing Investment grade corporates.

Key focus areas for the Corporate Coverage Group will continue to be:

- ELC segment asset growth
- increasing core CASA liabilities
- earning higher fee from transaction banking, non-fund based commissions, FX and Debt Capital Markets business
- obtain corporate salary account mandates
- drive higher utilisation of our world-class cash management services platform

In doing so, the Bank will look to generate new revenue streams and maintain focus on higher-yielding, fee-based earnings.

Financial Institutional Coverage

The Bank's Financial Institutions Group addresses the finance and banking needs of Domestic as well as International Financial Institutions.

The Domestic Financial Institutions Group (DFIG) team engages with the domestic commercial banks, small finance banks (SFBs), Insurance Companies, Financial Institutions and Capital Market participants such as Exchanges, Mutual Funds, FPIs and AIFs. The Bank is focused to on-board large liability-strong Institutions by offering superior transaction banking services through innovative products and assuring client-centricity for product delivery. The Bank has been able to create traction with large Institutions, thereby improving its footprint substantially.

The Bank actively engages with Institutions like SIDBI, NABARAD, NHB and Exim Bank to avail refinance and with overseas branches of domestic banks to avail foreign currency borrowings. Leveraging on its strong relationships with banks, the Bank also acquired Priority Sector Assets to meet its regulatory requirements, through investment in IBPC issued by these banks and purchased PSLCs from them.

The Bank's International Financial Institutions Group (IFIG) team is responsible for relationship management with International Banks, Multilateral Agencies and offshore Financial Institutions.

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Paritosh Mathur
Head - Wholesale Banking

> Our Bank has defined the key focus areas that will enable us to do corporate banking in a responsible and profitable manner. We are conscious about credit quality and aim to build a high quality business using the platform of technology.

The Bank continues to strengthen its network of international banks and FIs to deliver efficient treasury and trade finance solutions to the Bank's local customers, who have banking requirements offshore. The Bank also offers complete suite of products encompassing Financial Markets, trade finance and financial advisory to the offshore banks and FIs, thereby enabling them to provide seamless India linked service to their clientele. Through strong relationship management and distinctive service, the Bank has built up strong network in prominent India linked trade corridors. As of March 2020, the Bank has been able to develop strong correspondent banking network of over 250 global entities, spread across more than 55 countries.

Transaction Banking

At IDFC FIRST Bank, the customer is always placed first and thus a focal point - every solution is designed keeping customer's interest and convenience in mind. Transaction banking team has ensured a well-knit product suite to fulfill business requirements and customer needs as per changing economic and business environment. We have a unique mix in terms of state-of-the-art digital platform (which enables various products through complete online channel) coupled with that of traditional way of handling business.

The Bank has identified-liability based business as focus area and accordingly worked out various digital solutions within Cash Management arena on payments as well as collections side. The Bank continues to enhance its award winning online platform - the BXP (Business eXperience Platform).
Transaction Banking team works closely with technology partners, industry leaders and service providers to develop various customised solutions to cater business requirements of various customer segments. Utility Bill Payments was one such segment, which has been comprehensively covered by the Bank in terms of their collection and payment requirements. With the help of technology and innovative ideas IDFC FIRST Bank team was instrumental in setting up various bill payments and collection solutions for this segment.

Transaction Banking Team ensures refining its solutions in line with Government of India and RBI initiatives from time to time. Emphasise on usage of enablers such as e-NACH, API-based frameworks, BBPS, etc., ensured healthy business growth and helped in self-sustaining current account balances for the Bank. In addition to corporates, TBG team continues to engage across various segments such as MFIs, NBFCs, MFs, Insurance companies to design innovative offerings.

IDFC FIRST Bank always believes in strict adherence to regulatory guidelines and assigns due weightage to the same while conducting any business. Digitised solution for online settlement of EDPMS/ IDPMS (Import and Export regulatory reporting) is a great example of this. Transaction banking team along with technology partner crafted one of the industry-first solutions, which enables Trade customers to reconcile EDPMS/ IDPMS entries and submit said requests to bank in complete paperless manner. This solution ensures lesser touchpoints and quicker turnaround for Trade regulatory settlements thereby assisting customers to eliminate reporting pendency. The solution has been well appreciated by customers and ensured incremental customer base and business for the Bank.

As part of strategy Transaction Banking team has increased focus on fee based Trade products. The offerings have been enabled through BXP as well as traditional banking channels. To minimise turnaround and improve customer convenience, the team has introduced Trade platform on-boarding through digital acceptance of terms and conditions. This initiative is focused at SME, MSME and business banking customers and thus helps in digitising trade transactions. In parallel, TBG Team continued to work on Supply Chain area with introduction of various new-features and system functionalities with aim to have granular and sustainable business.

IDFC FIRST Bank continues to be one of the leading banks with acquisition of over 100 toll plazas, having issued over 10,00,000 tags in FY20. The Bank has teamed up with various fleet owners, dealers and Tech service providers in the logistics space to provide Digital solutions which are simple and secure to use for the truck operators.

Financial Market Group

The Bank's Financial Market Group consists of Treasury, Foreign Currency and Domestic Capital Market business. Treasury manages Investments and funding from money markets for the Bank. This function ensures that the Bank meets its regulatory requirements of maintaining CRR, SLR and LCR. This is achieved through a well-defined and monitored asset liability management process carried out under the guidance of the Asset-liability committee (ALCO) of the Bank. It also manages the sensitivity to interest rate movements for the Bank by utilising various market investments, money markets and permitted derivative products.

The Treasury also carries out financial markets sales business for its clients. To our clients, this group provides solutions to meet:

(a) their foreign exchange conversion and exchange risk hedging needs
(b) remittances related services
(c) their debt capital markets financing needs
(d) their interest rates risk hedging needs.

Since its start, the Bank has successfully grown its business with clients by offering and transacting in the full suite of product solutions. With more clients raising resources from global investors and lenders, we expect an increase in hedging needs from our clients.

Providing access to the local debt markets to our corporate customers has been another key area of opportunity, where the Bank uses its well-established presence in the capital markets. Our DCM business also extends itself to facilitating syndication of loans for our clients. In doing so, the group maintains strong business relationships with institutional investors and lenders. With the increasing focus of regulators on further developing debt capital markets, we expect more corporate clients to seek access to the bond markets for their fund-raising needs. We will strive to meet our clients' expectations by providing them the right solutions.

Operations

The Operations function at the Bank has been designed to deliver a superior and differentiated customer experience. The Bank has developed technology-enabled processes that minimise paperwork and ensure seamless processing with minimal manual intervention. This year has seen further progress on automation through leveraging of newly available technologies such as Robotic Process Automation.

Wholesale Banking Operations provides transaction and accounting execution for all corporate banking products and key enterprise functions such as Clearing and Cash. It ensures market-leading client service and delivery. The client servicing team is structured to provide targeted service to clients through experienced client focused bankers having expertise across a range of products. Part of the account opening and servicing process is digital and requires minimal manual intervention. Through the year, the Operations team has delivered against significantly higher volumes across products by leveraging technology-enabled systems, workflows and STP, wherever possible.

Madhivanan Balakrishnan
Chief Operating Officer

> We are committed to develop a strong operations and technology platform for our Bank that can scale over time to meet the growth ambitions of the Bank.

The focus on technology and channels has ensured that the Bank can deliver high levels of service in a cost-effective manner, and at scale. This focus on process automation has enabled us to consistently deliver faster turnaround times, across identified key products. Client feedback through a Voice-of-the-Customer Survey has demonstrated a continuing high degree of satisfaction with our service delivery.

Identified merger related operating synergies have been fully achieved in the current year.

Technology

The Bank continues its journey to implement state-of-the-art technology platforms and solutions to continuously enhance our products and services to meet the customer needs in an agile model. A number of innovative solutions have been developed and implemented digitally in a fast and secure model, while providing customers with a seamless experience. The Bank has also progressed significantly on its post-merger integration journey of amalgamating business processes, systems and support for overlapping and complementing products and services across the Bank. Further, the Bank has also created a unified team with a standardised set of capabilities, defined new ways of working and harmonised partners across the organisations. The pending backlog of integration projects are planned to be completed in the current year with the consolidation of applications and decommissioning of platforms that are not in the target architecture for the Bank moving forward.

Risk

The Bank promotes a strong risk culture throughout the

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

Pankaj Sanklecha
Chief Risk Officer

> We have put in place a comprehensive risk management framework including stress testing programme, which plays a key role in decision-making in terms of potential actions like risk mitigation techniques, contingency plans, capital and liquidity management in stressed conditions, etc. Stress-testing facilitates management with key insights into the potential susceptibility to extreme but plausible and stressed business conditions including events like the current pandemic crisis and as a result it provides confidence to all stakeholders on the Bank's financial stability.

Consequent to the merger of erstwhile IDFC Bank Limited and erstwhile Capital First Limited effective December 2018, Bank has re-aligned its key policies and Risk Framework forming an overall Risk framework of the merged entity. The Bank operates within an effective risk management framework to actively manage all the material risks faced, in a manner consistent with the Bank's risk appetite, making the Bank resilient to shocks in a rapidly changing environment. The 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, consistent with its risk appetite. 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 Bank has a robust risk governance framework. The Board is principally responsible for approving the Bank's risk appetite, risk tolerance and related strategies and policies. To ensure that the Bank has a sound system of risk management and internal controls in place, the Board has established Risk Management Committee of the Board (RMC). 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.

Risk Appetite

The risk appetite is an expression of the amount and type of risks that the Bank is able and is willing to take in pursuit of its business objectives.

The Risk Appetite Statement provides strategic guidance around various parameters. The Risk Appetite Framework is approved by the Board and put up for review/ revision to the Risk Management Committee of the Board, at least on an annual basis, keeping in the view the changing business environment and the Bank's business strategy and competencies

Credit Risk

Bank's credit risk is controlled and governed by the Board approved Credit Risk Management Policy. The Credit Risk group has been established to independently evaluate all proposals to estimate the various risks as well as their mitigation.

The Bank has rigorously adhered to the RBI mandated prudential norms on provisioning of stressed assets and has adopted a stringent approach in taking aggressive provisioning, which is aimed at preserving and protecting shareholder value. During the year, Our Bank has proactively worked on the resolution of the stressed asset portfolio and has significantly reduced the position. Bank has also de-risked the portfolio by diversifying the credit portfolio across non-infrastructure sectors and focused on increasing shorter-tenure and non-funded exposures. With these measures, we have sought to reduce the concentration risk in the portfolio.

Market Risk

The Bank's trading positions in debt, foreign exchange, derivatives, and equity are subject to Market Risk. Market Risk Group is responsible for identifying, measuring and monitoring such risks. Our Bank has put in robust policy frameworks such as Market Risk Policy, Funds and Investment Policy, Forex and Derivatives Policy to ensure positions, which are subject to market risk are maintained within the approved risk appetite of the Bank. Several models and tools such as MTM, PV01, VaR, Stress testing, Capital Charge assessment and extensive limit management framework etc., are used to measure and continuously monitor such risks. The tools, models and underlying risk factors are reviewed periodically to enhance their effectiveness. The group also supports the Asset-Liability Management (ALM) function. The purpose of the Asset Liability Management Committee (ALCO) is to act as a decision-making unit responsible for integrated balance sheet risk-management from risk-return perspective including strategic management of interest rate and liquidity risks. ALM function also supports measurement and monitoring of Liquidity Gaps, resilience to liquidity stress using tools like LCR and Interest Rate Risk in Banking Book by assessing impact on NII and Market Value of Equity due to changes in underlying interest rates.

Operational Risk

Deregulation and globalisation of financial services, together with growing sophistication of financial technology and increase in the complexity and volume of financial transactions, are making the risk profiles of Banks more complex. A growing number of operational losses and risk events, recent regulations, industry trends and new types of threats and exposures have highlighted the importance of Operational Risk management. Operational Risk touches every part of the organisation from products, people, processes and technology and hence it is important to identify and manage operational risks proactively.
The Bank has put in place Board approved governance and organisational structure to manage Operational Risks. A committee comprising senior management personnel namely 'Operational Risk and InfoSec Risk Management Committee' is responsible for overseeing implementation of Board approved Operational Risk Management policy and framework. Operational Risk Management Department engages with the First Line of Defence (Business and Operating Units) on a continuous basis to identify and mitigate operational risks to minimise their impact.

Compliance Risk

Compliance Risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with applicable laws, regulations, rules, standards, and codes of conduct. The management of compliance risk is an integral component of the governance framework at the Bank along with other internal control and risk management frameworks.

The Bank has a Compliance Policy, duly approved by the Board of Directors for effectively managing the compliance risk faced by the Bank. The Compliance function of the Bank is an independent unit with adequate staff managing various compliance activities of the Bank. The Compliance function performs the following principal activities:

(i) advisory services to businesses on regulatory matters
(ii) dissemination and implementation of regulatory guidelines/ directions
(iii) regulatory engagement
(iv) managing AML/ KYC/ CFT
(v) identifying, assessing, monitoring and reporting on compliance risk

The Compliance department assists the businesses and other functions for the management of compliance risks (to mitigate and prevent breaches of laws and regulations) in accordance with the compliance risk framework of the Bank. The Compliance department provides compliance assurance to the Management and Board through the Compliance Self-Certification System and Compliance Testing Framework. The status updates of compliance risk are regularly reported to the Management and Board.

Kamalakar Nayak
Chief Compliance Officer

> In the evolving and dynamic regulatory environment, we are committed to build robust and sustainable compliance standards in the Bank by implementing more effective and efficient compliance risk and control frameworks.

Information Technology and Information Security Risk

Given that the Bank's expansion strategy is more and more digital, cyber and Information Security risk is identified as a material risk for the Bank. The Information Security Group (ISG) is responsible for this function and works continually towards adoption of newer and better security practices. ISG works as an independent group within Risk function and operates under the Information Security Management System framework (ISMS), which is aligned to ISO 27001 and RBI Cyber Security Framework and other guidances issued from time to time. The Bank is a ISO 27001: 2013 certified organisation. ISG follows systematic approach through people, process and technological security controls to prevent, detect, respond and recover from cyber-attacks and manage sensitive company information so that it remains secure by design and practice.

BitSight an independent cyber readiness rating company offers the most widely adopted Security Ratings solution. BitSight Security Ratings range from 250 to 900 and indicate a company's relative security effectiveness. Each organisation can receive one of the three following ratings:

- Basic (upto 640)
- Intermediate (below 740)
- Advanced (740 and Above)

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The Security Rating for IDFC FIRST Bank has moved from 600 (Basic) to 750 (Advanced) over the past 12 months clearly validating our commitment to move towards Secured Digital Bank as a continuous endeavor.

Capital Adequacy

The 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. In accordance with the RBI guidelines on Basel III, the Bank adopts the standardised approach for credit risk, basic indicator approach for operational risk and standardised duration approach for market risk.

Satish Gaikwad
Company Secretary
& Head - Legal

The Organisation with good governance practices in the foundation, tend to be more successful in the long run. It's all about being proper and prosper!

Capital management practices are designed to maintain a risk-reward balance, while ensuring that businesses are adequately capitalised to absorb the impact of stress events including pandemic risks. The Internal Capital Adequacy Assessment Process (ICAAP) forms an integral part of the Supervisory Review Process (SRP) under Pillar 2 of the Basel III Framework. SRP under the Basel III Framework (Pillar 2) envisages the establishment of appropriate risk and capital management processes in banks and their review by the supervisory authority. ICAAP is a structured approach to assess the risk profile of the Bank and determine the level of capital commensurate with the scale and complexity of operations. As part of the Basel III implementation, Bank has developed a comprehensive ICAAP policy and document, in line with regulations prescribed by the RBI.

The document aims to assess the risk profile of the Bank and whether the capital maintained is commensurate with the scale and complexity of operations. The document also contains projections of financials for the Bank, and its capital adequacy projections for next three years under normal and stress conditions. It also contains relevant details of plans and strategies for meeting capital requirements. Stress testing forms an essential part of ICAAP. It 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.

The ICAAP ensures that stress-testing reports provide senior management with a thorough understanding of the material risks to which the Bank is exposed. Stress-testing complements other approaches in the assessment of risk. It is the primary indicator of the Bank's ability to withstand tail events and maintain sufficient levels of capital. It is used to evaluate the financial position of the Bank under various plausible scenarios (base, medium and severe) to assist in decision-making. It also assists the Bank in improving its risk monitoring processes.

Environment and Social Policy (E&S) and Appraisal Process

The Bank has a comprehensive environment and social policy and a robust environment and social risk management framework for all its businesses. The Environmental Risk Group (ERG) of IDFC FIRST Bank works proactively with clients/ internal teams to identify, mitigate and manage E&S risks associated with projects/ transactions. The Bank obtains information on environment-related regulatory and compliance norms so as to ensure that the projects/ transactions it finances are in compliance with the applicable national environmental legislations. IDFC FIRST Bank has developed and adopted an exclusion list comprising sectors in which it will not engage in any financing activity. The Bank continues to hold the distinction of being India's first financial institution to sign up for the Equator Principles (EP) – a credit risk management framework for determining, assessing and managing environmental and social risk in Project Finance transactions.

For the purpose of financing activities, IDFC FIRST Bank has also identified sensitive sectors which have potentially high impact on the environment and communities, and where the Bank may have to deal with critical E&S issues.

Internal Controls Systems

IDFC FIRST Bank's internal controls systems are based on a robust framework of policies, processes, and risk management practices. These controls identify and mitigate various risks by ensuring effectiveness and efficiency of operations, adequacy and reliability of financial controls and compliance with applicable laws and regulations.

The internal controls system are aimed at ensuring adequate authorisation, accurate recording and reporting of all transactions, assets and liabilities and safeguard them from unauthorised changes. The Bank uses an array of technology systems and processes for its operations including loan origination system, core banking system, treasury system, customer relationship management system, general ledger system and other technologies, which operate under a robust control framework.

The Bank has an Internal Audit department, which independently reports to the Audit Committee of the Board and administratively to the Managing Director. The Internal Audit Function of the Bank adopts a risk-based approach to provide independent, objective assurance on the effectiveness of internal controls, risk management and information security systems, compliance with regulatory requirements and corporate governance and constitutes a third line of defense.

Suketu Kapadia
Chief Internal Auditor

"Internal Audit helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes. By leveraging technology and analytics, Internal Audit Function of IDFC FIRST Bank is building a strong third line of defense, providing independent, objective and timely assurance to all stakeholders."

The Internal Audit Department reports all significant observations and their follow-up actions to the Audit Committee. Further, the Audit Committee reviews adequacy and effectiveness of the Bank's internal control environment, monitors the implementation of audit recommendations. The Audit Committee also reviews and evaluates the functioning of the Bank's Internal Audit Department by having independent meetings, reviews and formal annual evaluations.

Human Resources

FY20 marked the completion of the integration of erstwhile Capital First and erstwhile IDFC Bank. Cost synergies were realised as teams were restructured to meet goals. With a view to build a future ready workforce, this year saw higher quality talent taking on critical roles.

In its pursuit to build a nimble and efficient organisation, the one of the many areas of focus for the HR team was to build a team comprising the best talent and a strong leadership.

Adrian Andrade
Head - Human Resources

"With the merger of the teams of Capital First and IDFC Bank, it was critical that we defined the culture and the ways of working that would set us on the right path. I am delighted that our stated culture is not only understood by our employees but we have progressed towards it playing out in the way we work. This is amply demonstrated by our decisiveness, action orientation, collaboration across teams, innovation and most importantly empowered employees who everyday deliver our brand promise to our customers – Always You First."

To enable businesses to achieve its goals, the team supported the branch expansion plans of Retail Liabilities, Rural and Micro Business Loans. Talent was hired to meet the headcount requirement of a rapidly growing business. Learning programmes were introduced to build the required skills as per business needs. Career progression programmes for the frontline staff were introduced where attrition is the highest; one such initiative being the 7-Star programme.

A slew of initiatives during the year helped foster a culture of customer centricity and doing things right. A set of disciplines were introduced and socialised to align the entire organisation to the theme of “Customers First”. The target operating model – the IDFC FIRST Way of Working (IWoW) - was introduced to business leads and all other functions to build the right leadership.

It was important to ensure the Bank’s HR systems were positioned well to cater to the fast-paced growth and transformation the Bank was undergoing. In keeping with this, the HR function introduced new systems to drive employee success. Processes were digitised to empower employees and managers in the areas of talent acquisition, payroll, and HR BOT to answer employee queries.

To set the Bank up for success, it was imperative that the right processes and people were in place so that goals set by the management are pursued with a passion. In this context, a number of employee engagement initiatives were rolled out on a large scale in the form of Leadership Connects, email campaigns, townhalls, health and wellness activities and employee volunteering for corporate social responsibility initiatives.

During the year, the Bank’s employees remained committed to the high level of governance and adherence to all laws and regulations.

V Vaidyanathan has voluntarily offered to take a pay cut of 30% in his compensation including Fixed compensation as well as all allowances. He had represented to the Board that such pay cut forms part of the Bank’s austerity measures which start at the top. The other senior management of the bank has also volunteered to take a 10% cut in compensation in the current financial year 2020-21.

The Bank also paid 100% of the variable pay to 78.2% of employees for the period pertaining to FY 19-20 despite the arrival of the pandemic. For the rest 21.8% of the employees at senior level, the variable pay was cut progressively as the seniority increased, such that the variable pay cut for MD and CXO was 65% of the eligible amount. Variable pay of MD is subject to approval by the RBI.

Opportunities and Outlook

IDFC FIRST Bank focuses on catering to the various retail customer segments including the aspiring consumers and growing MSMEs in India. Considering the low financial penetration in India even with very high technology adaption, India, with its large population base with mostly from the young generation, offers a great opportunity for Banking and Financial services in India. In the recent years, the initiatives from the Government including the efforts on financial inclusion, technology stack, Aadhar implementation, direct benefits transfers have improved the consumption and overall growth, not only for the urban segment but also for the rural segments. The growth of the entrepreneurship in India has opened up a huge segment of MSMEs who would require multiple financial products, both on assets and liability side.

The ease of operations with the technology innovations and interventions have made the customer journey and fulfillment smoother bring in not only efficiency in terms of time and cost but overall customer delight at a great extent.

However, the recent pandemic COVID-19 has impacted the such business growth for the overall economy temporarily as the lockdown was imposed for effectively over two months starting from late March 2020, bringing the economic activities to halt. The economy paused for some time during the month of April 2020, which resulted potential threats like economic slump, migrant labour issues, job losses going forward as the number of infectious cases around India, especially in the major economic zones or cities like Mumbai, kept on rising. But during the month of May 2020, gradually the situations eased up and economic activities started up to a certain level, the growth opportunity returned and kept on improving.

The rural economy is likely to turn around, even faster than the urban consumer segments, due to comparatively much lesser impact of COVID-19, a healthy crop season and a likely good monsoon ahead. This has been aided by the timely interventions by the Central Government, Ministry of Finance and the RBI to help the customers, enterprises and the financial entities to ride through this unprecedented pandemic situation. This crisis has also created opportunities for different facets of businesses as the consumers now focus more on personal hygiene, safety and necessities going forward and the savings potential is likely to improve.

Even during the COVID-19 situation, the Bank continued to get a steady flow of retail deposits which was duly aided by excellent customer service and digital acquisition mediums. Having said that, the entire Banking sector in India is dealing with uncertainty regarding the COVID-19 crisis as overall count of infectious cases continues to rise. The Bank also is dealing with such situation and assessing its financial impacts on its books on a continuous basis, especially considering the moratorium provided to its customers following the RBI notification.

Although the economy paused for a little duration, the Bank is reasonably confident that the economy will recover in due course with gradual improvements in most segments of businesses where the Bank is focusing on. This was also a good opportunity for the Bank to introspect and bring in more efficiency in terms of technology interventions, process improvements, better customer offering and excellent customer service. All these would be key for capturing the rapid growth potential that is likely to come up as economic recoveries gradually improve going forward. The Bank is also geared up with the robust risk framework to counter the effects of the pandemic as well as the future growth potential thereafter as it continues to invest in deep analytics, automated scorecards, stringent underwriting framework, strong monitoring and collection capabilities.

While it continues its growth journey on the retail banking segments aided by such framework, the Bank will also have an opportunistic stance on the wholesale banking segments, by choosing the right segment and partners with appropriate risk adjusted pricing. Along with this, the Bank continues to aid the overall growth and business model with the steady fee based income products including transaction banking, wealth management and treasury operations to support its corporate, MSME, HNI and retail customers.

Cautionary Statement

Statements made in this Management Discussion and Analysis Report may contain certain forward-looking statements based on various assumptions on the Bank's present and future business strategies and the environment in which it operates. Actual results may differ substantially or materially from those expressed or implied due to risk and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India and abroad, volatility in interest rates and in the securities market, new regulations and Government policies that may impact the Bank's businesses as well as the ability to implement its strategies. The information contained herein is as of the date referenced and the Bank does not undertake any obligation to update these statements. The Bank has obtained all market data and other information from sources believed to be reliable or its internal estimates, although its accuracy or completeness cannot be guaranteed.