New **Bank.** New **Mission.** New **India.**






IDFC FIRST BANK LIMITED
ANNUAL REPORT
2018-19

Certified True Copy
For IDFC FIRST BANK LTD.
Satish Gaikwad
Head - Legal & Company Secretary

IDFC FIRST Bank

Index

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2018-19 Key Numbers

Funded Assets
₹1,10,400 Cr.

Retail Assets/ Total Funded Assets
37%

Net Worth
₹18,159 Cr.
(standalone)

CASA Ratio
12.9%
(as % of Total Deposits)

Capital Adequacy Ratio
15.5%

GNPA
2.4%

No. of live customers
7.3 MILLION

No. of branches
242

NNPA
1.3%

Our Vision

We want to create the world's best bank, right here in India, for aspiring Consumers and Entrepreneurs.

Mission

We want to touch the lives of millions of Indians in a positive way by providing high-quality banking products and services to them, with particular focus on aspiring consumers and entrepreneurs of our new India, using contemporary technologies.

Values

Our Cultural Tenets to guide every action we take:

Innovative
We constantly strive to innovate in the customer interest.

Collaborative
We develop, maintain and strengthen relationships with both internal and external stakeholders.

Empowered
We trust our employees' ability to be successful, especially at challenging new tasks; delegating responsibility and authority.

Customer Focussed
We put the customer's interest first by putting ourselves in the customers' situations and viewing things from their perspective.

Decisive
We exercise best judgement by making sound and well-informed decisions.

Action-Oriented
We consistently demonstrate focus, initiative and energy to deliver our promise of delighting customers.

A New **Bank**

Growth is real only when it is sustainable and serves the long-term interest of stakeholders.

An aspiration for accelerated and sustained growth paved the way for the merger of erstwhile IDFC Bank Ltd and erstwhile Capital First Ltd on December 18, 2018. Thus, a new bank with a new DNA was born – IDFC FIRST Bank.

The merger is a milestone in the history of the two institutions and marks the end of one journey and beginning of a new one.

Renewed focus on retail

IDFC FIRST Bank is born to be distinctly different from what it was earlier. It has a renewed focus on retail business with an intent to fast-forward its growth trajectory, and to serve many more customer segments that are seen as growth-drivers of the Indian economy.

Our new bank fuses state-of-the-art technology and the superior liability platform of erstwhile IDFC Bank with analytics-led lending capabilities, the retail DNA and strong profitability track record of erstwhile Capital First. It enables both the institutions to expand capabilities and reach and to better serve customers.

Thus, the merger sets the stage for the creation of a financially and strategically stronger entity. IDFC FIRST Bank now has a strong funded asset base of more than ₹ 1,10,400 crore with 37% in the retail segment. Its quarterly annualised Net Interest Margin has expanded from 1.9% to 3.0% post merger. The Bank now enjoys a leading position in some of the retail asset segments.

The Bank's tech-driven liabilities platform is ready to grow exponentially with a new focus on expanding footprint across the nation. The combined customer base is now 7.3 million and growing, with a significant share of it in India's booming hinterland.

Customer-focussed & analytics-driven

As a Bank, our approach is to keep banking simple, easy to know and easy to understand. We enable people to save, borrow, invest, grow and protect their wealth. Our service is characterised by digitisation, personalisation and customer-centricity, in addition to extensive physical reach.

In addition to the exceptional strengths of erstwhile IDFC Bank, we derive the required expertise from the unique business model of erstwhile Capital First, which deploys its greenfield method of assessing credit risk – a strength that has enabled it to lend extensively to first-time borrowers and yet maintain a healthy asset quality that has withstood the challenges of economic cycles and policy changes.

We are a people's bank – for the salaried and self-employed, small businesses and micro-enterprises. With a specific emphasis on the underserved and first-time borrowers. The underserved segments are important to us. We also have the opportunity to bring these customers into the financial mainstream and touch their lives in a positive way.

Serving the new aspiring India

We believe an immense opportunity awaits us, as IDFC FIRST Bank starts to invest in customer-driven innovation that will create new liability products, new credit markets and new jobs – keeping in view the needs of a New India.

By financing the growth of business and consumption, we not only participate in the growth of the country but also generate employment for millions. This, we believe, will lead to greater domestic production, greater consumption and will contribute to the virtuous cycle of growth of the nation.

IDFC FIRST Bank is confident and ready to chart out its own destiny. It is now better positioned for growth in its business, deploy new digital channels, enter new markets and serve more customers.

It is now geared to seize tomorrow's opportunities, today.

Message from the Non-Executive Chairman

A landmark year

Dear Shareholders,

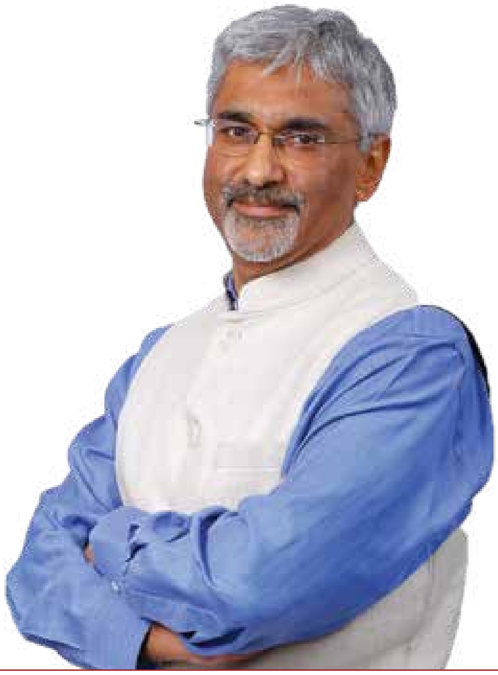
The fiscal year 2019 turned out to be an eventful year for the Indian economy and also for the banking sector. Economic growth faced some headwinds in the form of enhanced global protectionism, volatility in the global financial markets, as also some domestic issues such as weak consumption and decelerating private investment demand.

Domestic sentiment was also hit due to problems faced by the NBFC segment and uncertainties related to the elections. Consequently, GDP growth that was reported in the first quarter at 8%, fell off to 5.8% in the fourth quarter. However, full year growth was at 6.8%, and by that metric, India continued to be the world's fastest growing economy. As a result of the slowing growth momentum, inflation dipped through the year and opened up space for the RBI to reduce interest rates.

Despite a challenging year, the economy although weakening has remained resilient with the outlook looking positive into FY20. Importantly, uncertainties pertaining to elections are behind us and the majority mandate for the incumbent government provides hope for a faster pace of economic reforms in the coming years.

Provided the monsoons are about normal, one might expect some renewed buoyancy to consumption demand. That said, we must recognise that challenges do remain in the form of headwinds from slowing global economic growth and also problems that the NBFC sector in India has been going through.

It is encouraging to note that government and regulatory efforts to address the "twin balance sheet problem" of the financial sector as well the corporate sector continue. Within banking, the three-way amalgamation of public sector banks is a step in the right direction towards strengthening the sector.



> The merger with Capital First has been transformational for the Bank. It greatly accelerates the Bank's plans to retailise the book and bring profitability to the franchise. It is thus value accretive for all shareholders.

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

Our merger with Capital First was transformative because it brought together the exceptional and complimentary strengths of IDFC Bank and Capital First.

During the year, RBI has also sought to ease out the problems for the NBFC sector whereby it announced relaxation of liquidity norms for NBFCs and also permitted banks to lend to non-banking finance companies (NBFCs) facing asset-liability mismatches.

The other big development for the banking sector in FY19 was related to RBI's February 12 circular, which was a turning point for asset quality recognition. Under this circular, banks had to classify an asset as being in default if repayments were missed even by a day. This has now been replaced by a revised prudential framework for stressed asset resolution that allows banks 30 days to monitor the account and frame a plan, instead of mandatorily having to use the bankruptcy courts. The move provides some flexibility to banks in the resolution process for stressed assets while continuing to hold them to higher standards of financial discipline and corporate governance. Nevertheless, the progress under the Insolvency and Bankruptcy Code (IBC) continues to hold the key to timely resolution of stressed assets and a credit repayment culture.

A significant year for IDFC FIRST Bank

IDFC Bank launched operations on October 1, 2015, with 23 branches and a state-of-the-art digital platform. It was formally inaugurated by Prime Minister Shri Narendra Modi at 7 Race Course in New Delhi. Within 35 days of starting operations, IDFC Bank listed on the Bombay Stock Exchange and National Stock Exchange.

As part of our evolution, we wanted to be able to provide financial services to a larger segment of the population, diversify away from infrastructure and provide banking services in underbanked locations in the country.

With that in mind, IDFC Bank was founded by demerging the lending business of IDFC Ltd, with a view to transforming its business from infrastructure financing to a diversified universal bank.

As part of the demerger, the Bank inherited the large infrastructure book of its parent IDFC Ltd. In order to diversify the balance sheet, we took a call to build a retail banking franchise.

By FY19, the Bank had successfully expanded its reach to serve new customer segments both on the retail as well as the wholesale side of the business, and was well on course to build a sustainable banking franchise.

The Bank rolled out its retail businesses, both on the liabilities front as well as on the retail assets side and the business was growing well. The Bank built an integrated technology architecture for delivering digital-enabled banking services to our customers. In three years until September 2018, the Bank had raised ₹ 2,555 crore of retail CASA from over 4,00,000 customers and had acquired over 1.8 million MFI customers, including customers of Grama Vidiyal. Quite a remarkable achievement in such short timespan.

Message from the Non-Executive Chairman (Contd.)

Even so, it was recognised that since the bank was converted to a bank from a large infrastructure finance institution, the Net interest margins of the bank were low at 1.7%, and resulted in low profitability, thus impeding our ability to invest in business like retail. To build deep last-mile connectivity and work out technological solutions would take heavy capital expenditure in the initial years, an investment that would pay back only over time. Further, building real scale in a retail business with deep last-mile connectivity and a sustained competitive edge in a highly competitive environment would be an expensive and time-consuming proposition. Further, the pace of building a retail business has to be calibrated and tested to ensure resilience through business, economic and credit cycles.

In view of this it was deemed strategically vital for your Bank to expedite the building of retail assets and retail liabilities at scale through the inorganic route. We therefore actively looked out for a partner who had already achieved these capabilities as well as developed last-mile connectivity, scale and profitability and would be a perfect complement to the franchise we had launched.

In this context, we first successfully acquired and integrated Grama Vidyal in July 2016, one of southern India's largest micro finance companies. Next we proposed a merger with the Sriram Group in July 2017, including their transport finance and consumer finance businesses. But this merger was not pursued because of no agreement between the two parties on a swap ratio for combining the businesses. We then worked out a proposition for a merger with Capital First as it met all our strategic requirements and in fact turned out be a better cultural fit for the Bank. Capital First as a company had built tremendous intellectual property over eight years and had a large retail franchise with a strong return on equity, and continuously growing profitability (net profit for FY17-18 was ₹ 328 crore). In fact, the added bonus of pursuing a merger with Capital First was that we were also getting a strong leader with a terrific track record to take the institution forward.

Our merger with Capital First was transformative because it brought together the exceptional and complimentary strengths IDFC Bank and Capital First. IDFC Bank's assets and success included, among others, a banking platform, a superior technology platform, wholesale banking skills, and our newly launched retail business with a fast growing, differentiated and highly profitable rural lending franchise. In addition the Bank had Tier 1 capital of over ₹ 15,000 crore and a great reputation and respect in the marketplace for corporate governance, risk management, contribution to nation building through infrastructure, a loan book of over ₹ 70,000 crore, a micro-financing business acquired from Grama Vidyal, rural presence, and the team of committed employees. Capital First brought with it a strong and differentiated retail asset franchise, with over 7 million live-to-date customers of which 4 million are live customers. Its loan book, and most importantly seasoned over years, largely to small entrepreneurs and consumers, of ₹ 30,000 crore, was growing upwards of 25% per year, with an ROE in excess of 15%, and with profits growing at a 5-year CAGR of 55% (FY18 PAT grew by 37%). More importantly, the technologies

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developed by Capital First could serve customers hitherto underserved by the existing financial services system through unique credit models built by them. Such excellent intellectual property built over eight years at scale is hard to build and takes time, and got automatically transferred to the combined entity through the merger.

Such strong complementarity is hard to find between merging institutions. It is thus value accretive for all shareholders in the long run.

It has been an absolute pleasure to serve as Founder MD & CEO of erstwhile IDFC Bank for three years since its inception. Mr. Vaidyanathan, Founder & Chairman of erstwhile Capital First, who is now MD & CEO of IDFC FIRST Bank comes with an extraordinary track record of success in financial services. Mr. Vaidyanathan had earlier built ICICI Bank's retail banking business to great scale of ₹ 1,30,000 crore, built a large liability franchise with 1,419 branches, 4,713 ATMs, large Retail CASA and Retail Term Deposits for the bank, internet and mobile banking, and subsequently, in an entrepreneurial role, founded Capital First and took it to scale with a loan book of over ₹ 30,000 crore in underserved segments. I have no hesitation in endorsing him as the leader of IDFC FIRST Bank.

I have no doubt that the combined entity will be a strong institution and I am happy that I was able to lead the organisation to such scale with multiple businesses built over the last 15 years, navigate a complex transition from an infrastructure-only non-bank financier to a Bank that is now positioned successfully for future growth.

As my role transitions to Non-Executive Chairman of IDFC FIRST Bank, I would like to take a moment to thank you, our shareholders, for your continued support over the years.

Over the past three years, I have had the privilege of working with many talented, committed, and enthusiastic people who laid the foundations of this Bank. My sincere gratitude to all of them.

Sincerely

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

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Such strong complementarity is hard to find between merging institutions.

Message from the MD and CEO

A New Beginning

Dear fellow Shareholders,

It is my great privilege to write this letter to you all. As the first MD and CEO of the newly merged entity IDFC FIRST Bank, I wanted to share our thoughts about our approach going forward, our vision, mission, our founding theme and what we want to achieve.

Since this is my first note to you, I am also sharing with you what really happened behind-the-scenes at my end that led me here, and the sequence of events that culminated in the creation of IDFC FIRST Bank.

In 2004, RBI announced two new bank licences for Kotak Bank and Yes Bank. I was with my colleagues at ICICI Bank when the news broke and instinctively exclaimed to my colleagues "Let's go to the RBI and ask for a bank licence too!." I figured that it was an impractical idea for an individual to apply for a bank licence, yet the thought stayed.

A year later, I was inaugurating an MCHI Property exhibition, and one of the stalls we passed by was of a palmist. My friends from ICICI remind me to this date that I asked the palmist in jest "When will I get a bank licence"! Jest it might have been, but it did reveal a wish nevertheless. The following year, in 2006, I joined the ICICI Bank Board of Directors and such ideas went into cold storage only to come back a few years later in 2010.

The Plan: The issue was - how do I get started? So I came across a simple idea - start an NBFC where entry licence conditions are relatively easier, finance small entrepreneurs and new-to-credit customers, and, hope to succeed and approach RBI for a banking licence someday. Pursuing this theme, I came across an existing NBFC, so I decided to acquire a stake in it, and give the idea a go. It was a long shot but an exciting thought.

And whom would we lend to? Since I was heading retail banking, the idea was to build a bank doing just that - retail banking. Thousands of small entrepreneurs all around us (shopkeepers, kirana shops, auto mechanics, dentists etc.) could not avail credit from the formal financial system because of not filing income tax returns, but usually had a strong cash-flow or sound business model

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We plan to implant the erstwhile Capital First's tried and tested model of financing small entrepreneurs and consumers [a retail franchise, growing at 29% per annum and 5-year profit CAGR of 55%, (FY18 PAT grew by 37%)], on a bank platform, (IDFC Bank's strong branch network of 242 and growing, excellent technology stack, quality internet and mobile banking, and strong rural presence).

V. Vaidyanathan
Managing Director & CEO,
IDFC FIRST Bank Limited