

## A YEAR OF TRANSFORMATION

IDFC was India's first specialized infrastructure financing institution since its inception in 1997.

← Starting with a specific mandate to be a catalyst to lead the private sector to infrastructure development and build the nation, IDFC Limited ("IDFC") successfully led private capital flows into commercially viable infrastructure projects.

1

The Hon'ble High Court of Madras vide its order dated June 25, 2015 approved the Scheme of Arrangement between IDFC Limited (transferor) and IDFC Bank Limited (transferee).

↑

On fulfillment of all conditions specified under the Scheme and receipt of final universal banking license by IDFC Bank Limited from the Reserve Bank of India ("RBI"), IDFC completed the demerger of its Financing Undertaking into IDFC Bank Limited ("IDFC Bank"), which began operations on October 1, 2015.

In consideration, the shareholders of IDFC Limited, on the record date as determined by the Board were issued equity shares of IDFC Bank in the ratio of one equity share of IDFC Bank for every one equity share of IDFC held by them. IDFC, through its wholly owned subsidiary, IDFC Financial Holding Company Limited ("IDFC FHCL"), has invested ₹ 7,030.07 crore in IDFC Bank resulting in effective holding of 53% in IDFC Bank. In addition, IDFC FHCL also holds investments in all other regulated subsidiaries. i.e. IDFC Alternatives Limited, IDFC Asset Management Company Limited, IDFC Securities Limited, IDFC Infra Debt Fund Limited, IDFC AMC Trustee Company Limited and IDFC Trustee Company Limited.

## MANAGEMENT DISCUSSION & ANALYSIS

**2**  
In the first six months of FY16, IDFC operated as an NBFC—Infrastructure Finance Company;

← its businesses included Project Finance, Fixed Income & Treasury, Public Markets Asset Management carried through its subsidiary IDFC Asset Management Company Limited, Investment Banking & Broking carried through its subsidiary IDFC Securities Limited, Infrastructure Debt Fund carried through its subsidiary IDFC Infra Debt Fund Limited and Alternative Asset Management carried through IDFC Alternatives Limited.

**3**  
In the second six months of FY16, IDFC operated as investment NBFC Company

← its businesses included Banking business carried through its subsidiary IDFC Bank Limited, Public Markets Asset Management carried through its subsidiary IDFC Asset Management Company Limited, Institutional Broking carried through its subsidiary IDFC Securities Limited, Infrastructure Debt Fund carried through its subsidiary IDFC Infra Debt Fund Limited and Alternative Asset Management carried through IDFC Alternatives Limited.

**4**  
IDFC Bank started operations on October 1, 2015.

↑  
The bank was formally inaugurated by Hon'ble Prime Minister Shri Narendra Modi at a ceremony in New Delhi on October 19, 2015. Union Minister of Finance, Corporate Affairs, and Information & Broadcasting, Shri Arun Jaitley and Minister of State for Finance Shri Jayant Sinha, were also present at the launch.

**5**  
IDFC Bank listed on BSE & NSE on November 6, 2015.

## MACROECONOMIC ENVIRONMENT

Even as global economic conditions remained fragile and uncertain; India's macro economy exhibited stability, helped by the sharp declines in global oil and commodity prices. Growth-inflation dynamics showed an improvement while Current Account and Fiscal Deficits remained contained. For FY17, the Government also maintained its fiscal consolidation path by announcing a target of 3.5% of FD / GDP, while keeping up its focus of providing a push to the infrastructure spending—mostly the roads and the railway sectors. The investment push from the Government remains relevant as there are limited hopes of any immediate turnaround in the investment activity of the private sector. Despite weak global growth conditions, India is estimated to have grown at 7.6% in FY16, the highest growth registered by any country in FY16.

## GROWTH—INFLATION DYNAMICS GET BETTER

Central Statistical Organisation (“CSO”) has put the advance estimate for real GDP growth in FY16 at 7.6%, higher than 7.2% in FY15. However, in nominal terms GDP decelerated to 8.6% in FY16 from 10.8% in FY15 due to deflationary pressures. On the production side,

**Despite weak global growth conditions, India is estimated to have grown at 7.6% in FY16, the highest growth registered by any country in 2016.**

growth in FY16 was led by agriculture (Gross Value Added in agriculture increased by 1.1% while for industry it increased by 7.3%). Rural demand remained poor as rural wage growth was low, agricultural income suffered due to two consecutive years of poor

monsoon and minimum support prices (“MSP”) increases were muted. For the services sector, GVA growth decelerated to 9.2% in FY16 compared to 10.3% in FY15 with lower government expenditures and lower growth in trade, hotels, transport, communication and financial, real estate and business services segments.

In April–February 2015–16 fiscal, industrial production was flat with manufacturing growth averaging at 2.5% (2.3% in same period last year). The drag came from lacklustre investment demand from the private sector, reflected by capital goods production continuing to exhibit negative growth of (-)0.9%. Further, a modest 3.6% growth in consumer goods production in April–February 2015–16 reflected sluggish consumption demand, expectedly from rural India which was affected by low income growth. Notably, consumer durables production bucked the trend with a relatively robust growth of 12.3% in the April–February period, reflecting more robust demand in urban markets, fuelled in part by rapid growth in consumer debt. Personal loans from the banking sector grew on average by 17% in the period under review. This was in sharp contrast with bank lending to industry which grew by a meagre 5.7% in April–February 2015–16.

Headline Consumer Price Index (“CPI”) inflation remained more or less contained in FY16, averaging at 4.9% (6% in FY15). Favourable base effects even led to a drop in headline CPI inflation in July and August 2015 to sub 4% levels. As the base effect waned, CPI inflation rose till January 2016 before easing off again to end in March 2016 at 4.8%. Even as headline CPI inflation fell, inflation persisted on the services side such as in areas of “Household goods and services”, “Healthcare”, “Education” and “Recreation and Amusement”. Core CPI inflation averaged at 4.5% in FY16 (5.6% in FY15) with the drop coming from

PARTICULARS	FY16	FY15	% CHANGE
<b>OPERATING INCOME</b>	<b>3,248</b>	<b>4,064</b>	<b>-20%</b>
<b>NET INTEREST INCOME (NII)</b>	<b>2,099</b>	<b>2,633</b>	<b>-20%</b>
<b>NON-INTEREST INCOME</b>	<b>1,133</b>	<b>1,323</b>	<b>-14%</b>
Principal Gains and Carry	267	556	-52%
Asset Management Fees	449	440	2%
Investment Banking & Broking	72	80	-10%
Fixed Income (Trading Profits & Fees)	239	179	34%
Loan Related Fees	106	68	56%
<b>Other Income</b>	<b>16</b>	<b>108</b>	<b>-85%</b>
<b>OPERATING EXPENSES</b>	<b>1,242</b>	<b>704</b>	<b>76%</b>
HR	644	388	66%
Non-HR	598	316	89%
<b>PRE-PROV OP PROFIT (PPOP)</b>	<b>2,006</b>	<b>3,360</b>	<b>-40%</b>
<b>Provisions</b>	<b>327</b>	<b>1,014</b>	<b>-68%</b>
<b>Profit before Tax and before Exceptional Items</b>	<b>1,679</b>	<b>2,346</b>	<b>-28%</b>
Exceptional item	(2,639)	-	
Tax	(368)	596	161%
Minority Interest, Associated Companies PAT	343	43	698%
<b>PROFIT AFTER TAX</b>	<b>(935)</b>	<b>1,707</b>	

“Transport and Communication” that incorporates reductions in petrol and diesel prices. Food inflation witnessed some swings in FY16 with volatility in price of pulses and vegetables. Headline Wholesale Price Index (“WPI”) inflation remained in the negative zone through FY16, averaging at (-)2.5% (2.1% in FY15).

Principally, the drag came from the “Fuel and Power” group where inflation averaged at (-)11.5% compared to (-)0.6% average in FY15.

### EXTERNAL ACCOUNTS AND CURRENCY DYNAMICS

Current Account Deficit (“CAD”) remained comfortable as a significant drop in global crude oil prices helped contract imports. From 4.7% in FY13, CAD /GDP fell to 1.7% in FY14 and further to 1.4% in FY15. In the April-December period of FY16, CAD was comfortable at \$ 22 billion (1.4% of GDP) compared to \$ 26.2 billion (1.7% of GDP in the corresponding period of FY15). While oil imports had totalled

\$ 117 billion in the nine month period ended December of FY15, the same was at \$ 71.7 billion in the same period in FY16.

However, CAD correction was muted by a fall in the exports, reflecting a general slump in global trade. On a Balance of Payment (“BoP”) basis, exports totalled \$ 245 billion in April-December period of FY15 compared to \$ 200.5 billion in the same period in FY16. Accretion of invisible receipts in the first nine months of FY16 dropped to \$ 83.6 billion against \$ 87.2 billion in the same period of previous fiscal. Even as CAD was comfortable, the BoP position deteriorated in the April-December period of FY16. This was primarily due to significantly weaker capital flows at US\$ 37.8 billion in the first nine months of FY16 compared to US\$ 59.3 billion in the same period last year, with the drag mainly coming from much lower Foreign Portfolio flows.

Broadly, USD / INR maintained a depreciating trend through FY16

on account of fears of US monetary policy normalisation and other global risk-aversion sentiments (such as devaluation of the Chinese RMB and a large sell-off in the Chinese equity markets). Domestically, weaker export growth and also lower portfolio flows impacted the USD / INR trends. USD / INR was at around 62.19 in the beginning of the year, traded at its weakest at 68.71 closer to end—February 2016, before finally ending the FY16 at 66.25. Thus, over the year, USD / INR witnessed a depreciation of around 6.5%.

### FINANCIAL PERFORMANCE— IDFC CONSOLIDATED FINANCIALS

Table 01 gives the consolidated profit and loss account.

Net Interest Income reduced from ₹ 2,633 crore in FY15 to ₹ 2,099 crore in FY16 on account of reduction in loan book from ₹ 54,746 crore in FY15

to ₹ 50,869 crore in FY16 and also on account of not recognising interest income on identified advances, unless realised.

Non-Interest Income reduced on account of lower principal gains and carry in FY16 at ₹ 267 crore as compared to ₹ 556 crore in FY15. This was partly compensated by increase in treasury trading gains and higher loan related fees.

As a result, Profit Before Tax and before exceptional item was lower by 28% at ₹ 1,679 crore in FY16 as compared to ₹ 2,346 crore in FY15.

Minority Interest was higher at ₹ 343 crore in FY16 as compared to ₹ 43 crore in FY15 as 47% of IDFC Bank equity is now directly held by public shareholders upon demerger of Financing Undertaking.

Exceptional Item: The Company with approval from its Board and RBI has created one time provision of ₹ 2,500 crore on identified stressed advances in addition to non-performing assets. These include advances that have been restructured and a conservative estimate of other stressed infrastructure advances. The provisions made against such

### **IDFC Bank's vision is to deliver banking anytime, anywhere at scale, by using technology to relentlessly drive efficiency and set new standards of customer experience and convenience.**

advances are in excess of minimum regulatory provisions required. This one time provision along with reversal of unrealized interest amounting to ₹ 139 crore have been disclosed as exceptional item. The details of Consolidated Financial are given in **Table 01**.

### **DEMERGER OF FINANCING UNDERTAKING**

Before demerger, IDFC was regulated by the RBI as an Infrastructure Finance Company - Non Banking Finance Company ("IFC-NBFC") engaged in financing infrastructure projects in sectors like energy, telecommunication, transportation, commercial and industrial projects including hospital, education, tourism and hotels. The Company received an In-principle approval from the RBI to set up a new private sector bank in April 2014.

Pursuant to the approval of the scheme of Arrangement under section 391-394 of the Companies Act, 1956, between IDFC and IDFC Bank and their respective Shareholders and Creditors by the Hon'ble High Court of Madras vide its order dated June 25, 2015 and on fulfillment of all conditions specified under the scheme and final Banking License, the Financing Undertaking was demerged into IDFC Bank on October 1, 2015.

The Financing Undertaking as defined under the Scheme of Arrangement included lending and financing business undertaking of IDFC including project finance (fund based and non-fund based), fixed income and treasury. Financing Undertaking comprises of all outstanding loans and deposits, borrowings, investments, current assets, sundry debtors, all debts, liabilities including contingent liabilities, licenses, approvals, tax credit, properties—movable and immovable, plant and

machinery, furniture and fixtures, office equipment, software and licenses, insurance, policies, all contracts, agreements, collateral, Long Term Infrastructure Bonds, all staff and employees employed in connection with Financing Undertaking. From October 1, 2015 the company is operating as NBFC-Investment

Company. Post demerger of Financing Undertaking into IDFC Bank, IDFC owns approximately 53% of IDFC Bank and the rest belongs to minority shareholders. Accordingly, the results for the year ended March 31, 2016 are strictly not comparable with corresponding previous year.

### **CONSOLIDATED BALANCE SHEET**

**Table 02** summarises IDFC's consolidated Balance Sheet as at March 31, 2016

Reduction in shareholders' funds from ₹ 17,275 crore on March 31, 2015 to ₹ 10,103 crore on March 31, 2016 is on account of (i) loss of ₹ 935 crore due to higher provisioning and (ii) Increase in minority interest from ₹ 44 crore to ₹ 6,635 crore mainly on account of demerger of Financing Undertaking in IDFC Bank resulting in 47% of Bank's equity shares directly held by public shareholders. The details of Consolidated Balance Sheet are given in **Table 02**.

### **IDFC BANK**

Our vision for IDFC Bank is to transform it into a mass retail bank in 5 years. We will do this by delivering banking anytime, anywhere at scale by using technology to relentlessly drive efficiency and set new standards of customer experience and convenience.

The aim is to build an institution that stands the test of time, an institution that is committed to serving all stakeholders, including our customers, community, country and colleagues, not just shareholders.

IDFC Bank will be a private corporation with a public purpose. In doing so, it will focus on particularly serving rural underserved communities and the self-employed, while continuing to support the country's infrastructure sector.

The bank was formally inaugurated by Hon'ble Prime Minister Shri Narendra Modi at a ceremony in

PARTICULARS	MARCH 31, 2016	MARCH 31, 2015
Shareholders' Funds	10,103	17,275
Minority Interest	6,635	44
Borrowings	56,503	66,252
Other Liabilities	4,382	3,498
<b>TOTAL LIABILITIES</b>	<b>77,623</b>	<b>87,069</b>
Gross Loans	50,869	54,746
Less: Provisions	3,968	2,319
Net Loans	46,901	52,427
Cash & Bank balances	2,947	211
Treasury	19,658	27,651
Equity	2,346	3,141
Other Assets	5,764	3,639
<b>TOTAL ASSETS</b>	<b>77,623</b>	<b>87,069</b>

New Delhi on October 19, 2015. Union Minister of Finance, Corporate Affairs, and Information & Broadcasting, Shri Arun Jaitley and Minister of State for Finance Shri Jayant Sinha, were also present at the launch. It started business on October 1, 2015, amid a relatively challenging business and economic environment.

Notwithstanding these tough conditions, IDFC Bank had a profitable first quarter. It listed on the National Stock Exchange and Bombay Stock Exchange within 35 days of starting operations. The listing underlined the transparency the bank intended to bring to its shareholders.

Products and services were rolled out on October 1, both on the wholesale as well as retail side, true to the concept of a universal bank. IDFC has thus successfully transitioned from being the country's leading integrated infrastructure development institution to a full-service bank.

IDFC Bank has taken on the challenge of reimagining banking in India, inspired by the sweeping changes in the industry and motivated by the unmet demands of the urban consumer and India's underserved hinterland. It has customized offerings for segments that were hitherto excluded from the banking fold, for

example, professionals, self-employed, marginal farmers and the masses at the bottom of the pyramid.

IDFC Bank's key proposition is simplicity and service, made possible through digitization and innovation. It's placed huge emphasis on technology as well as customer engagement to ensure we build a bank that is intuitive and thoughtful.

Given its focus on technology, service and innovation, it is well positioned to take advantage of the trends that characterize the banking landscape today. Besides building a payment infrastructure, IDFC Bank will optimize use of data analytics on the asset side. The bank is also committed to playing a major role in expanding financial savings in the country and reaching out to new customer segments.

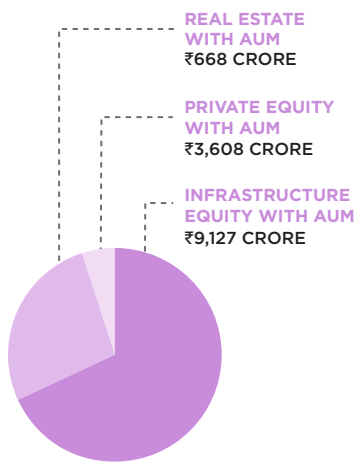
At the core of its offering, is end-to-end digitization, backed by state-of-the-art integrated technology systems. Human intervention and tedious procedures are thus kept to the minimal. What it means for the customer is a dramatic increase in convenience, shorter turnaround time and paperless banking. In doing so, the objective is to introduce a new way to bank.

**BOX A**  
**PERFORMANCE OF ALTERNATIVE ASSET MANAGEMENT FY16**

**ASSETS UNDER MANAGEMENT**  
 as on March 31, 2016

**₹13,403 CRORE**

This Is Split Between:



**OPERATING INCOME**

**₹136 CRORE**

**PROFIT BEFORE TAX**

**₹22 CRORE**

**PROFIT AFTER TAX**

**₹10 CRORE**

IDFC Bank's businesses are split into three parts—Commercial & Wholesale Banking, Bharat Banking and Consumer Banking.

**COMMERCIAL & WHOLESALE BANKING**

Large corporates are spoilt for choice. Smaller firms are still relatively under banked. True to its vision of serving all stakeholders, IDFC Bank has identified Commercial Banking as a key growth area. As the bank builds its franchise, it aims to be the 'Bank of Choice' for Commercial Banking clients.

IDFC Bank's Commercial Banking business comprises the Middle Market Group & the Small & Medium Enterprises Group.

IDFC Bank's Wholesale Banking business caters to the needs of large corporate customers.

In this space, IDFC Bank will continue to build on its core strength of serving the needs of the infrastructure sector. The aim is to now supplement our traditional term lending and project finance expertise with the full range of banking products & solutions of existing infrastructure clients. Additionally, there is now an opportunity to expand presence in non-infrastructure segments.

During the year, the Wholesale Banking business made significant strides by building on the already established reputation as a corporate bank by introducing the full range of banking solutions, backed up innovative technology.

The Bank's Treasury carries out Financial Markets business for its clients apart from managing Asset liability gaps (ALM function) and Investments of the Bank. For its clients, the Financial Markets group provides solutions to meet (a) their interest rates & foreign exchange conversion and risk hedging needs and (b) their debt capital markets financing needs. Treasury manages asset-liability mismatches and interest rate sensitivities of the Bank's portfolio by utilizing various

market investments, money markets and permitted derivative products. It also ensures that the Bank meets its regulatory requirements on CRR and Statutory Liquidity Ratio ('SLR') through efficient liquidity management and sovereign bonds position management.

Another key area of opportunity was the DCM segment, where the Bank leveraged its well-established presence in bond markets to grow the DCM business. The DCM business has been credited with putting together some unique bond offering solutions which have been accepted by both our issuer clients and the wholesale bond investors' community.

**BHARAT BANKING**

IDFC Bank is the first universal bank in India to adopt a differentiated service strategy for catering to people in rural and semi-urban locations, through intensive use of technology. The goal of Bharat Banking is to deliver banking anywhere, anytime in a simple, 'no-nonsense' way. Its concept involves creating hub branches with an ecosystem of access points and an ambulatory sales force. This unique distribution model is intended to substantially increase financial access in India's vast hinterland.

**CONSUMER BANKING**

IDFC Bank has reimagined Consumer Banking with a huge emphasis on convenience and is intended to set a new standard in customer experience. It includes Personal Banking and Business Banking to cater to the needs of individuals and entrepreneurs and small businesses respectively.

The goal of the Consumer Bank is to deliver accessibility, but with fewer branches. Its key aspects include an easy-to-use digital platform, doorstep service and 'Banker on Call'. In the first phase, the Consumer Bank will concentrate on building a presence in India's top 8-15 cities.

The bank had endeavoured to focus on providing complete solutions for

various segments of customer, rather than just products. Customization is the key feature of the product suite.

Integrated technology enables the bank to obtain a better understanding of customer needs, and thereby build intuitiveness in the system. It also facilitates a multichannel experience—for a customer this means uninterrupted transacting across all touch points. These features make banking effortless and personalized, anytime and from anywhere.

The Consumer Bank launched its first branch October 1, 2015, at BKC, Mumbai. It was open to all staff and enabled the bank to intensively test all systems, processes and transaction types. Since then, the bank has established branches at key locations in Mumbai, Delhi, Bengaluru, Ahmedabad and Chennai.

## ALTERNATIVE ASSET MANAGEMENT

IDFC Alternatives Limited is one of the largest multi-asset class fund managers in India active across the following three asset classes:

- a. Infrastructure Equity which primarily focuses on acquiring controlling stakes in operating assets across energy, transportation, telecom and other infrastructure projects to create value through regular yields and capital appreciation.
- b. Private Equity which focuses on providing growth equity capital mainly in healthcare & education, food & agri-businesses, telecom services and consumption products and services with the objective of creating value through capital appreciation.
- c. Real Estate which focuses on investing in residential and commercial assets through equity and debt strategies.

IDFC Alternatives Limited mobilises funds from large global and domestic investors for investment in each of the three asset classes, and exits such

investments at appropriate times to generate returns for its investors. It generates returns for IDFC through three revenue streams:

- i. asset management fees,
- ii. investment returns on the Company's funds that are invested as promoter contribution in each fund raised and managed by IDFC Alternatives, and
- iii. IDFC's share of the 'carry' income generated from funds managed by it.

## PERFORMANCE OF ALTERNATIVE ASSET MANAGEMENT, FY2016

Refer to Box A.

## PUBLIC MARKETS ASSET MANAGEMENT

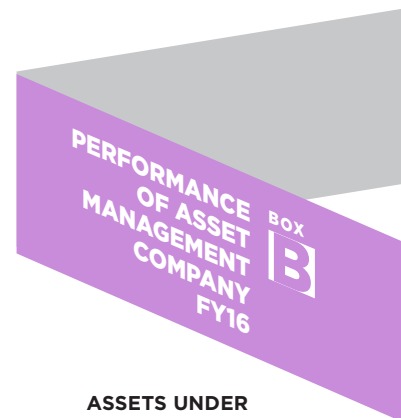
This is IDFC's mutual funds business and investment advisory business, which operates through the IDFC Asset Management Company Limited ("IDFC AMC"). IDFC holds 75% stake in IDFC AMC, with the balance stake of 25% plus one share being held by Natixis Global Asset Management, an international asset management group based out of France. IDFC AMC manages different mutual fund products for institutional and retail investors and income is generated through asset management fees. The focus is on investment performance and growing the AUM by offering suitable products keeping investor interest as priority and channelling retail and corporate savings into India's debt and equity markets.

## PERFORMANCE OF PUBLIC MARKETS ASSET MANAGEMENT, FY2016

Refer to Box B.

## INSTITUTIONAL EQUITIES BROKING (IDFC SECURITIES)

IDFC Securities Limited provides equity research and institutional equity broking services to leading foreign and domestic financial



### ASSETS UNDER MANAGEMENT

as on March 31, 2016

**₹55,624**  
CRORE

(Debt funds comprised 75% of AUM and Equity funds comprised 25%):

### REVENUE

**₹326** CRORE

### PROFIT BEFORE TAX

**₹163** CRORE

### PROFIT AFTER TAX

**₹110** CRORE



**BOX C**  
**PERFORMANCE OF INSTITUTIONAL EQUITIES BROKING FY16**

**TOTAL INCOME**

**₹87 CRORE**

**PROFIT BEFORE TAX**

**₹23 CRORE**

**PROFIT AFTER TAX**

**₹15 CRORE**

institutions and funds investing in Indian equity markets. A research team of experienced and dedicated sector experts ensures the flow of stock ideas and portfolio strategies. Our coverage spans various growth sectors:

Agriculture, Automotive, Consumer Goods, Technology, Financials, FMCG, Industrial, Infrastructure, IT Services, Media, Oil & Gas, Metals & Mining, Pharmaceuticals & Healthcare, Power, Real Estate, Telecom amongst others.

We are empanelled with over 1,800 entities/funds across geographies, which include major FIIs, Insurance companies, Mutual Funds, Hedge Funds, Private Equity Funds and Banks. We are valued for our knowledge-led investment strategies, superior client servicing and exceptional deal execution skills.

**PERFORMANCE OF INSTITUTIONAL EQUITIES BROKING, FY16**

Refer to **Box C**.

**INFRASTRUCTURE DEBT FUND (IDF) NBFC**

IDFC Infra Debt Fund Limited ("IDFC IDF") commenced business operations in January 2015 as a new infrastructure financing NBFC as per the RBI guidelines. IDFC IDF's business involves financing operating infrastructure projects that have completed at least one-year post construction. IDF is a tax-exempt entity. In March 2016, Housing Development Finance Corporation Limited ("HDFC") and SBI Life Insurance Company Limited ("SBI Life") invested in IDFC IDF. As on date, total equity share capital of IDFC IDF is ₹ 540 crore, subscribed by IDFC FHCL (81.48%), HDFC (11.11%) and SBI Life (7.41%).

IDFC IDF is rated "AAA" by the credit rating agencies ICRA and CARE.

As on March 31, 2016, IDFC IDF has an asset book of ₹1202 crore across diversified sectors in the infrastructure space including PPP and Non PPP Projects.

IDFC IDF raises resources through issue of bonds of minimum five year maturity. IDFC IDF has been recently also allowed to raise funds through shorter tenor bonds and commercial papers from domestic market to the extent of up to 10 percent of its total outstanding borrowings.

**PERFORMANCE OF INFRASTRUCTURE DEBT FUND, FY16**

Refer to **Box D**.

**RISK MANAGEMENT**

IDFC is a holding company for its various businesses, which in turn have a robust risk management practice that enables them to book, manage and mitigate risks across various businesses. A comprehensive Enterprise Risk Management ("ERM") framework has been adopted across all entities in the group and covers all three types of risks—credit, market and operational risks.

**CREDIT RISK MANAGEMENT**

IDFC is the holding company with no direct lending operations. The lending business is carried out by two subsidiaries viz., IDFC Bank and IDFC IDF. These entities have Credit Risk Policy and Delegation of Authority approved by their respective Boards. The lending business is done with adherence to these Board approved documents.

**IDFC BANK LIMITED**

IDFC Bank operates within an effective risk management framework to actively manage all the material risks faced by the bank, in a manner consistent with the Bank's risk appetite. The IDFC Bank Board ("the Board") has the ultimate responsibility for the bank's risk management framework. The Board is principally responsible for approving the Bank's risk appetite, risk tolerance and related strategies and policies. To ensure the bank has a sound

system of risk management and internal controls in place, the Board has established Risk Management Committee ("RMC") of the Board. The RMC assists the Board in relation to the oversight and review of the Bank's risk management principles and policies, strategies, appetite, processes and controls. The Bank's independent risk function is headed by the Chief Risk Officer ("CRO"). The CRO presents a risk review report, which encompasses all significant aspects of the risks in the Bank as well as the mitigating measures, to the RMC on a quarterly basis.

The bank's credit risk is controlled and governed by the Credit Risk Management Policy that is approved by the Board. The Credit Risk group has been established to independently evaluate all proposals to estimate the various risks and their appropriate pricing, as well as their mitigation. After vetting of terms and conditions and credit rating from the Credit Risk group, each proposal is considered for approval as per delegated authority as approved by the Board.

There is an independent Portfolio Analytics Unit that is responsible for execution of portfolio risk management activities including concentration risk monitoring, stress testing, early warning signal monitoring as well as supporting the Credit Risk for any portfolio / industry related data inputs.

#### **IDFC IDF**

IDFC IDF operates within a well-defined IDF-NBFC framework, which allows the Company to provide financial assistance only to operational infrastructure projects, which have completed at least one year of successful commercial operations post construction. The Company has established a robust risk management practice that enables it to book, manage and mitigate risks for its business. For Public Private Partnership ("PPP") projects awarded

by a Project Authority, the Company enters into a tripartite agreement with the Project Authority for ensuring compulsory buyout of entire dues of IDF in the event of termination. For PPP and non-PPP projects without a Project Authority, the Company has put in place tighter risk management controls.

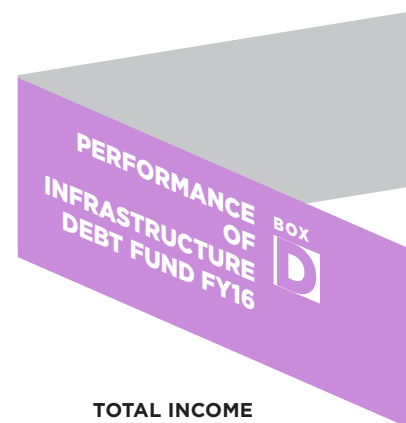
The risk function is headed by a Senior Director, reporting to the Chief Executive Officer.

The risk team independently evaluates all proposals to estimate the various risks and their appropriate pricing, as well as their mitigation. After approval of terms and conditions and credit rating from the team, each proposal is considered by a Decision Board, which consists of members of senior management. Thereafter, the recommended cases are sent for final sanction to the Credit Committee, a sub-committee of the Board of Directors.

The team also monitors the performance and compliance of covenants for all project assets. Regular comprehensive reviews of all project assets are conducted. The portfolio report is reviewed by the senior management on a periodic basis.

#### **MARKET RISK MANAGEMENT**

IDFC is the holding Company with no significant market risk. Market risk governance frameworks exist in subsidiaries exposed to market risk. The Group has set up a robust Market Risk management process, which sets out the broad guidelines for managing Market Risk that the Group is exposed to. Management of market risk encompasses risk identification, measurement, setting up of limits, monitoring and control. The Market Risk management process at the Group ensures that the products that are exposed to market risk are within the risk appetite laid down by the Board. The Board approved risk appetite is monitored and reported as per the guidelines



#### **TOTAL INCOME**

**₹75 CRORE**

#### **PROFIT BEFORE TAX**

**₹37 CRORE**

#### **PROFIT AFTER TAX**

**₹37 CRORE**

laid down from time to time. The market risk objective, framework and architecture along with the functions of market risk are detailed in the Board approved Policies. The Market Risk group monitors risks on account of interest rate, liquidity, currency and equity price in the Trading Book as well as Banking Book. Several models and their tools are used to support the continuous monitoring of 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 Asset Liability Management Committee ("ALCO") supervises the ALM process and reviews the asset liability mismatch reports on a regular basis. These ALM reports are presented to the Board on a periodic basis.

#### **OPERATIONAL RISK MANAGEMENT**

IDFC is the holding company of IDFC group companies with no direct business operations. Operational Risk governance structure is in place in subsidiary companies as detailed below.

IDFC Bank, the largest subsidiary in the group, has put in place Board approved governance and organizational structure that specifies roles and responsibilities of employees, Business and Shared Service Units, Operational Risk Management Department and other stakeholders towards operational risk management. Committee comprising of senior management personnel namely 'Operational Risk & InfoSec Risk Management Committee' is responsible for overseeing implementation of Board approved Operational Risk Management Framework.

Other IDFC Group Operating companies viz. IDFC Alternatives, IDFC Securities, IDFC AMC, IDFC IDF and IDFC Foundation have dedicated

Business Operational Risk Managers who manage their operational risks through their respective 'Business Operational Risk Committees ("BORC")'. BORCs comprising of senior management personnel from respective entities is responsible for overseeing Operational Risk Management. Individual Business Operational Risk Managers are guided by IDFC Bank's Enterprise Risk Management Department."

#### **INTERNAL CONTROLS AND THEIR ADEQUACY**

The Company has a proper and adequate system of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition and that the transactions are authorised, recorded and reported correctly. Such internal controls are supplemented by an extensive programme of internal audits, review by management and documented policies, guidelines and procedures. These are designed to ensure that financial and other records are reliable for preparing financial information and other reports and for maintaining regular accountability of the Company's assets. The internal auditors present their report on a quarterly basis to the Audit Committee of the Board.

#### **HUMAN RESOURCES**

IDFC Group's People Agenda is guided by five themes—culture, diversity, learning, sense of community and people orientation. These are the key underlying philosophies that IDFC follows in acquiring, managing and nurturing talent. We believe that putting these into play, will consolidate, reinforce and build a winning organization and motivate our people to transform for the better.

#### **Culture tops our People Agenda**

It is central to our recruitment strategy. We have used sophisticated assessment processes, psychometrics

tests and third party assessments for sensitive and senior level hires, to ensure that employees are aligned with the articulated culture of IDFC. The Organization's values and external value proposition built around service is embedded in every new hire.

#### **An organization that is truly diverse and inclusive**

We believe that gender diversity at workplace brings in greater transparency and empowerment. A healthy mix of talent will inspire efficient and encouraging work practices. We are therefore, driving a lot of initiatives aimed at making the organization an attractive workplace for women.

#### **Driving a Learning culture is a key aspect of our People Agenda**

The Learning theme ensures that the entire organization is motivated to think differently. Each employee is trained to deliver a differentiated client experience through advanced and sophisticated training sessions.

#### **Replacing process orientation with people orientation—turning the traditional mind set on its head**

The entire design framework of employee facing processes and systems is designed around the thought of employee experience, how it can be improved and how an employee is delighted with the interface. This has meant a change in the mind set from what's convenient for the company to what's convenient for the employee. Routine HR processes and data analysis are being digitized, thereby enabling the HR team to focus on the qualitative aspects of its function—such as employee engagement, experience and assessment. The same philosophy will be rolled out for performance management, compensation and benefits. Every facet of the employee lifecycle is being guided by this change in design philosophy.

### **Building a sense of community internally**

It's a theme that flows from the culture and values journey. We encourage employees to connect, collaborate and communicate—irrespective of where they are placed geographically. Regular town halls, informal team meetings and two-way interactions are encouraged on a continuous basis.

### **Employee Strength**

IDFC had employee strength of 2,776 as on March 31, 2016 including 2,405 employees in IDFC Bank.

### **INFORMATION TECHNOLOGY (IT)**

As IDFC transforms into a bank, the Technology team has played a pivotal role to ensure sustenance of the current infrastructure and at the same time initiate work towards becoming a bank. The technology landscape is set to change considerably given the need and the opportunity to build a digitally enabled bank. This moment provides a wonderful opportunity to merge the new age technology innovations with the age old business of banking.

Changing environment required the technology team to scale up and support as the number of employees went up considerably. From end-point devices to servers to network components; necessary enhancement were made to ensure smooth operations.

Several applications were enhanced with new features to enable businesses.

Support to IDFC Mutual Fund and securities businesses was improved considerably by our technology group aligning with the growth the businesses saw on their online, real-time critical operations.

Successful completion of surveillance audits ensured that we retained the ISO 27001 certification thereby completing about 9 years of living by this standard. Several internal and external audits were also conducted to

provide assurance to the stakeholders in respect of adequate IT security.

### **IDFC FOUNDATION INDIA RURAL DEVELOPMENT REPORT 2013 | 2014**

India Rural Development Report 2013|14 was released on September 14, 2015. The Report was prepared by IDFC Foundation, in collaboration with IDFC Rural Development Network Partners-Institute of Rural Development Anand ("IRMA"), Indira Gandhi Institute of Development Research Mumbai ("IGIDR") and Centre for Economic and Social Studies Hyderabad ("CESS") with contributions from researchers and experts.

The Report goes beyond studying regional disparities and constructs regional typologies in order to formulate policy. The Report also provides a comprehensive update on the state of rural development since the release of the first India Rural Development Report in 2013.

The Report will be an invaluable resource for policy-makers at the Centre and in the states, local bodies, non-government organizations and private corporations engaged with the rural sector. Students, scholars and researchers too will find it immensely useful.

### **CORPORATE SOCIAL RESPONSIBILITY**

Social engagement and community development has been a way of life at IDFC. Corporate Social Responsibility ("CSR") is a key element of our bank's philosophy. Initiatives to benefit local communities are carefully woven into the fabric of our business. These initiatives are carried out through IDFC Foundation, a not-for-profit organization, dedicated to bringing about change at the grass root level.

Dedicated initiatives include focused interventions in the areas of health, education and livelihood -

envisaged to build trust in the communities we serve.

To engage with the local communities, IDFC Foundation in conjunction with the bank has identified requirements such as digital education for children, vision care, and cattle care for livelihood enhancement.

Some recent initiatives include:

### **NAYANTARA—VISION CARE**

A 2001 survey estimated a prevalence of 10.8% in India, while the global prevalence of blindness is 0.7%. We decided to focus on reducing preventable blindness in rural India. To improve access to good quality eye care by qualified medical professionals, IDFC Foundation, in partnership with Seva Sadan Eye Hospital Trust in Bhopal has launched "Nayantara" - a programme to provide free diagnosis and vision care in all districts, we serve as a bank.

### **DIGISHALA—DIGITAL EDUCATION IN SCHOOLS**

In the first month of the bank's operations, IDFC Foundation initiated a pilot project for promoting digital literacy amongst school students in Hoshangabad district of Madhya Pradesh in partnership with Pratham InfoTech Foundation ("PIF"), a non-profit organisation. The 3-year project has been successfully rolled out in 18 government schools, impacting over 7000 children.

Aside from digital education, IDFC Foundation also focuses on need-based interventions. For example, two schools in Sangakheda, MP, have been adopted for upgrading physical infrastructure, thereby helping the village in its aim to become a model village under the government's Pradhan Mantri Aadarsh Gram Yojna.

### **CATTLE CARE PROJECT—SHWETDHARA**

Shwethdharma is an initiative set up with the objective of helping small and marginal farmers improve their income from dairy development activities. Such

## **IDFC Foundation has been supporting Masoom, an organization working towards improving education in night schools of Mumbai through a 'Night School Transformation Program'.**

healthcare interventions are carried out at permanent cattle care centres exclusively set up for the purpose, equipped with a para-vet who cover the villages nearby, treat cattle, provide vaccination and medical care for cattle. In areas not covered by cattle care centres, the Foundation organises regular cattle care camps throughout the year. IDFC Foundation has partnered with one of India's premier animal husbandry organizations, J K Trust, for delivering this programme.

### **NIGHT SCHOOL TRANSFORMATION IN MUMBAI WITH MASOOM**

IDFC Foundation has been supporting Masoom, an organization working towards improving education in night schools of Mumbai through a 'Night School Transformation Program'. The grant extended by IDFC Foundation covered a large part of the administrative expenses of Masoom and has helped improve its organizational performance and program delivery. Over three years, Masoom has been able to scale up its interventions to 30 night schools, impacting the life of about 3,500 students.

### **SUPPORTING MATERNAL AND NEWBORN HEALTH IN MUMBAI WITH SNEHA**

IDFC Foundation has been supporting the Society for Nutrition, Education and Health Action ("SNEHA") since June 2012 through grants and capacity building for its 'Maternal & Newborn

Health Beyond Boundaries' program. Under this program, referral systems have been established between healthcare facilities for safe deliveries. SNEHA has partnered with 104 health facilities (hospitals, maternity homes and health posts) in four Municipal Corporations of Mumbai Metropolitan Region. About 1 lakh pregnant women with normal conditions and 20,000 with high risk and emergency conditions have benefitted from the program. The referral linkages have also significantly contributed in saving lives of 2,164 pregnant women.

### **COMMUNITY DEVELOPMENT IN MEGHALAYA**

As part of its engagement with the government and the community in Meghalaya, IDFC Foundation commissioned a Solar Street Lighting Project in Mawlynnong Village. Named Asia's Cleanest Village, Mawlynnong attracts a large number of tourists; up to 500 a day during peak season. Inaugurated in May 2015, the project has had a positive impact on both tourism and life in general.

This project now has become a benchmark Public-Private-Community Partnership for the Meghalaya government to replicate in other rural areas. The project has also been included under Salient Features of Mawlynnong Village in the Good Practice Document showcased by the Ministry of Panchayati Raj.

### **PRIMARY EDUCATION IN RAJASTHAN**

This initiative is aimed at improving the learning levels of students studying in 60 government primary schools (Classes I to V) in Ramgarh and Kishangarh Bas blocks of Alwar district, Rajasthan. This is being done in partnership with the District Authority, Alwar District and Ibtada (an NGO based in Alwar, Rajasthan). The program involves a 'whole-school approach' targeting holistic improvements across a set of intervention areas. These include development of specialized remedial packages for students who are lagging, training of government school teachers for improved teaching techniques and better school management, building leadership qualities among school children, and capacity building of the local community for playing a greater role in School Management Committees ("SMCs"). The program is expected to benefit 8,000 students over 3 years.

### **SETTING UP CENTRE OF EXCELLENCE, TEXTILE MUSEUM AND VISION CENTRE IN ALMORA, UTTARAKHAND**

In September 2015, IDFC Foundation committed to provide a grant support to Panchacholi Women Weavers ("PWW") as a partner for setting up centre of excellence for women across five districts of Almora, Rudraprayag, Uttarkashi, Bageshwar and Pithoragarh in Uttarakhand. The grant was made in order to develop handlooms as a means of sustainable livelihood for women.

The programme aims to benefit total 1000 artisans, out of which 200 will gain employment at centre of excellence. Another 800 artisans will get skill upgradation, raw material, designs, samples, and marketing facilities in the first year of centre's operations.

#### **IMPROVING EARLY CHILD CARE AND EDUCATION IN UTTARAKHAND**

IDFC Foundation partnered with Sesame Workshop India Trust (SWIT) for improving preschool literacy and hygiene awareness for over 1.5 lakh children in 6000 government-run primary care centres.

This involved training master trainers and specialists and monitoring the training of Anganwadi workers. It also comprised developing content to be taught and encouraging Anganwadi workers to use the latest pedagogy and training concepts such as flash cards etc.

The final report on the outcome of the project has been shared with the state government.

#### **IMPROVED CITY SYSTEMS IN URBAN CENTRES**

The year marked the successful initiation of an advocacy project for improved city systems in India with Janaagraha, a Bangalore-based non-profit organisation that works towards transforming quality of life in India's cities and towns. IDFC Foundation supported Janaagraha through grants and assistance for its Transforming Quality of Life in Indian

Cities & Towns programme from 2015-16 fiscal to 2017-18.

Project aims to benefit a total of 3.4 crore population in three years from 21 major cities in India, comprising capital cities of 16 major states chosen based on population and coverage of states.

#### **CANCER TREATMENT FOR UNDERPRIVILEGED**

IDFC Foundation recognises that health care expenses are well known to drag families into poverty. In the absence of any insurance and social security system, ailments like cancer sink millions into poverty each year due to high cost and often long-drawn course of treatment and relapse.

Charitable hospitals in India play an important role in reducing the burden on families that cannot afford high quality cancer treatment. Kamala Nehru Memorial Hospital (KNMH) & Regional Cancer Centre in Allahabad is a premier charitable hospital in India that addresses the cost of cancer treatment for the underprivileged.

Last year, IDFC Foundation provided a grant of ₹68.3 lakhs to KNMH towards the cost of running and maintaining equipment used in providing radiation therapy to needy cancer patients. Our support is likely to benefit at least 800 new patients involving at least 20,000 sittings over the course of a year. Several families will benefit financially from the reduced cost of treatment.