MANAGEMENT DISCUSSION & ANALYSIS

MACRO-ECONOMIC ENVIRONMENT

The global and domestic economic landscape witnessed significant shifts in FY17, leading to wide ranging implications on the banking sector and financial markets. The key global events were Brexit; the unexpected election of Donald Trump and the tilt towards a hawkish tone at the US Federal Reserve. In India, the demonetisation exercise was unforeseen and unexpected, whereby the government replaced ₹ 15.44 trillion of notes in circulation with new notes. However, towards the end of the FY17, global economic activity picked up and conditions improved in commodity exporting countries and emerging markets. Even as some deflation risks linger in certain parts of the world, inflation picked up in most advanced economies. In India, macro-economic conditions continued to be on a stable footing with slowing inflation, Current Account Deficits remaining in control and the central government achieving its Fiscal Deficit/GDP target of 3.5% for FY17 and targeting a lower deficit of 3.2% for FY18. Notwithstanding stable macro-economic conditions, most forecasts expect private capital expenditure in India to remain subdued, thereby bringing focus onto the need for higher government investment.

GROWTH-INFLATION DYNAMICS IN INDIA

The Central Statistical Organisation's (**"CSO"**) Gross Value Added (**"GVA"**) growth in FY17 was 6.6%, marking a significant slowdown from last year's 7.9%. While demonetisation could have played a part, it must be noted that growth was already weakening over the first two quarters of FY17. On the production side, growth in FY17 was led by agriculture (GVA growth in agriculture at 4.9%). Industry lost momentum, growing at 5.6% in FY17 while services sector GVA growth decelerated to 7.7% from 9.7% in FY16. Effect of demonetisation was evident in this sector with growth being pulled down by largely cash driven segments such as trade, hotels, transport and real estate. This drop was buffered by robust private consumption demand and an increase in government expenditure. This meant that growth in the economy continued to be led by consumption rather than investments. This is evidenced by the expenditure component of the GDP, where Gross Fixed Capital Formation rose by only 2.4% in FY17, witnessing a sharp downturn from 6.5% in FY16. On the other hand, private consumption demand grew by 8.7% in FY17 (6.1% in FY16) and government consumption expenditure rose by 20.8% in FY17 (3.3% in FY16).

The trajectory of Headline CPI inflation remained southbound for the most part of FY17. In April 2016, Headline CPI was at 5.5% and moderated to 3.9% in March 2017. The principal reason for the drop in

CHART A **HEADLINE CPI DIPPED IN THE INITIAL PART OF FY17, LIKELY TO HAVE BOTTOMED OUT**

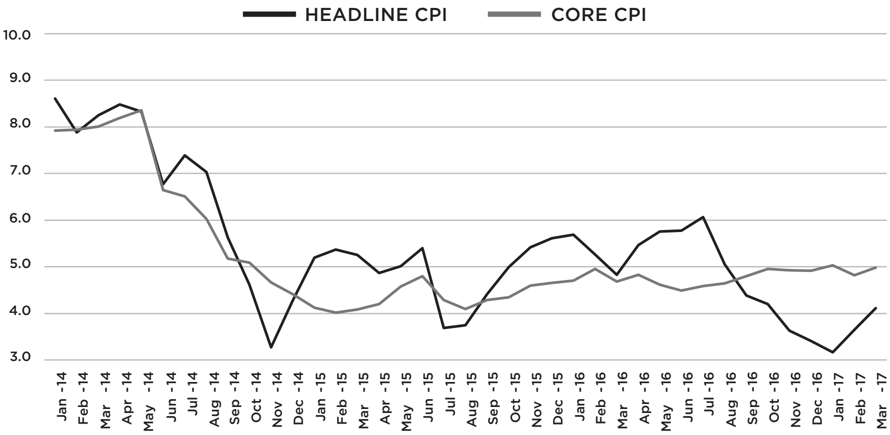


CHART B **USD-INR CLOSES FY17 WITH AN APPRECIATION BIAS**

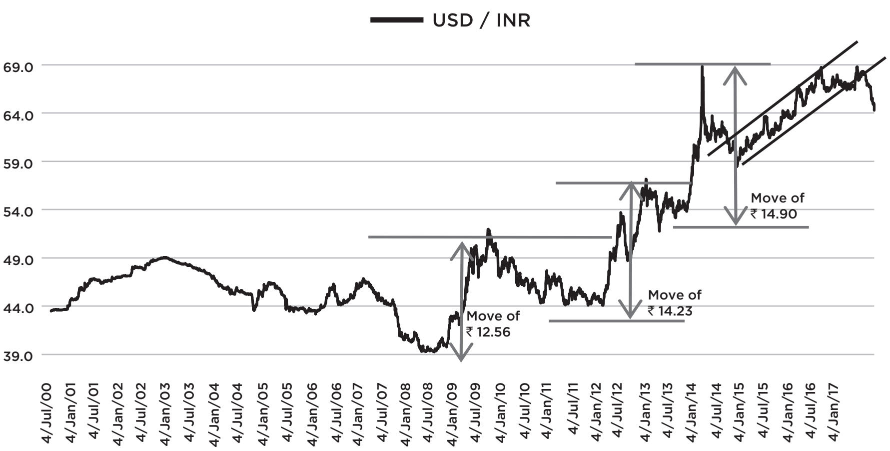
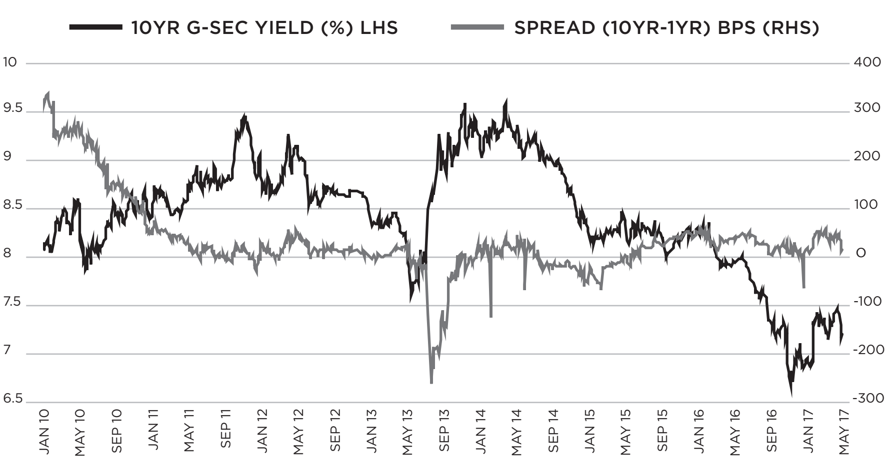


CHART C **TRENDS IN THE 10-YEAR BENCHMARK YIELD AND SPREADS**



Headline retail inflation was a drop in food prices, that moved down to 1.4% in January 2017 from around 8% in July. The key components that led to this drop were vegetables and pulses. To a certain extent prices of perishables dropped in the aftermath of demonetisation as lack of hard cash led to subdued demand. Like in the past, services inflation was elevated, especially, in areas of “Household goods & services”, “Healthcare”, “Education” and “Recreation & Amusement” and also “Personal Care & Effects”. Core CPI inflation (ex-food and fuel) averaged at 4.8% in FY17 (4.5% in FY16). Led by a firming up of the global crude oil prices in the second part of the year, inflation in “Transport and Communication” (that encompasses the movements in domestic prices of petrol and diesel) rose to 6% in March 2017 from 1.8% in April 2016.

MONETARY POLICY, LIQUIDITY AND G-SEC YIELDS

The monetary policy stance was “accommodative” in the initial part of the year with two 25 bps rate cuts – one in April and one in October bringing the repo rate down to 6.25%. The RBI abstained from reducing the rates further in December and raised concerns over inflation trends going ahead, despite a slowing Headline CPI. In February of 2017, contrary to market expectations, RBI changed its stance of monetary policy to “neutral” from “accommodative”, signalling a shift towards a more hawkish RBI. Due to a surge in low cost current and savings deposits with the banking sector, monetary policy transmission was stronger in H2FY17. Banks dropped term deposit rates, thereby creating space for a reduction in the Marginal Cost of Funds based Lending Rate (**"MCLR"**). The 1-year median MCLR declined by 70 bps after November 2016 (with no reduction in Repo rate), against

01 IDFC CONSOLIDATED FINANCIALS

₹ IN CRORE

PARTICULARS	FY17	FY16	% CHANGE
OPERATING INCOME	**3,817**	**3,235**	**18%**
NET INTEREST INCOME (NII)	**2,168**	**2,179**	**(1%)**
NON-INTEREST INCOME	**1,481**	**1,133**	**31%**
Principal Gains	242	267	(9%)
Asset Management Fees	417	449	(7%)
Investment Banking and Broking	150	72	108%
Fixed Income (Trading Profits and Fees)	376	239	57%
Loan Related and Other Fees	296	106	180%
Other Income (including profit / (loss) on derivatives)	**168**	**(77)**	**319%**
OPERATING EXPENSES	**1,748**	**1,229**	**42%**
HR	794	640	24%
Non-HR	954	589	62%
PRE-PROV OPERATING PROFIT (PPOP)	**2,069**	**2,006**	**3%**
Provisions	**278**	**327**	**(15%)**
Profit Before Tax and Exceptional Item	**1,791**	**1,679**	**7%**
Exceptional Item	-	(2,639)	-
Tax	483	(368)	-
Minority Interest, Associated Companies PAT	609	343	-
PROFIT AFTER TAX	**699**	**(935)**	**-**

a decline of just about 15 bps during April-October 2016.

Asset quality concerns continued to dominate the banking sector narrative in FY17. The GNPA (Gross Non-performing Advances) ratio of Scheduled Commercial Banks ("**SCBs**") increased to 9.1% in September 2016 from 7.8% in March 2016, pushing up the overall stressed advances ratio to 12.3% from 11.5%. The large borrowers registered significant deterioration in their operating metrics amplifying the pressure on the banking sector. As part of the reduction of stress levels in the banking sector and with an aim to improve the performance of State Electricity Boards, the government had launched the Ujwal DISCOM Assurance Yojna ("**UDAY**") in FY16. The scheme gained further momentum in FY17 with 27 States and Union territories signed up vs 10 states in the previous year. The scheme will result in a ₹ 2.7 trillion of distribution company debt to be converted into bonds issued by respective state governments. Out of this, state governments have already issued UDAY bonds worth ₹ 2.3 trillion. Government of India and RBI are evaluating further options to reduce and resolve the stress levels in the banking system.

There were sharp changes in money market liquidity throughout the year – with a structural break caused by the demonetisation exercise in early November. Initial part of the year witnessed some tightness of banking sector liquidity mostly due to a rise in the currency with public. Such liquidity tightness was combatted by the RBI by buying government securities from the banking sector via Open Market Operations ("**OMO**"). Such OMO operations continued in Q2FY17 and along with a pickup in government expenditure, money market liquidity moved into a surplus zone. Money market liquidity conditions moved into an unprecedented surplus position after the announcement of demonetisation. To mop up the additional liquidity, RBI directed all banks to maintain (effective November 26, 2016) an incremental CRR of 100% on the increase in Net Demand and Time Liabilities ("**NDTL**") between September 16, 2016 and November 11, 2016. This measure was withdrawn from the fortnight beginning December 10, 2016, subsequent to which RBI used Market Stabilisation Scheme ("**MSS**") issuances to mop up excess liquidity. Despite remonetisation, the significant liquidity surplus position continued into Q4FY17, leading to Weighted Average Call Money Rate ("**WACR**") to be 25 bps lower than the Repo rate. Even the 3-month Treasury Bill rate, mostly stayed close to the fixed reverse repo rate of 5.75%. To reduce the volatility in the overnight call money rates, RBI has now narrowed the corridor between the reverse repo and the repo rate to only 25 bps.

The 10-year benchmark G-sec yields ended the previous financial year at 7.5% and remained almost unchanged in the first 3 months of the year. Yields dropped steadily thereafter and closed at 6.70% on October 6, 2016, with RBI delivering a repo rate cut at its monetary policy meeting. G-sec yields softened significantly after the announcement of demonetisation, which not only led to a liquidity surge in the system, but also created expectations of further monetary policy easing as growth was expected to soften post demonetisation. 10-year benchmark G-sec yield thus dropped from 6.80% on November 8, 2016 to an intra-day low of 6.1% on November 25, 2016. Yields hardened in December 2016 with an imposition of incremental CRR domestically and debt portfolio outflows from India on account of a rise in the US bond yields. This was after the US Fed delivered a rate increase and signalled a hawkish stance for future rate rises on the expectations of fiscal stimulus in the US. Caught unaware, the market switched tracks with the unexpected change in the monetary policy stance by RBI in February 2017, leading to a steepening of the yield curve with the 10-year yield reaching 6.9%.

EXTERNAL ACCOUNTS AND CURRENCY DYNAMICS

The Current Account Deficit (**"CAD"**) remained in a comfortable territory with the first three quarters of FY17 recording a deficit of US$ 11.6 bn, or 0.7% CAD / GDP. On a comparative basis, in a similar period in FY16, the CAD was at US$ 21.8 bn (1.4% of GDP). The principal reason for contraction in the CAD was the trade deficit that was lower at US$ 83 bn in the first three quarters of FY17, compared to US$ 105 bn in the same period last year. While both oil and non-oil imports contracted, there was a small boost to exports, as the global economy gained momentum. However, the services sector flows were largely muted in FY17, as private transfers suffered.

On the capital flows side, Foreign Direct Investments (**"FDI"**) dominated the headlines with cumulative inward flows amounting to US$ 39.8 bn between April and February 2017. On the other hand, inflows via the portfolio route remained volatile during the year with phases of global risk-off momentum affecting flows into India. While cumulative flows through equity and debt routes were around US$ 8.2 bn in the first half of the year, outflows were to the tune of US$ 11.3 bn in the third quarter. This was based on expectations of a more hawkish Fed on the back of expectations of higher fiscal spending after the election of Donald Trump and the expected consumption slowdown due to the demonetisation exercise in India. The FCNR(B) repayments that were due in Q3FY17 however did not create any pressure on the system. Furthermore, the tide turned again with the Fed signalling a slightly less hawkish stance than expected in its policy statement, as well as reversal of the trades that were put on the basis of Trump's campaign rhetoric. For India, the pro-reforms Budget and the win for the BJP in 4 out of 5 State elections (especially in Uttar Pradesh) built up the momentum for flows in renewed expectations of economic reforms. Thus, FPI flows turned positive in February (at US$ 3.4 bn) and surged in March (US$ 9.1 bn).

The USD / INR trend through most of the year was determined by the volatility, triggered by unanticipated events discussed earlier. USD / INR had closed in FY16 at 66.26 but depreciated to 67.90 after the Brexit referendum. Thereafter it reversed to its earlier trend-line with fears of an immediate pull-out by the UK abating. However, US election results again led to the USD / INR to move to 68.70. Recently, USD / INR exhibited a sharp appreciation bias as a confluence of factors leading to a weaker USD against all major currencies and large inflows into all emerging market economies including India. USD / INR closed FY17 at 64.85, an appreciation of 2.2% over the year.

FINANCIAL PERFORMANCE – IDFC LIMITED

Table 01 gives the consolidated profit and loss accounts.

OVERVIEW OF IDFC GROUP COMPANIES

IDFC BANK

FY17 was IDFC Bank's first full year of operations. During this year the Bank consolidated its position as a new age bank that is making use of technology to deliver financial services to all, but particularly to those that are underserved. Harnessing the power of mobile and Aadhaar based technology; the Bank is delivering basic financial services to even those without phones.

IDFC Bank's vision is to materially deepen and broaden reach, delivering differentiated service to the full range of customers - corporate and retail, urban and rural - through innovation in products, processes and technology, empowering the communities it serves to grow and prosper.

IDFC Bank is not a "digital only" bank. It's a "click and mortar" bank adapted for the unique circumstances and vast range of customers in India. Its distribution model does not depend on regular bank branches, but rather on mobile technology and partnerships.

The Bank has within the first eighteen months of operations, acquired an active customer base of approx. 14 lacs. Currently, the bank has a network of 8,613 Points of Presence (**"PoPs"**) across 20 states, 19 major cities, 150 districts serving 33,000 villages across the country, including the North East. This network includes 74 bank branches, 47 ATMs, 350 corporate Business Correspondent branches (which include NBFCs and finance companies representing IDFC Bank for microlending), and 8,142 outlets, which include microATMs, cashless PDS and Aadhaar Pay merchant points.

Banking context

The macro context manifests extreme concentration of banking credit with the top 300 corporates (and even fewer groups) accounting for more than 45% of banking credit. Likewise, there is

02 IDFC BANK - SUMMARISED PROFIT AND LOSS ACCOUNT FOR FY17

₹ IN CRORE

PARTICULARS	MARCH 31, 2017
Operating Income	**3,030**
Net Interest Income	**2,076**
Non-Interest Income	**954**
Fees and Commission	361
Trading Gains	590
Other Income	3
Operating Expenses	**1,277**
HR	597
Non-HR	680
Pre-Prov Operating Profit (PPOP)	**1,753**
Provisions	282
Profit Before Tax	**1,471**
TAX	451
PROFIT AFTER TAX	**1,020**

extreme concentration in the banking system's depositary franchise with mass affluent, affluent and HNIs contributing 86% and top 50 cities contributing 81% to CASA deposits. Given the extreme concentration on assets and liabilities, the strategic direction for the Bank is to penetrate progressively deeper into the customer base on both sides of the balance sheet.

On corporate banking, the focus has been on:

1. Diversifying corporate customer base beyond large corporate segment.
2. Diversify corporate banking revenues beyond funded products to non-funded and fee based sources.

On retail banking, the focus is on:

1. Rapidly increasing the retail share in total advances across all customer segments.
2. Pursue cost effective acquisition at scale especially of mass affluent and mass retail customers for deposit mobilisation.

One of the key highlights for IDFC Bank in FY17 was the acquisition of Grama Vidiyal Micro Finance Ltd. (now renamed as IDFC Bharat Ltd.). This acquisition supports the Bank's vision of becoming a mass retail bank in 5 years. GVMFL had ₹ 1,502 crore of Asset Under Management (**"AUM"**), 319 branches in 7 states and over a million customers. It is a profitable entity with net profits of ₹ 42 crore in FY16, RoA of approx. 3+% and RoE of approx. 30%. Its net worth was ₹ 155 crore and its portfolio at risk as of March 31, 2016, was 0.001%.

Digital is a strong thrust area for the bank. As a new age bank, IDFC Bank is leveraging digital technology to deliver banking to customers in a simple and transparent manner. We are using digital technology to approach the Indian consumer based on her / his access to mobile telephony. In a country with 90 crore people over the age of 15, we have 25 crore unique smart phone users, 35 crore unique feature phone users, and 30 crore with no phone. The Bank is designed to deliver financial services to all three of these customer segments.

IDFC Bank serves the smartphone customer segment with a Banking App that provides access to a whole range of services. IDFC Bank allows smartphone customers with Aadhaar cards to open a savings account and / or a fixed deposit account using a completely digital process that requires no paperwork and takes under 4 minutes.

For the phone-less and feature phone population, the Bank is reaching these customers through a country wide network of business correspondents (**"BCs"**) that will include kirana stores, chemists, other small merchants and suitable distribution agents (**"DAs"**) such as, leaders of Women's Self Help Groups, Fair Price Shops (**"PDS"**) stores, e-commerce merchandise delivery agents etc., each using a MicroATM and / or mobile device with an IDFC Bank MicroATM App (branded IDFC Aadhaar Pay).

The business strategy of the Bank is embedded in the macro context governing assets, liabilities, financial savings and emerging competitive landscape. Developments in the areas of Aadhaar, mobile telephony, payments and fin-tech have transformational potential in terms of delivering banking and financial services to the masses. It provides IDFC Bank the opportunity to re-imagine banking and deliver innovative solutions to customers.

In the past year the bank has made significant progress on its objective to transform into a mass retail bank. Partnerships and alliances will play a critical role in this journey. Delivering banking products and solutions across networks owned by business correspondents and partners to customers will play an important role in fulfilling this vision. On all these fronts the Bank is progressing well.

Performance highlights of IDFC Bank, FY17

Refer to **Box A.**

ALTERNATIVE ASSET MANAGEMENT

IDFC Alternatives has an AUM of nearly ₹ 17,700 crore with multiple funds across three asset classes – Infrastructure, Private Equity and Real Estate. Last year saw great traction both on the investment and exit side of the business. New funds were raised both in the Private Equity and Real Estate Asset Verticals.

The Infrastructure vertical has been focused on strengthening the roads platform and creating the renewable energy platform during the year. In addition, Infrastructure Fund 2 also acquired significant minority stake in an operating telecom tower platform with an option to acquire a majority stake in the future.

During FY17, in the Infrastructure fund vertical, the new Renewables platform committed to buy 70 MW of Wind & Solar generation assets and has developed a healthy pipeline of further acquisitions to scale up the platform. The Road platform had 7 operating roads managed by an experienced team of 30 people and is well positioned to scale up. The Infrastructure vertical achieved aggregate investments / commitments of nearly ₹ 2400 crore along with exits / visible exits of ₹ 1900 crore. It expects to continue with the exits momentum and is likely to achieve a DPI of 0.8 for Infrastructure Fund I by September 2017, which will be a better performance compared to most similar vintage Indian and Asian Infrastructure funds.

In the Private Equity fund vertical, the first close of Private Equity Fund 4 was made with commitments of ₹ 626 crore. The first investment from this new fund of ₹ 80 crore was made. The Private Equity vertical has also built a pipeline of deals. The existing Private Equity Fund 3 portfolio had an EBIDTA growth of about 19%. Cash exits / liquidity during the year in the Private Equity vertical were ₹ 818 crore. Process has been initiated for divestments and full exit of Private Equity Fund 2.

The Real Estate vertical closed its 2nd Domestic Fund (**SCORE**) at ₹ 761 crore, with one third of the fund being raised from existing investors. The first domestic Real Estate Yield Fund (**"REYF"**) has been fully deployed within committed timelines and is maintaining regular monthly distributions.

A new foray into the 'Start-up' Investing space was made during the year with anchor commitment to 'IDFC Parampara' Fund. IDFC's commitment to this fund is of ₹ 20 crore with targeted returns of 30%.

Performance of Alternative Asset Management, FY17

Refer to **Box B.**

IDFC ASSET MANAGEMENT COMPANY LIMITED

IDFC Asset Management Company Limited (**"IDFC AMC"**) is the 10th largest fund house in the country*, with a quarterly average AUM size of ₹ 60,636 crore. From attracting key talent, launching several new funds, to increasing focus on distribution width; from catering to the convenience of its customers through technical innovations, to enhancing its brand image through several marketing initiatives, it has been an active and eventful year for this business.

IDFC AMC launched a uniquely positioned Balanced Fund in December 16, filling a gap in its product portfolio. It built a formidable campaign and achieved strong collections from across a record number of applications in the New Fund Offer period, despite markets, distributors and customers being in the midst of the Government's demonetization initiative. The AMC also launched a Credit Opportunities Fund in February '17, which has garnered steady customer interest.

IDFC AMC continued to build on its considerable track record in active fixed income management, and emerged one of the fastest growing AMCs in the Non-Credit Short Term segment.

In equity, IDFC AMC re-launched IDFC Classic Fund, which was included as a recommended product by several key accounts as well as select media.

In the technological space, IDFC AMC has created new benchmarks for the industry. It has enabled Online transactions based on OTP authentication and launched a Unified Payment Interface (**"UPI"**) mode of payment for making investments in schemes.

BOX A

PERFORMANCE HIGHLIGHTS OF IDFC BANK, FY17

OUTSTANDING CREDIT

₹85,172 CRORE

+58% YOY

PAT FOR THE YEAR

₹1,020 CRORE

OPERATING INCOME

₹3,030 CRORE

- Net Interest Income ₹2,076 crore
- Non interest income ₹954 crore

HEALTHY CAPITAL ADEQUACY

@18.9 %

FUNDED BOOK – RETAILISED

25 %

PERFORMANCE OF ALTERNATIVE ASSET MANAGEMENT FY17

BOX **B**

ASSETS UNDER MANAGEMENT
as on March 31, 2017

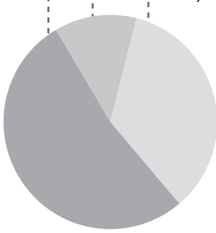
₹17,716 CRORE

This Is Split Between:

REAL ESTATE WITH AUM ₹2,198 CRORE

PRIVATE EQUITY WITH AUM ₹6,181 CRORE

INFRASTRUCTURE EQUITY WITH AUM ₹9,337 CRORE



OPERATING INCOME

₹125 CRORE

PROFIT BEFORE TAX

₹28 CRORE

PROFIT AFTER TAX

₹19 CRORE

IDFC AMC also stepped-up its engagement with partners, and organised several events with key investors and distribution partners.

The efforts of the fund house have been recognized through various awards and recognitions across the country. Distributor Management System – for Brokerage, won an award at the Fintec India Conference. The AMC's unique investor education initiative "Dil Ke Ameer" won the Best Brand / Product website award by the Internet & Mobile Association of India. "Saveyourtax.org" got an Honorable Mention at the prestigious awwwards.com.

In March 2017, IDFC Financial Holding Company Limited acquired 25% stake held by Natixis in IDFC AMC and IDFC AMC Trustee Company Limited making them both 100% subsidiaries.

* Source: AMFI data for Average AUM for Q4FY17

Performance of IDFC Asset Management Company Limited, FY17

Refer to **Box C.**

INSTITUTIONAL EQUITIES BROKING

IDFC Securities Limited is engaged in the business of Institutional Broking and Research.

IDFC Bank Limited, Fellow Subsidiary obtained Investment Banking license from SEBI. For better business synergy relating to corporate clients, post IDFC Bank Limited receiving Investment Banking license from SEBI, the Investment Banking Business was transferred to IDFC Bank Limited.

Despite FY17 being challenging, Indian capital markets witnessed steady gains through the year delivering a return of 18.5%. So while events such as Brexit, the US Presidential elections, and currency demonetisation created phases of extreme volatility, these were at best momentary. FIIs brought in approx. US$ 8.4bn during the year to complement the steady inflow of US$ 4.7bn from DIIs.

In hindsight, these phases of uncertainty were transient, and markets bounced back convincingly at every opportunity driven by increased participation. Steadily improving global macro data helped strengthen consumer, business and investor confidence. Even the Fed found little resistance while undertaking two back-to-back rate hikes, something which would have seemed difficult a year back.

IDFC Securities delivered a strong performance during the year – while market volumes increased approx. 23% yoy in FY17, its market share improved across domestic and foreign institutional clients. Furthermore, its efforts across the research, sales and dealing desks was well recognized by clients and was backed by strong accolades from leading surveys such as AsiaMoney and Institutional Investor.

With the Nifty hitting new highs, we believe FY18 will see increased fund flows into India. In the past few weeks, flows into Emerging Markets (**"EM"**) have been boosted by improving macro and trade statistics, and the strengthening of EM currencies. India, with its strong fundamentals and policy impetus, is attracting a significant proportion of these flows. This trend is expected to continue this year. The much anticipated roll-out of GST and its impact on business and consumer sentiment will be closely watched. Nevertheless, going ahead we believe that the improvement in public finances, deleveraging of corporate balance sheets, improvement in demand and consequently industry capacity utilization, will be key metrics for most investors. We expect equity capital raising by corporates to remain robust in FY18.

Performance of Institutional Equities Broking, FY17

Refer to **Box D.**

IDFC INFRASTRUCTURE FINANCE LIMITED (Formerly known as Infra Debt Fund Limited)

The Infrastructure Debt Fund NBFC [since renamed as IDFC Infrastructure Finance Limited (**"IDFC IFL"**)] is involved in the refinancing of operating infrastructure projects that have completed at least one year post commencement of commercial operations.

The business of our IDFC IFL NBFC gained significant momentum in FY17, which was the first full year of its operations. Gross disbursements grew by 39% to ₹ 1,765 crore against ₹ 1,268 crore in the previous financial year. Loan book grew by 123% to ₹ 2,683 crore from ₹ 1,202 crore in FY16.

The Company has steadily built a well-diversified loan portfolio with exposures across PPP road projects with tripartite agreements as well as non-PPP projects in renewable power, transmission, healthcare, education, captive power and ITSEZs. The asset quality continues to be healthy.

The capitalisation of the company is comfortable with a Capital Adequacy Ratio of 28.9% as on March 31, 2017.

The Company raises resources through issue of bonds of minimum five years maturity. In FY17, the Reserve Bank of India (**"RBI"**) allowed Infrastructure Debt Fund – Non Bank Finance Companies (**IDF-NBFCs**) to borrow upto 10% of their total outstanding borrowings by way of shorter tenor bonds and commercial papers (**"CPs"**). The incremental funds raised by the Company in FY17 through bonds and CPs was ₹ 1,296 crore. The bond issuances were rated AAA by domestic credit rating agencies namely ICRA and CARE while CPs were rated A+ by ICRA. These were subscribed to by a wide variety of investors, including insurance companies, provident funds and mutual funds. The total outstanding borrowing, at the end of March 31, 2017 was ₹ 2,104 crore.

The Company is well poised for growth and over the next few years the business is expected to gain further momentum. There have been sustained efforts by the Government to address the various issues faced by the infrastructure sector. With improvement in private sector investments in the country, a larger pool of operational projects will be available for refinancing.

The Company plans to steadily increase its loan book and maintain a balanced and diversified portfolio across both PPP and non-PPP infrastructure projects.

Performance of IDFC Infrastructure Finance Limited, FY17

Refer to **Box E.**

RISK MANAGEMENT

IDFC Limited is a holding company for its various businesses. The group has a robust risk management practice in place to pro-actively identify and manage various types of risks, namely, credit, market and operational risks.

CREDIT RISK MANAGEMENT

IDFC Limited is the holding company with no direct lending operations. The lending business is carried out by two subsidiaries viz., IDFC Bank Limited and IDFC Infrastructure Finance Limited. 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 (**"Board"**) has the ultimate responsibility for the bank's risk management framework. The Board is

BOX C — PERFORMANCE OF IDFC ASSET MANAGEMENT COMPANY LIMITED

ASSETS UNDER MANAGEMENT
as on March 31, 2017

₹ 55,717 CRORE

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

REVENUE

₹ 310 CRORE

PROFIT BEFORE TAX

₹ 140 CRORE

PROFIT AFTER TAX

₹ 97 CRORE

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 Committee of the Board (**"RCB"**). The RCB 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 Risk Committee 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 as well as their mitigation and the appropriate pricing. 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 of Directors.

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 INFRASTRUCTURE FINANCE LIMITED

IDFC Infrastructure Finance Limited 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 PPP projects awarded by a Project Authority, the Company enters into a tripartite agreement with the Project Authority for ensuring compulsorily 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 Board of IDFC Infrastructure Finance Limited has the ultimate responsibility for the Company's risk management framework. The Board is principally responsible for approving the Company's risk appetite and related strategies and policies. The Board has established Risk Committee that assists the Board in relation to the oversight and review of the Company's risk management principles and policies, appetite, processes and controls. The Company's independent risk function is headed by Senior Director, reporting directly to the Chief Executive Officer (**"CEO"**). All significant aspects of risks in the Company along with mitigating measures are presented to the Risk Committee on a semi-annual basis.

The Company's credit risk is controlled and governed by the Credit Policy and Risk Policy that is approved by the Board. The risk team independently evaluates all proposals to estimate the various risks, 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.

BOX D

PERFORMANCE OF INSTITUTIONAL EQUITIES BROKING, FY'17

TOTAL INCOME

₹75 CRORE

PROFIT BEFORE TAX

₹17 CRORE

PROFIT AFTER TAX

₹11 CRORE

Regular comprehensive reviews of all project assets is conducted. The portfolio report is reviewed by the senior management on a periodic basis.

MARKET RISK MANAGEMENT

IDFC Limited is the holding Company with no direct businesses. that has no significant market risk. Market risk governance frameworks exist in subsidiaries exposed to market risk. The Group has set up 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 of respective subsidiaries. The Board of respective subsidiaries approved risk appetite is monitored and reported as per the guidelines laid down from time to time. The market risk objective, framework and architecture along with the functions of market risk are detailed in the respective subsidiary's 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 in the banking subsidiary. 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 Asset Liability Management Committee (**"ALCO"**) of the respective subsidiary supervises the ALM process and reviews the asset liability mismatch reports on a regular basis. These ALM reports are presented to the respective Board of Directors on a periodic basis.

OPERATIONAL RISK MANAGEMENT

A strong Operational Risk framework and governance structure is in place in subsidiary companies as detailed below.

IDFC Bank Limited, the largest subsidiary in the group, has put in place Board approved governance and organizational structure that specifies roles and responsibilities of 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' (**"O&IRMC"**) is responsible for overseeing implementation of Board approved Operational Risk Management policy and framework. Operational Risk Management Department engages with the First Line of Defense (Business & Operating Units) on a continuous basis to identify and mitigate operational risks to minimize their impact.

For non-bank entities viz. IDFC Alternatives, IDFC Securities, IDFC AMC, IDFC Infrastructure Finance and IDFC Foundation, the Group Operational Risk Committee (**"GORC"**) is responsible for providing oversight over the adequacy of Operational Risk Management function. GORC is a management-level Committee of Senior Executives representing Group Companies.
The GORC meets every quarter to discuss key Operational risk issues. Each of these companies in turn have respective 'Business Operational Risk Committees' (**"BORC"**) comprising of Senior Management personnel to govern operational risks with support from dedicated Business Operational Risk Managers.

Both O&IRMC and GORC meet on quarterly or more frequent basis and report summary of key findings and issues to the Risk Management Committee of IDFC Limited.

BOX E

PERFORMANCE OF IDFC INFRASTRUCTURE FINANCE LIMITED, FY17

NET OPERATING INCOME

₹89 CRORE

PROFIT AFTER TAX

₹71 CRORE

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, capability, employee experience and community building. These are the key underlying philosophies that IDFC group follows in acquiring and nurturing talent. We believe that putting these into play will help build a winning organization.

Culture tops our People Agenda

It is central to the groups hiring strategy. The culture of your company is spelt out in its values: Balance, Collaboration, Drive and Honesty. We realise that the active involvement of the senior management is critical in driving culture in an organization and facilitating adoption of values across the hierarchy. The group has curated a leadership competencies framework that is essential to realising its vision. We have mapped behaviours to these competencies to enable quicker adoption.

We would like to build an organization that is truly diverse and inclusive

It includes both gender diversity as well as talent from outside the traditional BFSI sphere. This, we believe, will bring greater transparency and empowerment. A healthy mix of talent will inspire efficient work practices and we expect this to improve the quality of our service.

Enhancing the capability of employees is a key aspect of our People Agenda

The group is committed to re-orient and skill-up new hires. As the group ramps up its workforce, it strengthens its capability and redirects their thinking. We also realise the critical role played by frontline managers in guiding and motivating employees.

Build an unparalleled employee experience that stimulates superior customer service

The entire framework of employee-facing processes and systems is designed around the thought of employee experience. Dream journeys articulated using design principles keep us honest in building an internal ecosystem with enhanced user experience, bringing efficiencies to the administrative activities and freeing up employee bandwidth to focus on customer service and processes. Routine HR processes and data analysis have been digitized.

Building a sense of community internally

It's a theme that flows from the culture and values journey. As the employee strength continues to grow, various interaction tools have been deployed to encourage employees to communicate, collaborate and share their experiences – irrespective of where they are placed geographically. This has encouraged a spirit of collaboration and team work.

Employee Strength

IDFC Group had employee strength of 4,294 as on 31 March 2017 and we recruited 1,518 new employees during the financial year. IDFC had 10 employees as on March 31, 2017.

IDFC FOUNDATION

Social engagement and community development has been a way of life at IDFC. CSR is a key element of our companies' 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 focussed interventions in the areas of education and livelihood creation.

A key initiative launched this year is the Rural Livelihoods and Development program. This entails skilling rural youth to become Aadhaar enabled business correspondent agents for improving financial inclusion and literacy.

The project envisages creating a completely interoperable payment ecosystem in the rural areas (Tier 2 - 6 villages as per RBI definition) of approximately 200 districts in India by March 2020.

For delivering on this vision, IDFC Foundation will educate between 30,000 - 40,000 people on the RBI mandated content of financial literacy, skill the people to operate Aadhaar enabled, digitally connected tablets and grant fund (in the form of a free micro ATM) all individuals who are selected to become Business Correspondent Agents (**"BCA"**). When all these three activities are delivered as an integrated program by the Foundation under its flagship project - Rural Livelihoods & Development Program, it will enable these individuals to generate meaningful, sustainable income and become fully contributing members of our rural society.

The goal of the Foundation is to enable approximately 30,000 fully educated, skilled BCA's to be brought into the rural financial & payment ecosystem by March 2020. The creation of this ecosystem, will provide a strong impetus to financial inclusion thereby enabling rural populations in these districts to significantly improve their lifestyle through access to formal credit channels and enhancement of livelihood opportunities.

COMMUNITY ENGAGEMENT

IDFC Foundation's initiatives are focussed in areas where the bank establishes its operations. The bank's staff is closely involved in implementing IDFC Foundation's initiatives at locations where the intervention is in the vicinity of its branches. To engage with the local communities, IDFC Foundation in conjunction with the bank has identified requirements such as digital education for children and cattle care for livelihood enhancement.

Community engagement is a key component of our transformation agenda, because we believe that districts can be transformed only when individual lives stand improved. This ties in with our legacy of building the nation - now, serving the community.

Members of IDFC Bank's staff support the IDFC Foundation in implementing its initiatives, which include 'Digishala' and 'Shwetdhara' – so far successfully launched in Madhya Pradesh.

'Digishala' is a computer education programme for primary school children. The bank's staff supports Digishalas in 18 schools.

'Shwetdhara' helps improve the income levels of small and marginal farmers engaged in dairy activities. This is done through permanent cattle care centers and cattle camps.

IDFC INSTITUTE

IDFC Institute, a division of IDFC Foundation, has been set up as an independent, not-for-profit, think / do tank, with a mandate to research issues of economic development and growth, keeping in mind their political context.

Specifically, the IDFC Institute identifies and provides solutions to bottlenecks that hold back rapid and inclusive economic development in India, as it makes the transition from a low-income, state-led economy to a prosperous, market-based one.

With a focus on the political economy of implementation, the Institute provides quality, in-depth and actionable research and recommendations to multiple stakeholders, including government, academia and civil society. Through its research and partnerships with those who implement, the IDFC Institute seeks to develop toolkits for execution and fresh perspectives on difficult problems.

The Institute convenes the IDFC Institute Dialogues and IDFC Institute Conversations as private and off-the-record platforms to foster cutting edge and innovative thinking in an informal setting, focused on the 'what' and 'how' of policy formulation and implementation.