IDFC BANK LIMITED

IDFC Bank Limited was incorporated as a public limited company on October 21, 2014, at Chennai, Tamil Nadu. For further details, see "***History and Certain Corporate Matters***" on page 141.

Registered Office: KRM Tower, 8th Floor, No.1, Harrington Road, Chetpet, Chennai - 600031, Tamil Nadu, India
Phone: (044) 4564 4000 **Fax:** (044) 4564 4022

Corporate Office: Naman Chambers, C-32, G – Block, Bandra Kurla Complex, Bandra (East), Mumbai 400 051
Phone: (022) 4222 2000 **Fax:** (022) 2654 0354

Contact person: Mr. Mahendra N. Shah, **Phone:** (022) 4222 2000 **Fax: (**022) 2654 0354
Email: ig@idfcbank.com; **Website:** www.idfcbank.com; **CIN:** U65110TN2014PLC097792

INFORMATION MEMORANDUM FOR LISTING OF 3,391,533,336 EQUITY SHARES OF RS. 10 EACH

NO EQUITY SHARES ARE PROPOSED TO BE SOLD OR OFFERED PURSUANT TO THIS INFORMATION MEMORANDUM

OUR PROMOTERS IDFC LIMITED AND IDFC FINANCIAL HOLDING COMPANY LIMITED
GENERAL RISK
Investments in equity and equity-related securities involve a degree of risk and investors should not invest in the equity shares of IDFC Bank Limited unless they can afford to take the risk of losing their investment. Investors are advised to read the Risk Factors carefully before taking an investment decision in the shares of IDFC Bank Limited. For taking an investment decision, investors must rely on their own examination of the Bank including the risks involved.
BANK'S ABSOLUTE RESPONSIBILITY
IDFC Bank Limited having made all reasonable inquiries, accepts responsibility for, and confirms that this Information Memorandum contains all information with regard to IDFC Bank Limited, which is material, that the information contained in this Information Memorandum is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Information Memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect
LISTING
The Equity Shares of the Bank are proposed to be listed on the BSE Limited **("BSE")** and the National Stock Exchange of India Limited **("NSE" and together the "Stock Exchanges")**. For the purposes of this listing, the Designated Stock Exchange will be NSE. Our Bank has submitted this Information Memorandum with BSE and NSE and the same has been made available on our Bank's website, www.idfcbank.com. The Information Memorandum would also be made available on the website of NSE (www.nseindia.com) and BSE at (www.bseindia.com).
Registrar & Share Transfer Agent
Karvy Computershare Private Limited (Unit: IDFC Bank Limited) Karvy Selenium Tower B, Plot 31 & 32, Financial District, Gachibowli, Nanakramguda, Serilingampally, Hyderabad - 500 032 **Contact Person:** M R V Subrahmanyam **Tel:** (040) 6716 1510/12/13 **Fax :** (040) 2342 0814 **Toll Free:** 1800 345 4001 **Email:** idfcbank@karvy.com; **Website:** www.karvycomputershare.com

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SECTION I – GENERAL

DEFINITIONS, ABBREVIATIONS & INDUSTRY RELATED TERMS

Unless the context otherwise indicates or implies, the following terms have the following meanings in this Information Memorandum and references to any statute or regulations or policies shall include amendments thereto, from time to time:

Bank Related Terms

Term	Description
IDFC	IDFC Limited
"our Bank" , "the Bank", or "IDFC Bank"	IDFC Bank Limited
"We", "us" or "our"	Unless the context otherwise indicates or implies, refers to our Bank
Articles or Articles of Association	Articles of Association of the Bank, as amended from time to time
Auditor/ Statutory Auditor	Deloitte Haskins & Sells
Audit Committee	The Audit Committee of our Board of Directors
Board of Directors or Board	The Board of Directors of the Bank or any duly constituted committee thereof
DAIL	Data Access India Limited
DCHL	Deccan Chronicles Holding Limited
Effective Date	October 1, 2015
Financing Undertaking	Demerger of the lending and financing business of IDFC into IDFC Bank
"Promoter Group" or "Promoter Group Companies" or "IDFC Group Companies"	1. IDFC Limited 2. IDFC Financial Holding Company Limited 3. IDFC Alternatives Limited, 4. IDFC Trustee Company Limited, 5. IDFC Securities Limited, 6. IDFC Asset Management Company Limited, 7. IDFC AMC Trustee Company Limited, 8. IDFC Finance Limited, 9. IDFC Projects Limited, 10. IDFC Infra Debt Fund Limited, 11. IDFC Foundation, 12. IDFC Securities Singapore PTE. Limited, 13. IDFC Capital (Singapore) PTE. Limited, 14. IDFC Capital (USA) Inc. and 15. IDFC Investment Managers (Mauritius) Limited. (Entities 1, and 3 to 15 do not hold any shares in IDFC Bank Limited as on date of this Information Memorandum)
IDFC FHCL/ Holding Company	IDFC Financial Holding Company Limited
IDFC Group	IDFC Limited and IDFC Group Companies
Promoters or Promoter	IDFC Limited and IDFC Financial Holding Company Limited

Term	Description
Registered Office	The registered office of the Bank is located at KRM Tower, 8th Floor, No.1, Harrington Road, Chetpet, Chennai - 600031, Tamil Nadu, India
Scheme, or Scheme of Demerger	Scheme of Arrangement approved by the High Court of Madras on June 25, 2015
TDCSL	Tulip Data Centre Services Limited
TTL	Tulip Telecom Limited
Record Date	October 5, 2015

Technical/Industry Related Terms

Term	Description
ALM	Asset liability management
AML	Anti-Money Laundering
ANBC	Adjusted net bank credit
AUM	Assets under our management
Basel III	A global regulatory framework for more resilient banks and banking systems December 2010 (rev. June 2011) published by the Bank for International Settlements. RBI issued guidelines on the implementation of Basel III capital regulations in India on May 2, 2012 and revised as per notification issued by the RBI on March 27, 2014
CAP	Corrective action plan
CASA	Current account and savings account
CBS	Core banking solutions
CDR	Corporate debt restructuring
CIC	Core investment company, as defined under the Core Investment Companies (Reserve Bank) Directions, 2011 dated January 5, 2011, issued by RBI
CRAR	Capital to risk weighted assets ratio
CRILC	Central Repository of Information on Large Credits
CRR	Cash reserve ratio
CDP	Countercyclical (dynamic) provisioning
FITL	Funded interest term loan
IDF	Infrastructure debt fund
IDF-MF	IDF-Mutual Fund
IFC	Infrastructure finance company
JLF	Joint lenders’ forum
LAF	Liquidity Adjustment Facility
LCR	Liquidity coverage ratio
NBFC	Non-banking financial company
NBFC-IC	NBFC-investment company, an NBFC carrying on its principal business of acquisition of securities
NBFC-IFC	An infrastructure finance company, which is an NBFC which deploys at least 75% of its total assets in the infrastructure sector, as per the guidelines issued by RBI from time to time
NBFC-ND	Non-deposit taking NBFC

Term	Description
NBFC-ND-SI	Systemically important NBFC-ND
NBFC Prudential Norms	Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 (Notification No. DFC. 119/DG (SPT)/98) dated January 31, 1998 as superseded by Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 bearing Notification No. DNBS. 193 DG(VL)- 2007, dated February 22, 2007, as updated by the RBI Master Circular on Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, dated July 1, 2015
NII	Net interest income
NIM	Net interest margins
NOFHC	Non-operative financial holding company
NPA	Non-performing assets
NPA Prudential Norms	RBI Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015
NPL	Non-performing loan
RBI New Banks Licensing Guidelines	RBI Guidelines for Licensing of New Banks in the Private Sector issued by the RBI pursuant to a notification dated February 22, 2013
SGL	Subsidiary general ledger
SMA	Special Mention Accounts
SLR	Statutory liquidity ratio
Stock Exchanges	NSE and BSE

Conventional and General Terms or Abbreviations

Term	Description
AGM	Annual general meeting
AIF	Alternative investment fund, as defined under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 and registered with SEBI
ATMs	Automated teller machines
Banking Regulation Act	Banking Regulation Act, 1949
BSE	BSE Limited
CAGR	Compounded annual growth rate
CDSL	Central Depository Services (India) Limited
Companies Act	Companies Act 2013 or the Companies Act 1956, as applicable
Companies Act 1956	The Companies Act, 1956 and the rules made thereunder (without reference to the provisions thereof that have ceased to have effect upon the notification of the Notified Sections)
Companies Act 2013	The Companies Act, 2013 and the rules made thereunder to the extent in force pursuant to the notification of the Notified Sections
Competition Act	Competition Act, 2002
CIT	Commissioner of Income Tax
Crore	10 million

Term	Description
CSR	Corporate social responsibility
Depositories	NSDL and CDSL
Depositories Act	Depositories Act, 1996
Depository Participant or DP	A depository participant as defined under the Depositories Act
Draft 12th Plan	Draft Twelfth Five Year Plan of the GoI covering the period fiscal 2012 to fiscal 2017
DTC	Direct Taxes Code, 2013
ECB	External commercial borrowings
EGM	Extraordinary general meeting
FDI	Foreign direct investment
FEMA	Foreign Exchange Management Act, 1999, together with rules and regulations thereunder
FIIs	Foreign institutional investors (as defined under the SEBI FPI Regulations) registered with SEBI
FPIs	A foreign portfolio investor who has been registered pursuant to the SEBI FPI Regulations, provided that any QFI or FII who holds a valid certificate of registration shall be deemed to be an FPI until the expiry of the block of three years for which fees have been paid as per the Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995
Fiscal year / Fiscal	Period of 12 months ended March 31 of that particular year
FVCI	Foreign venture capital investors (as defined under the SEBI (Foreign Venture Capital Investors) Regulations, 2000) registered with SEBI
GDP	Gross domestic product
GoI or Government	Government of India
GST	Goods and services tax
ITAT	Income Tax Appellate Tribunal
I.T. Act	Income Tax Act, 1961
Indian GAAP	Generally Accepted Accounting Principles in India
KYC	Know your customer
MAT	Minimum Alternate Tax
MCA	Ministry of Corporate Affairs, GoI
MSME	Micro, small and medium enterprises
Mutual Fund	A mutual fund registered with SEBI under the SEBI (Mutual Funds) Regulations, 1996
NABARD	National Bank for Agriculture and Rural Development
Notified Sections	Sections of Companies Act 2013 that have been notified by the GoI
NRE Account	Non-resident (External) Account
NRO Account	Non-resident (Ordinary) Account
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
PAN	Permanent account number allotted under the I.T. Act
PAT	Profit after tax
PFI	Public financial institution, as defined under Section 2(72) of the Companies Act 2013

Term	Description
PMLA	Prevention of Money Laundering Act, 2002
PPP	Public-private partnership
QFI	A qualified foreign investor as defined under the SEBI FPI Regulations
RBI	Reserve Bank of India
RBI Act	Reserve Bank of India Act, 1934
RBI SMA Circular	RBI circular dated March 21, 2014 on Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy
RoA	Return on assets
RoE	Return on equity
Rupees or Rs. or ₹	Indian Rupees
SARFAESI Act	Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
SCRA	Securities Contracts (Regulation) Act, 1956
SCRR	Securities Contracts (Regulation) Rules, 1957
SEBI	Securities and Exchange Board of India constituted under the SEBI Act
SEBI Act	Securities and Exchange Board of India Act, 1992
SEBI FPI Regulations	Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014
SEBI ICDR Regulations	SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended
SEBI Prohibition of Insider Trading Regulations	Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, as amended
Takeover Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
VCF	Venture capital funds as defined under the Securities and Exchange Board of India (Venture Capital Funds) Regulations, 1996 and registered with the SEBI

Notwithstanding the foregoing, terms in the sections "***Statement of Tax Benefits***", "***Financial Statements***" and "***Main Provisions of Articles of Association***" on pages 67, 209 and 197, respectively, shall have the meaning given to such terms in such sections.

CERTAIN CONVENTIONS, PRESENTATION AND USE OF FINANCIAL AND MARKET DATA

Certain Conventions

For definitions, see "***Definitions, Abbreviations and Industry Related Terms***". Unless stated otherwise, all references to "India" contained in this Information Memorandum are to the Republic of India and all references to page numbers in the Information Memorandum are to the page numbers of this Information Memorandum.

Unless stated otherwise, all references to "Rupees" or "Rs." or "₹" are to Indian Rupees, the legal currency of the Republic of India.

Financial Data

Unless stated otherwise, the financial data in this Information Memorandum is derived from our audited financial statements for the period commencing from October 21, 2014 till March 31, 2015, unaudited limited review financial results for the period commencing from April 1, 2015 to June 30, 2015 and audited condensed interim financials for the period ended September 30, 2015 prepared in accordance with Indian GAAP (as applicable to banks) and the Companies Act. In this Information Memorandum, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding-off. The Bank's fiscal year commences on April 1 and ends on March 31 of each year, so all references to a particular fiscal year are to the twelve month period ended March 31 of that year or the relevant period ending on March 31.

Unless stated otherwise, industry data used throughout this Information Memorandum has been obtained from industry publications. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe that industry data used in this Information Memorandum is reliable, it has not been independently verified.

The equity shares of IDFC Bank are currently not listed on any Stock Exchange.

FORWARD LOOKING STATEMENTS

We have included statements in this Information Memorandum, that contain words or phrases such as "will", "aim", "will likely result", "believe", "expect", "will continue", "anticipate", "estimate", "intend", "plan", "contemplate", "seek to", "future", "objective", "goal", "project", "should", "will pursue" and similar expressions or variations of such expressions that are "forward-looking statements".

All forward-looking statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by the relevant forward looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others:

- Our transformation and management of our growth
- General economic and business conditions in India and other countries;
- Our ability to successfully implement our strategy, our growth and expansion plans and technological changes;
- Our inability to foreclose on collaterals in a timely manner or at all in case of borrower'
- Availability of cost-effective funding sources
- Our ability to control costs
- Changes in the value of the Rupee and other currency changes;
- Changes in Indian or international interest rates;
- Changes in laws and regulations in India;
- Changes in political conditions in India; and
- Changes in the foreign exchange control regulations in India.
- Laws, rules, regulations, guidelines and norms applicable to the banking industry, including priority sector lending requirements, capital adequacy and liquidity requirements

For further discussion of factors that could cause our actual results to differ, see "***Risk Factors***" on page 10 of this Information Memorandum. By their nature, certain risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "***Management's Discussion and Analysis***" "***Industry Overview***" and "***Our Business***", given on pages 172, 82 and 98, respectively.

We do not have any obligation to, and do not intend to, update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition.

SECTION II - RISK FACTORS

Any investment in equity shares involves a high degree of risk. You should carefully consider all the information in this Information Memorandum, including the risks and uncertainties described below, before making an investment in the Equity Shares. The risks and uncertainties described in this section are not the only risks that we currently face. Additional risks and uncertainties not known to us or that we currently believe to be immaterial may also have an adverse effect on our business, results of operations, financial condition and prospects. If any of the following or any other risks actually occur, our business, results of operations, financial condition and prospects may be adversely affected and the price and value of your investment in the Equity Shares may decline, and you may lose all or part of your investment. The financial implications of risks, wherever quantifiable, have been disclosed in the risk factors mentioned below. However, there are certain risk factors where the financial implications are not quantifiable and, hence, have not been disclosed.

This Information Memorandum also contains forward-looking statements that involve risks and uncertainties. Our results could differ materially from such forward-looking statements as a result of certain factors including considerations described below and elsewhere in this Information Memorandum.

Internal Risks

Risks in relation to our Business

1. ***We have no operating history in the banking business and we are subject to all of the business risks and uncertainties associated with setting up a new business in general, and with banking operations in particular. Further, if we are unable to manage our growth effectively, our business and results of operations, financial condition and prospects may be adversely affected.***

   We have no operating history in the banking business. Accordingly, we are subject to all the business risks and uncertainties associated with setting up any new business venture, in particular, risks in relation to the banking business, which may adversely affect our business, results of operations, financial condition and prospects, including the following:

   - our inability to attract and retain talented professionals or the resignation or loss of key management personnel may have an adverse impact on our business and our future financial performance. Specifically, as we seek to expand our banking operations to smaller cities and towns as well as in unbanked rural areas, it may be more challenging to attract and retain qualified professionals in such locations;

   - given we have no operating history in the banking business, we may face significant challenges in continuously developing and institutionalizing our procedures and policies for our banking business. We may have to formulate suitable internal processes for managing the volumes of transactions that we expect going forward. As a new bank, our operations would require extensive monitoring, strict compliance with know-your-customer (“KYC”) requirements and prudent risk management. Our growth plans will place significant demands on our operational, credit, financial and other internal risk controls, making our management of asset quality increasingly important;

   - as we foray into banking operations, our product offerings will include current and savings accounts, escrow accounts, payment services, cash credit, other working capital loans, trade finance (including letters of credit and bank guarantees), cash and liquidity management, foreign exchange and foreign exchange hedging. Our ability to compete successfully in our banking operations will depend on our ability to create value propositions to attract and retain customers and cross-sell our products to them, and on our ability to anticipate and fulfil the needs of customers in target markets;

- as part of our overall growth and diversification strategy, as well as to meet specific regulatory targets for priority sector lending, we will be required to create an extensive branch network, including branches being located in unbanked rural areas. The opening of such bank branches may be subject to delays and risks associated with identifying suitable premises in the appropriate locations, negotiating and entering into leases for such premises on commercially viable terms and setting up relevant bank branches including through establishing the requisite physical and technological infrastructure. Notwithstanding our intention to streamline and support our physical branch network through technology-enabled platforms and multimodal banking channels, any significant delay or difficulty in rolling out our bank branch network may adversely affect our business, results of operations, financial condition and prospects;

- we are also heavily reliant on our systems technology in connection with financial controls, risk management and transaction processing, including successful implementation of the core banking solutions ("**CBS**") as required for all banks. We are also dependent on third party service providers for security systems and our technology infrastructure. In addition, our delivery channels will include ATMs, call centres and the internet. Any failure in any of our systems or any failure by such third party service providers, particularly for retail products and services and transaction banking services, could result in business interruption, loss of customers, damaged reputation and weakening of our competitive position and could have a material adverse effect on our financial condition and results of operations;

- we will need to develop our infrastructure to protect our security systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems for safe and secure banking service offerings. Although we have implemented technology driven security measures and establish operational procedures to prevent break-ins, damage and failures, there can be no assurance that these security measures will be successful. A significant failure in security measures could have a material adverse effect on our business and our future financial performance;

- we may face delays or difficulties in establishing and implementing the technology and physical infrastructure required for our banking operations, for instance, for the launch of solutions such as internet banking, telephone banking or mobile banking, which we believe would be convenient banking solutions, particularly for retail customers and for extending our reach beyond our physical branch network, as well as for retail products such as prepaid cards and travel cards. In any such event, our banking operations may not grow as we presently anticipate, we may not successfully recover our investments in setting up our banking operations or our profitability may be negatively impacted; and

- our banking operations may pose new business and financial challenges which may entail substantial senior level management time and resources and would put significant demands on our management team and other resources. As we grow and diversify, we may not be able to implement, manage or execute our strategy efficiently in a timely manner or at all. We cannot assure you that we will be able to sustain our robust financial performance and our banking operations may adversely affect our business, results of operations, financial condition and prospects, and our reputation and brand image.

2. ***Our financial statements for historic periods should not be considered indicative of our financial position for any future periods, subsequent to the commencement of our banking operations.***

   The financing undertaking business of IDFC Limited, comprising loans, liquidity and accrual book of treasury portfolio, current assets, borrowings, receivables, security interests, current liabilities and other assets and liabilities has been demerged into our Bank, pursuant to the Scheme of Demerger. However, we have no operating history in the banking business and our financial statements are for historic periods. Our historic financial statements are not representative or an indicator of our future performance and should not be considered indicative of our financial position for any future periods, subsequent to the commencement of our banking operations. Accordingly, it will be very difficult to evaluate our business prospects as we have no banking operating history and IDFC Limited's past performance will not be indicative of the Bank's future results of operations or financial condition.

3. ***The banking sector in India, particularly for a domestic banking company, is highly regulated, which may limit our operational flexibility. Further, the regulatory requirements for the banking sector in India are significantly different from and comparatively more onerous than the regulatory requirements for NBFC operations. Any failure to comply with such requirements or future increase in these regulatory requirements could adversely affect our banking business.***

   As a banking company, we are regulated under the Banking Regulation Act, 1949 (the "Banking Regulation Act") as well as various circulars and directives issued by the RBI, including on recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy, and provisioning for impaired assets. Banking companies are required to comply with prudential norms specified by the RBI from time to time on capital adequacy and market discipline, the classification, valuation and operation of their investment portfolio, and income recognition, asset classification and provisioning pertaining to advances, as well as complying with RBI directives on permissible loans and advances, permissible exposures, requisite disclosures in financial statements, fraud classification and reporting, and periodic disclosure requirements.

   For instance, under the RBI New Banks Licensing Guidelines, we are required to maintain a minimum CRAR of 13% on an ongoing basis for first three years. Subsequent to that, under the Basel III framework, which the RBI has notified for implementation in a phased manner, we will be required to maintain a minimum CRAR of 9% on an ongoing basis, including a Tier I CRAR of 7%, with higher targets as well as disclosure requirements for capital adequacy and risk coverage coming into effect from March 31, 2018, and full implementation by March 31, 2019. Further, under the Basel III framework, we are required to maintain an additional 2.5% as capital conservation buffer on the Tier I CRAR, which would on an aggregate require us to maintain a minimum CRAR of 11.5% on an ongoing basis post March 31, 2019. Further, we are required to maintain a minimum CRR of 4% of our net demand and time liabilities in a current account with the RBI. We will not earn interest income on the CRR. We are also be required to maintain a SLR equivalent to 21.50% of our net demand and time liabilities, to be invested in cash and government or other RBI-approved securities. In accordance with RBI guidelines, the exposure ceiling limits for loans would be 15% of capital funds in case of a single borrower and 40% of capital funds in the case of a borrower group for a bank, compared to an NBFC-IFC for which the exposure ceiling limits would be 25% of capital funds in case of a single borrower and 40% of capital funds in the case of a single borrower group.

   In the event that the CRAR, CRR or SLR requirements applicable to us are increased in the future, our assets available for making loans and advances to our borrowers would be correspondingly further reduced. Moreover, if we fail to meet prescribed prudential norms in our banking operations or otherwise to comply with regular reporting requirements applicable to a banking company, the RBI may charge penal interest for the period of default, or restrict our banking activities, or otherwise enforce increased scrutiny and control over our banking operations including by way of withholding approvals, or issuing conditional approvals, in respect of any proposed actions for which we may seek RBI approval in the future, or even cancelling our banking license in view of any major and/or sustained non-compliance. Any such actions or events may adversely affect our business, results of operations, financial condition and prospects.

Further, pursuant to the RBI New Banks Licensing Guidelines, the shareholding of the NOFHC in our Bank is required to be a minimum of 40% of its paid-up voting equity capital, subject to a five-year lock-in from the date of commencement of banking operations. The shareholding of the NOFHC in our Bank is required to be reduced in a phased manner thereafter, i.e., to be reduced to 40% within three years of the commencement of banking operations, to 20% within a period of 10 years, and to 15% within a period of 12 years. If we raise further capital during the first five years of commencement of banking operations, shareholding of the NOFHC will be required to be maintained at 40% of our enhanced share capital. Our inability to comply with such conditions may result in imposition of fines or penalties by the RBI. Further, the Banking Regulation Act limits our flexibility in many ways, including by way of specifying certain matters for which a banking company would require RBI approval. For instance, pursuant to the Banking Regulation Act, no shareholder in a banking company can exercise voting rights on poll in excess of 10% of the total voting rights of all its shareholders, notwithstanding such shareholder’s actual shareholding, which may be in excess of 10% of the total shareholding of such company, subject to permitted exceptions in respect of the holding company of a new bank in the private sector, set up and licensed under the RBI New Banks Licensing Guidelines. However, the RBI may increase this ceiling to 26% in a phased manner. Further, under the RBI New Banks Licensing Guidelines, no shareholder can hold more than 5% of the paid-up capital of the bank without prior approval of the RBI. The RBI approval is also required for the appointment and remuneration of the chairman, managing director and whole-time directors of any banking company, and for the creation of any floating charges to secure the borrowings of such banking company. The Banking Regulation Act also confers on the RBI the power to supersede any decision of the board of directors of a bank and to appoint an administrator to manage the bank for a period up to 12 months.

Additionally, under the RBI New Banks Licensing Guidelines, the NOFHC is not permitted to set up any new financial services entity for at least three years from the date of commencement of its operations. Further, as and when we intend to set up any new subsidiary, joint venture or associate under the NOFHC, we will need specific approval from the RBI. The RBI New Banks Licensing Guidelines also contain certain specifications as to the eligibility of the promoters of, the permitted corporate and management structure of, and prudential norms applicable to, the holding company of a new bank in the private sector. These requirements may limit our flexibility or adversely impact our growth strategy for our banking business, going forward, particularly as compared to established private sector banks to which the RBI New Banks Licensing Guidelines is not applicable.

4. ***As a consequence of being regulated as a banking company, we will be required to comply with regulatory directives in relation to priority sector lending which will limit our operational flexibility.***

The regulatory requirements applicable to banking companies in India, specifically, to domestic commercial banks, require us to make loans and advances to the agriculture and allied activities sector and to micro and small enterprises (as well as specified categories of export credit, housing loans, education loans, and loans to borrowers classified as ‘weaker sections’), which are, collectively, considered priority sectors, of a minimum of an aggregate of 40% of adjusted net bank credit ("ANBC") or the credit equivalent amount of off-balance sheet exposure (as on March 31 of the preceding fiscal), whichever is higher, comprising a minimum of 18% of ANBC being earmarked for agriculture.

The RBI has issued detailed directives as to the computation of ANBC or off-balance sheet exposures in this relation, clarifying, for instance, that contingent liabilities and off-balance sheet items do not form part of priority sector target achievement. The interest rates for various categories of priority sector loans are specified from time to time, and there is also a *de minimis* provision in terms of service charges not being leviable for priority sector loans below a specified amount. In relation to this requirement to extend priority sector loans and advances, we are also required to put in place internal controls and systems to ensure eligibility of borrowers under this category and the extension of loans and advances only for purposes approved by the RBI in this relation, and for monitoring end-use of priority sector loans and advances. Failing compliance with specified priority sector lending targets and sub-targets, we would be required to make equivalent contributions to the Rural Infrastructure Development Fund established with the National Bank for Agriculture and Rural Development ("NABARD") and other funds with NABARD, the National Housing Bank, the Small Industries Development Bank of India, or other financial institutions, or other such investments as may be prescribed by the RBI for this purpose, which typically have lower yields. Moreover, the non-achievement of specified priority sector lending targets and sub-targets is required to be taken into account by the RBI, at the time of granting any other approvals, registrations or clearances as may be sought from the RBI by a banking company from time to time.

The RBI New Banks Licensing Guidelines require us to comply with priority sector lending targets and sub-targets from the commencement of banking operations, and require us to open at least 25% of our bank branches in unbanked rural centres with a population of less than 10,000, to avoid over-concentration of branches in metropolitan areas and cities that already have adequate banking presence. The opening of new bank branches in such rural areas will be subject to locational, infrastructural and security risks and attracting professionals for such branches may also be difficult.

This requirement to extend priority sector loans and advances poses significant challenges for us, given that we have recently commenced our banking operations and we face competition from several established players in the banking sector in India, including from public sector banks with extensive branch networks, particularly in terms of rural branches. We may also face competitive pressures from foreign banks with a limited number of branches (i.e., less than 20 branches) in India, which are required to comply with a less stringent set of norms on priority sector lending, as compared to domestic commercial banks or foreign banks with a larger branch network in India. Moreover, there is limited scope for expanding a bank's agricultural loan portfolio through corporate borrowers due to the limited involvement of corporate entities in agricultural activities in India. Additionally, NPAs reported for priority sector lending have historically been higher as compared to non-priority sector lending, due to which we may face additional challenges in managing and maintaining our asset quality in our banking business, notwithstanding our compliance with credit exposure norms and proper due diligence and other control measures as well as our experience in managing and maintaining our asset quality in our NBFC business. However, it is possible that due diligence and KYC checks and compliances for priority sector borrowers may be particularly cumbersome or challenging, as compared to corporate and commercial banking customers, in part because the Credit Information Bureau of India Limited is largely urban focused at present. Further, the agricultural sector, which is the largest component of priority sector lending, is particularly susceptible to seasonality as well as trends or developments such as unfavourable monsoons, inclement weather or natural disasters such as droughts, floods or cyclones, reductions in price support mechanisms or subsidies available under Government policies, and various other factors that may be beyond our control or impossible or difficult for us to anticipate.

5. We cannot assure you that we will be able to adequately manage our interest rate risk in the future, and our inability to do so may have an adverse effect on our net interest income.

Our bank lending and treasury operations expose us to the risk of possible decline in Net Interest Margins (“NIM”), arising from an increase in interest rates applicable to our liabilities, without a corresponding increase in interest rates applicable to our assets. Therefore, if interest rates rise in the future, we may have difficulty in maintaining a low effective cost of funds. Moreover, an adverse impact on our NIM and net profit may reflect in a rating downgrade, which may further restrict our access to low-cost capital for the planned growth of our banking operations.

Interest rates are highly sensitive to many factors beyond our control, including the monetary policies of the RBI, deregulation of the financial sector in India, domestic and international economic and political conditions and other factors. Due to these factors, interest rates in India have historically experienced a relatively high degree of interest rate volatility.

Further, we are required to comply with SLR requirements equivalent to 21.50% of our net demand and time liabilities to be invested in cash and government or other RBI-approved securities. Yields on such prescribed securities will depend on interest rates. In a rising interest rate environment, especially if the rise were sudden or sharp, we may be adversely affected by the decline in the market value of our securities portfolio and other fixed income securities. A large portfolio of Government securities may limit our future ability to deploy bank funds into higher yield investments.

Further, in case our borrowings are linked to market rates, we may have to pay interest at a higher rate if interest rate increases. Moreover, when interest rates decline, we are subject to greater re-pricing and prepayment risks as borrowers take advantage of the attractive interest rate environment, and we may have difficulties in retaining our customers, and also because liabilities generally re-price faster than assets. When assets are re-priced, our spread on our loans, which is the difference between our average yield on loans and our average cost of funds, may be affected. During periods of low interest rates and high competition among lenders, borrowers may seek to reduce their borrowing cost by asking lenders to re-price loans. If we re-price loans, our results may be adversely affected in the period in which the re-pricing occurs. If borrowers prepay loans, the return on our capital may be impaired as any prepayment premium that we receive may not fully compensate us for the redeployment of such funds elsewhere. Further, the majority of the loans provided by us is long-term in nature and may not have escalation clauses and may be on a fixed rate basis. Any increase in interest rates over the duration of such loans may result in us losing interest income. Our inability to effectively and efficiently manage interest rate variations may adversely affect our result of operations and financial condition

6. Our business and financial performance could be adversely affected if we are unable to maintain or improve our brand image.

We believe our brand “IDFC” will significantly contribute to the success of our business. We believe that our success depends on our ability to leverage our brand image. We also believe that continuing to develop awareness of our brand, through focused and consistent branding and marketing initiatives, is critical to our ability to increase our revenues, increase penetration of our offerings in existing markets and expansion into new markets. If we are unable to respond in a timely and appropriate manner to changing consumer demand and fail to cater to our customer base, our brand name and brand image may be impaired and may result in a significant decrease in our revenue. Our product must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to rapid change. We may not be able to continue to successfully meet constantly changing consumer demands in the future. We cannot assure that our brands will be effective in attracting and growing our customer base. Any impairment of our reputation or erosion of our brand due to such factors, or any other risks or uncertainties presently unforeseen by us, may have an adverse effect on our business and prospects.

7. ***If we are unable to attract and/or manage our current account and savings account ("CASA") deposits or fail to establish our retail banking operations, our results of operations may be adversely affected.***

We seek to attract CASA deposits in order to reduce cost of funds and improve our core capital. Given we have no operating history in the banking business, particularly in the retail banking; we may not be able to attract retail customers and increase our CASA deposits. We may have to formulate certain incentive schemes, offer a rationalized interest rate to retail customers along with the roll out of our diversified delivery channels including ATMs, call centers and the internet, to encourage customers to deposit money in current and savings accounts. However, if are unable to establish and expand our retail banking business or fail to manage our CASA growth, our results of operations may be adversely affected.

8. ***The banking sector in India is fiercely competitive, particularly vis-à-vis public sector banks and established private sector banks that already have an extensive physical network and we may not be able to compete with these banks which may have an adverse impact on our results of operations.***

The banking sector in India is fiercely competitive. We will face competition from Indian and foreign commercial banks in the private sector, as well as public sector banks in India, and other financial services companies in India.

In particular, public sector banks as well as existing private sector banks, have an extensive customer and depositor base, larger branch networks, more capital and flexibility and, in case of public sector banks, Government support for capital augmentation, due to which they may enjoy corresponding economies of scale and greater access to low-cost capital, and accordingly, we, as a new bank, may not be able to compete with them. Moreover, since we have commenced our banking operations, we are subject to more stringent regulatory framework than the foreign banks, including more stringent priority sector lending targets compared to the foreign banks. Some of our competitors operating in India may also have access to greater capital and experience in the banking industry as well as lower concentration and exposure risks than us. Moreover, as a result of regulatory requirements to maintain CRR and SLR at specified rates, we may be structurally more exposed to interest rate risks, as compared to banks which are also operating in other countries or with significant international operations.

The RBI has also liberalized licensing regulations and intends to issue licenses on an on-going basis, subject to the RBI's qualification criteria. On February 22, 2013, the RBI issued Guidelines for Licensing New Banks in the Private Sector, which spells out a comprehensive framework for granting licenses to increase the number of banks. On November 6, 2013, the RBI also issued a Framework for setting up Wholly Owned Subsidiaries of Foreign Banks in India. Further, the RBI has issued Draft Guidelines for Licensing of Payments Banks and Draft Guidelines for Licensing of Small Banks on July 17, 2014. While 'Small Banks' are expected to provide a whole suite of basic banking products, such as, deposits and supply of credit, but in a limited area of operation, 'Payments Banks' are expected to provide a limited range of products, such as, acceptance of demand deposits and remittances of funds, but will have a widespread network of access points particularly to remote areas, either through their own branch network or through Business Correspondents or through networks provided by others. In addition, the RBI has, through a circular dated June 24, 2014, permitted non-deposit taking NBFCs ("NBFC-NDs") to act as business correspondents of banks, so as to accelerate financial inclusion in India. While these regulatory developments are recent, it is possible that such proposed institutions in the banking industry may increase competitive pressures in the banking sector, or that our competitors may be more equipped or more successful than us in operationalizing their banking services, their business correspondent relationships and networks.

Moreover, the requirement to anticipate and appropriately react to such competitive pressures and related industry trends may strain our management and other resources. Such competitive pressures and their incidental effects on us may adversely affect our business, results of operations, financial condition and prospects.

9. ***We may face challenges to obtain and maintain our credit ratings and, correspondingly, a low effective cost of funds which may adversely affect our business, results of operations, financial condition and prospects.***

Our bank lending and treasury operations exposes us to the risk of possible decline in NIM, arising from an increase in interest rates applicable to our liabilities, without a corresponding increase in interest rates applicable to our assets. Credit ratings reflect the opinions of rating agencies on our financial health, operating performance, strategic position and ability to meet our financial obligations. Certain factors that influence our credit ratings may be outside our control.

The pricing on our issuances of debt will be negatively impacted by our inability to obtain credit ratings or by any downgrade or potential downgrade in our credit ratings. This would increase our financing costs, and adversely affect our future issuances of debt and our ability to raise new capital on a competitive basis. In addition, any adverse revisions to India's credit ratings for domestic and international debt by international rating agencies may have a similar effect on our ability to raise additional financing and the terms at which such financing is available. This could have an adverse effect on our NIM, business, profitability and our ability to fund our growth.

10. ***We may face asset-liability mismatches, which may affect our liquidity position.***

We expect to meet our funding requirements from short and long term deposits from retail and corporate depositors, as well as inter-bank deposits. However, a significant portion of our assets will have significantly longer maturities than our liabilities. Moreover, if a significant number of depositors do not roll over their funds on maturity, our liquidity position may be adversely affected. In particular, due to our existing infrastructure financing portfolio and as we may continue to make significant additional project finance advances in the future, we expect that we may have relatively high credit to deposit ratios during our initial years of operation There can be no assurance as to our ability to grow, or as to the degree of our success in growing, our depositor base, or in ensuring that such depositors do not roll over their funds on maturity.

While our asset-liability management policy categorizes, and would continue to categorize, interest rate sensitive assets and liabilities into categories according to contracted residual maturities or anticipated re-pricing dates, as relevant, and the difference between the value of assets and liabilities maturing, or being re-priced, in any time period category would provide the measure to which we are exposed to the risk of potential changes in margins on new or re-priced assets and liabilities, our liquidity position may be adversely affected by the development of an asset-liability mismatch, which may have an adverse effect on our business, results of operations, financial condition and prospects. Moreover, in the context of project finance, risks arising from delayed project implementation or commissioning could result in a rise in delinquency rates and, in turn, affect our liquidity position, which may have an adverse effect on our business, results of operations, financial condition and prospects.

11. ***We may be unable to foreclose on collateral in a timely fashion or at all when borrowers default on their obligations to us, or the value of collateral may decrease, any of which may result in failure to recover the expected value of collateral security, increased losses and a decline in net profits.***

Our loans are typically secured by collateral, which consists of liens on inventory, receivables and other current assets, and in some cases, charges on fixed assets, such as property, movable assets and financial assets. We may not be able to realize the full value of the collateral, due to, among other things, stock market volatility, changes in economic policies of the Indian government, obstacles and delays in legal proceedings, borrowers and guarantors not being traceable and defects in the perfection of collateral and fraudulent transfers by borrowers. In the event that a specialized regulatory agency gains jurisdiction over the borrower, creditor actions can be further delayed. In addition, the value of collateral may be less than we expect or may decline. For example, the global economic slowdown and other domestic factors had led to a downturn in real estate prices in India. If we are unable to foreclose on our collateral or realize adequate value, our losses will increase and our net profits will decline. In addition, if a company becomes a "sick unit" (as defined under Indian law, which provides for a unit to be so categorized based on the extent of its accumulated losses relative to its stockholders' equity), foreclosure and enforceability of collateral is stayed. The RBI has set forth guidelines on Corporate Debt Restructuring (CDR) via the corporate debt restructuring cell. The guidelines envisage that for debt amounts of Rs. 100 million and above, 60% of the creditors by number, in addition to 75% of creditors by value, can decide to restructure the debt and such a decision would be binding on the remaining creditors. In situations where we own 25% or less of the debt of a borrower, we could be forced to agree to an extended restructuring of debt, instead of foreclosure of security or a one-time settlement, which could adversely affect our profitability.

12. ***There is outstanding litigation against our Bank, our Directors, our Promoters and our Group Companies. Any adverse outcome in any of these proceedings may adversely affect our profitability and reputation and may have a material adverse effect on our financial condition and results of operations.***

With effect from the Effective Date of the Demerger Scheme, all outstanding litigation in relation to the Financing Undertaking has been transferred from IDFC Limited to our Bank. These proceedings are pending at different levels of adjudication before various courts, tribunals, authorities, enquiry officers and appellate tribunals. The brief details of such outstanding litigation are as follows:

Litigation against our Bank:

Nature of the cases	**No. of cases outstanding**	**Amount involved (in Rs. Million)**
Criminal proceedings	1	For details please see "***Outstanding Litigation and Material Developments***
Civil proceedings	6	

Litigation against our Directors:

Nature of the cases	**No. of cases outstanding**	**Amount involved (in Rs. Million)**
Criminal complaint	1	For details please see "***Outstanding Litigation and Material Developments***

Litigation against our Promoters:

Nature of the cases	**No. of cases outstanding**	**Amount involved (in Rs. Million)**
Nil	Nil	Nil

Litigation against our Group Companies:

Nature of the cases	**No. of cases outstanding**	**Amount involved (in Rs. Million)**
Civil Proceedings	4	For details please see "***Outstanding Litigation and Material Developments***

For further details, see "***Outstanding Litigation and Material Developments***" on page 184.

We cannot assure you that these legal proceedings will be decided in favour of our Bank, the Directors, Promoters or Group Companies, as the case may be, or that no further liability will arise out of these proceedings. Further, such legal proceedings could divert management time and attention and consume financial resources. Any adverse outcome in any of these proceedings may adversely affect our profitability and reputation and may have a material adverse effect on our financial condition and results of operations.

Further, we may, in future, be required to create provisions and contingencies in our books of accounts, on account of litigation claims against our Bank. If any of these contingent liabilities were to materialize, fully or partially, our financial results could be materially and adversely affected.

13. ***Our unsecured loan portfolio is not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, we may be unable to collect the unpaid balance.***

Unsecured loans are a greater credit risk for us than our secured loan portfolio because they may not be supported by realizable collateral that could help ensure an adequate source of repayment for the loan. We may be unable to collect in part or at all in the event of non-payment by a borrower. Further, any expansion in our unsecured loan portfolio could require us to increase our provision for credit losses, which would decrease our earnings.

14. ***Our inability to obtain, renew or maintain the statutory and regulatory permits and approvals required to operate our business could have a material adverse effect on our business.***

We require certain statutory and regulatory approvals and license for our business. We have licences from the RBI for all of our banking and other operations and some other approvals and are subject to supervision and regulation by the RBI. Additionally, we may need to apply for further approvals in the future including renewal of approvals that may expire from time to time. There can be no assurance that the relevant authorities will issue such approvals or license in the timeframe anticipated by us or at all. Failure by us to renew, maintain or obtain the required permits or approvals at the requisite time may result in the interruption of our operations and may have an adverse effect on our business, financial condition and results of operations. Further, we cannot assure that the approvals, licenses, registrations and permits issued to us would not be suspended or revoked in the event of non-compliance or alleged non-compliance with any terms or conditions thereof, or pursuant to any regulatory action. Any failure to renew the approvals that have expired or apply for and obtain the required approvals, licenses, registrations or permits, or any suspension or revocation of any of the approvals, licenses, registrations and permits that have been or may be issued to us, may impede our operations.

15. ***As part of our banking business, we will seek to diversify our product offerings and also diversify our focus beyond the infrastructure sector. In the event, we are unable to implement our diversification strategies both in relation to our product offerings and entering into other industry sectors; it can have a material adverse effect on our business and results of operations.***

We seek to leverage our experience in infrastructure finance to build our presence in the banking sector and develop new customer and industry relationships beyond the infrastructure sector. However, we have no significant prior experience with customers in those sectors and we may not be able to implement our business strategies effectively and our new initiatives may divert management resources from areas in which they may be otherwise better utilized. We will also face significant competition from private banks, public sector banks, foreign banks and NBFCs who may already be active in these sectors. As we seek to diversify our banking operations beyond infrastructure sector, we will face the risk that some of our competitors may be more experienced in or have a deeper understanding of these sectors or have better relationships with potential customers in these sectors.

Further, we also intend to expand our products by cross-selling diversified products, such as cash management solutions and supply chain financing to our corporate customers, as well as financial institutions and government bodies. In this relation, we intend to provide products and services such as current account, escrow account, cash credit, other working capital loans, trade finance (including letters of credit and bank guarantees), cash management, and foreign exchange (which only banks are permitted to offer, in the current regulatory framework in India) to our customers. We cannot assure you that we will be able to successfully offer new products to our customers to establish our presence in the banking sector.

16. ***Our Promoters will continue to hold a significant percentage of our share capital and exercise influence over board decisions that could directly or indirectly impact their interest over our interest.***

Pursuant to the RBI New Banks Licensing Guidelines, the shareholding of the NOFHC in our Bank is required to be a minimum of 40% of its paid-up voting equity capital, subject to a five-year lock-in from the date of commencement of banking operations. The shareholding of the NOFHC in our Bank is required to be reduced in a phased manner thereafter, i.e., to be reduced to 40% within three years of the commencement of banking operations, to 20% within a period of 10 years, and to 15% within a period of 12 years.

Upon completion of the Demerger, the Promoters own 53.00% of our post-Issue equity share capital. As a result, the Promoters have the ability to control the Issue and our business including matters relating to any sale of all or substantially all of our assets, the timing and distribution of dividends and the election or termination of appointment of our officers and Directors. This control could delay, defer or prevent a change in control of our Bank, impede a merger, consolidation, takeover or other business combination involving our Bank, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our Bank even if it is in our Bank's best interest.

In addition, for so long as the Promoters continue to exercise significant control over our Bank; they may influence the material policies of our Bank in a manner that could conflict with the interests of our other shareholders. The Promoters may have interests that are adverse to the interests of our other shareholders and may take positions with which our other shareholders do not agree.

17. ***We have entered into and may in the future enter into related party transactions. There is no assurance that our future related party transactions would be on terms favourable to us when compared to similar transactions with unrelated third parties.***

We have in the course of our business entered into, and will continue to enter into, several transactions with related parties. For details, see "***Related Party Transactions***" on page 167. We cannot assure you that we will receive similar terms in our related party transactions in the future. We cannot assure you that we could not have achieved more favourable terms had such transactions been entered into with unrelated parties. The transactions we have entered into and any further transactions with our related parties have involved or could potentially involve conflicts of interest which may be detrimental to our Bank. Further, the Companies Act, 2013 has brought into effect significant changes to the Indian company law framework including specific compliance requirements such as obtaining prior approval from the audit committee, board of directors and shareholders for certain related party transactions. We cannot assure you that such transactions, individually or in the aggregate, will not have an adverse effect on our business and financial condition, including because of potential conflicts of interest or otherwise.

18. ***Significant security breaches, fraud or system failures could adversely impact our new banking business.***

We are heavily reliant on technology based systems, in connection with financial controls, risk management and transaction processing. In addition, our delivery channels include ATMs, call centres and the internet. Any failure in any of our systems, particularly for retail products and services and transaction banking services, may result in business interruption, loss of customers, damaged reputation and weakening of our competitive position and may have a material adverse effect on our financial condition and results of operations. Further, while we have already implemented certain security measures, technology and establish operational procedures to prevent break-ins, damage and failures, there can be no assurance that these security measures will be successful. A significant failure in security measures may have a material adverse effect on our business and our future financial performance. We may have a high volume of transactions, particularly its retail banking operations and although we propose to take adequate measures to safeguard against system-related and other failures, there can be no assurance that we will be able prevent frauds. Further, our reputation could be adversely affected by significant frauds committed by any employees, customers or other third parties.

19. ***We do not own some of the trade names or trademarks that we use. We may be unable to adequately protect our intellectual property. Furthermore, we may be subject to claims alleging breach of third party intellectual property rights.***

Our intellectual property includes trademarks associated with our business. IDFC Limited has registered IDFC (black and white and colour) label in goods and services under various classes including, financial and advisory services, financial brokerage services, real estate affairs, loans, mutual funds, consultancy, management, etc, as its trademark and has applied to the trademarks registry for registration of the same under different classes. Further, IDFC Limited has e-filed requisite applications before the concerned trademark registry, Mumbai for registration of the mark IDFC (in color), IDFC (in greyscale) and IDFC (in black & white) in five different classes (Class 16, Class 35, Class 36, Class 41 and Class 42) under the Trademarks Act, 1999 and Rules made thereunder. The said trademarks are being used by

IDFC Bank Limited and other identified group companies of IDFC Limited. The said applications are pending approval of the concerned trademark registry.

In the absence of such protection, we may not be able to prevent infringement of our trademarks and a passing off action may not provide sufficient protection until such registration is granted. In addition, if our unregistered trademark is registered in favour of a third party, we may not be able to claim registered ownership of the trademarks and consequently, we may be unable to seek remedies for infringement of these trademarks by third parties other than relief against passing off by other entities. Further, we may become subject to claims by third parties if we use any of these trademarks in breach of any intellectual property rights registered by such third parties. Any legal proceedings pursuant to such claims, or settlements thereunder, may divert management attention and require us to pay financial compensation to such third parties. Our inability to obtain or maintain these registrations may adversely affect our brand value and business prospects, particularly in relation to our retail consumer business. Furthermore, we cannot guarantee that the use of our brand and trademarks will not infringe the intellectual property rights of any third party or otherwise violate any applicable laws. Any liability or claim in relation to our use of such brands and trademarks made or threatened to be made against us in the future, regardless of its merits, could result in costly litigation and strain our administrative and financial resources. If we fail to effectively protect our brand and trademarks, our reputation could suffer severe damage, which in turn could have a material adverse effect on our business, financial condition and results of operations.

20. ***Our insurance coverage could prove inadequate to satisfy potential claims. If we were to incur a serious uninsured loss or a loss that significantly exceed the limits of our insurance policies, it could have a material adverse effect on our business, results of operations and financial condition.***

    We maintain what we believe to be standard insurance coverage in India and worldwide, commensurate with industry standards and with reputed insurers, including, for instance, a risk held covered for banker's blanket bond, a standard fire and perils policy, comprehensive group liability insurance policy, a directors and officers' insurance policy, a group crisis control policy, consumer and rural banking lost debit card liability, etc. We have taken out insurance within a range of coverage consistent with industry practice in India to cover certain risks associated with our business. We cannot assure you that our current insurance policies will insure us fully against all risks and losses that may arise in the future. In addition, even if such losses are insured, we may be required to pay a significant deductible on any claim for recovery of such a loss, or the amount of the loss may exceed our coverage for the loss. In addition, our insurance policies are subject to annual review, and we cannot assure you that we will be able to renew these policies on similar or otherwise acceptable terms, if at all. If we were to incur a serious uninsured loss or a loss that significantly exceed the limits of our insurance policies, it could have a material adverse effect on our business, results of operations and financial condition.

21. ***A slowdown in economic growth in India would cause us to experience slower growth in our asset portfolio and deterioration in the quality of our assets.***

    Our performance and the quality and growth of our assets are necessarily dependent on the health of the overall Indian economy, which in turn is linked to global economic conditions. The global slowdown of the financial market and economies had contributed to weakness in the Indian financial and economic environment. Global growth is likely to remain below trend level due to subdued growth in the Eurozone and the effect of weakened Chinese growth prospects on emerging markets. We remain concerned that below-trend global growth may adversely affect the growth prospects of the Indian economy. These conditions, including global financial crisis, could result in a prolonged slowdown in the Indian economy, which would adversely affect our business, including our ability to grow our asset portfolio, the quality of our assets and our ability to implement our strategy. In particular, the Indian economy may be adversely affected by volatile oil prices, given India's dependence on imported oil for its energy needs, inflationary pressures and weather conditions adversely affecting the Indian agricultural market or other factors. If the Indian economy deteriorates, our asset base may erode, which would result in a material decrease in our net profits and total assets.

22. ***We are dependent on a number of key management personnel, including our senior management, and the loss of or our inability to attract or retain such persons could adversely affect our business and financial condition.***

We are highly dependent on our management team, including the efforts of our Chairman, our Managing Director and Chief Executive Officer, our Executive Directors and members of our senior management. Our future performance is dependent on the continued service of these persons. We also face a continuing challenge to recruit and retain a sufficient number of skilled personnel, particularly if we continue to grow. Competition for management and other skilled personnel in our industry is intense, and we may not be able to attract and retain the personnel we need in the future. The loss of key personnel may restrict our ability to grow and consequently have a material adverse impact on our results of operations and financial position.

23. ***Our ability to pay dividends in the future will depend upon our future earnings, financial condition, cash flows, working capital requirements, capital expenditures and restrictive covenants in our financing arrangements.***

Our future ability to pay dividends will depend on our earnings, financial condition and capital requirements. Dividends distributed by us will attract dividend distribution tax at rates applicable from time to time. We cannot assure you that we will generate sufficient income to cover our operating expenses and pay dividends to our shareholders, or at all. In addition, dividends that we have paid in the past may not be reflective of the dividends that we may pay in a future period. Our ability to pay dividends is also subject to the requirements prescribed by the RBI. We may be unable to pay dividends in the near or medium term, and our future dividend policy will depend on our capital requirements, financing arrangements, results of operations and financial condition. See also "***Dividend Policy***" on page 168.

24. ***Banking regulations in India are extensive and material changes in such regulations may adversely affect our business and our future financial performance.***

The banking and financial sector in India is highly regulated and extensively supervised, including by RBI. Laws, rules and regulations and regulatory interpretations may change from time to time. Compliance with applicable laws, rules and regulations may restrict our business activities or require us to incur increased expense and to devote considerable time to such compliance efforts. Our business could be directly affected by any changes in laws, regulations and policies for banks, including if we are directed to increase lending to certain sectors or increase our reserves. Such changes may also affect our scope in specific businesses or foreign investment limits in the banking industry. Any such changes may require us to modify our business, which may adversely affect our financial results. RBI guidelines and provisions of the Banking Regulation Act also restrict our ability to pay dividends. RBI also requires banks to maintain certain cash reserve and statutory liquidity ratios, and increases in such requirements could affect our ability to expand credit. Any RBI requirements specifying increase in provisioning norms for impaired assets, risk weighting and capital adequacy may adversely affect our financial condition. In addition, any action by any regulator to curb inflows into India could negatively affect our business.

25. ***Our offices are located on leased premises and the non-renewal or premature termination of the existing lease agreements or their renewal on unfavourable terms could adversely affect our business and results of operations.***

Our registered office, most of our branches, ATMs and marketing outlets are located on premises leased from third parties. There can be no assurance that these leases will be renewed or extended or that new leases will be entered into for similar periods in the future. In the event these leases are not renewed or new leases are not entered into at terms acceptable to us or at all, Further, if any of these leases are terminated or revoked subsequent to or during its tenure, or if we have to cease operations at such property for any reason, our business, results of operations, financial condition and prospects could be materially and adversely affected. If any of the owners of these premises does not renew an agreement under which we occupy the premises, attempts to evict us or seeks to renew an agreement on terms and conditions non-acceptable to us, we may suffer a disruption in our operations or increased costs, or both, which may adversely affect our business and results of operations.

26. ***We face cyber threats, such as hacking, phishing and trojans, attempting to exploit our network to disrupt services to customers and/or theft of sensitive internal Bank data or customer information. This may cause damage to our reputation and adversely impact our business and financial results.***

We offer internet banking services to our customers. Our internet banking channel includes multiple services such as electronic funds transfer, bill payment services, usage of credit cards on-line, requesting account statements, and requesting check books. We are therefore exposed to various cyber threats such as: a) phishing and trojans—targeting our customers, wherein fraudsters send unsolicited mails to our customers seeking account sensitive information or to infect customer machines to search and attempt exfiltration of account sensitive information; b) hacking—wherein attackers seek to hack into our website with the primary intention of causing reputational damage to us by disrupting services; and c) data theft—wherein cyber criminals may attempt to intrude into our network with the intention of stealing our data or information. Attempted cyber threats fluctuate in frequency but are generally not decreasing in frequency. There is also the risk of our customers incorrectly blaming us and terminating their accounts with us for a cyber-incident which might have occurred on their own system or with that of an unrelated third party. Any cyber security breach could also subject us to additional regulatory scrutiny and expose us to civil litigation and related financial liability.

27. ***Negative publicity could damage our reputation and adversely impact our business and financial results.***

Reputational risk, or the risk to our business, earnings and capital from negative publicity, is inherent in our business. The reputation of the financial services industry in general has been closely monitored as a result of the financial crisis and other matters affecting the financial services industry. Negative public opinion about the financial services industry generally or us specifically could adversely affect our ability to attract and retain customers, and may expose us to litigation and regulatory action. Negative publicity can result from our actual or alleged conduct in any number of activities, including lending practices, mortgage servicing and foreclosure practices, corporate governance, regulatory compliance, mergers and acquisitions, and related disclosure, sharing or inadequate protection of customer information, and actions taken by government regulators and community organizations in response to that conduct. Although we take steps to minimize reputational risk in dealing with customers and other constituencies, we, as a large financial services organization with a high industry profile, are inherently exposed to this risk.

28. The shares of the Bank are proposed to be listed on the Stock Exchanges and will begin trading only a few days pursuant to listing. The shares of IDFC Limited will not reflect the value of equity shares of the Bank.

In accordance with the Scheme of Demerger, the equity shares of the Bank which have been issued pursuant to the Scheme of Demerger shall be listed and admitted to trading on NSE and BSE pursuant to the Effective Date. Further, such listing and admission is not automatic and is subject to such other terms and conditions as may be prescribed by BSE and NSE at the time of application by our Bank for seeking listing. As a result, trading in the equity shares of the Bank will not begin immediately upon listing and may take a few days. Although the equity shares of one of our Promotors, IDFC Limited is presently listed and trading, it will not reflect the value of IDFC Bank.

29. We have limited experience in granting credit to SMEs in past, lack of existing relationship coupled with limited access to credit and financial information may decrease the accuracy of our assessments of credit risks and thereby increase the likelihood of borrower defaults.

We seek to expand our portfolio size and market reach, with diversified products. We are continuing to explore opportunities to expand our business and may in the future grant credit facilities to SME. However, we have limited experience in the SME portfolio and this could affect our business. Expansion of our portfolio into new areas entail inherent risks associated with inexperience and competition from mature participants in those areas. Our inexperience while undertaking such expansion could harm our financial condition and results of operations. A nationwide credit bureau, viz., the Credit Information Bureau (India) Limited ("**CIBIL**") has become operational in India and RBI has approved the creation of other credit information bureaus. However, CIBIL does not presently report information from retailers, utility companies and trade creditors, and no other nationwide bureaus of this nature presently exist. While the law provides us with better access to credit information, there may be relatively less financial and credit information available on SMEs and in relation to the possibility of double-financing obtained by any such clients, than may have been available to a factor in a more developed economy, and the availability of such financial and credit information in India may be considered to suffer from an absence of competitive pressure at present.

30. We have significant exposure to certain sectors and to certain borrowers and if certain assets become non-performing or if these sectors or such borrowers experience any difficulties, the quality of our asset portfolio may be adversely affected.

We monitor concentration of exposures to sectors and borrowers. We calculate customer and sector exposure, as required by the RBI, by aggregating the higher of the outstanding balances of, or limits on, funded and non-funded exposures. Funded exposures include loans and investments (excluding investments in government securities, units of mutual funds, deposit certificates issued by banks and equity shares).

As of June 30, 2015, our largest sector concentrations, in each case as a percentage of our net advances, were in the energy, telecommunications and transportation sectors. Any negative trends or adverse developments in these sectors, particularly those that may affect our large corporate borrowers and industrial groups, may increase the level of non-performing assets in our portfolio and adversely affect our business and financial condition. For instance, the recent judgment of the Supreme Court of India relating to coal block allocations may adversely affect some of our borrowers in the energy sector. Also there has been a distinct slowdown in activities across the various infrastructure sectors in India in recent years, due to various political, regulatory and economic difficulties, lack of gas supply, difficult monetary position of state-owned electricity distribution companies, insufficient awards of highway projects, as well as the challenging financial condition of a number of infrastructure companies in India.

For the foreseeable future, we expect to continue to have a significant concentration of assets in these sectors and to certain borrowers and borrower groups, notwithstanding the commencement of our banking operations. As on June 30, 2015, our top 20 corporate borrowers in the aggregate accounted for 44% of our total cumulative outstanding approvals and our 20 largest borrower groups in the aggregate accounted for 72% of our total cumulative outstanding approvals, in terms of sanctioned loans, while our top 20 corporate borrowers in the aggregate accounted for 43% of our total exposure and our 20 largest borrower groups in the aggregate accounted for 70% of our total exposure, in terms of outstanding disbursement. Credit losses on our significant single borrower and group exposures may adversely affect our business and financial condition. In addition, at present a majority of our income is in the form of interest income received from our borrowers. Any default by our large borrowers may have an adverse impact on our results of operations and financial condition.

31. New payment banks and small banks could potentially change the banking environment in India.

The growth of the Indian banking sector has scaled up in recent years and several policy initiatives have been undertaken to handle these challenges and encourage the growth of the Indian banking sector. RBI has granted in-principle approval to new applicants to set up ‘payment banks’ and ‘small banks’ under the RBI New Banking Guidelines. RBI has introduced these two classes of banks in order to ensure the expansion and reach of formal finance to rural and remote underserved segments of the population. Payment banks and small banks can undertake basic banking activities without having a conventional brick-and-mortar structure. Both payment banks and small banks have a nice practice area and are allowed to primarily undertake basic banking activities without requiring customers to approach the bank’s branch. Payment banks and small banks also have a smaller capital and promoter contribution requirement and aim at serving small business units, small and marginal farmers, micro and small industries and unorganised sector entities without any restriction in the area of operations. Payment banks enable their customers to undertake various activities such as transfers, remittances, cashless purchases, etc. directly through mobile phones without requiring them to approach the bank’s branch. While small banks are expected to provide a whole suite of basic banking products, such as, deposits and supply of credit, but in a limited area of operation. However, due to the lack of requirement of a brick and mortar structure, these banks may be able to reach out to the needs of smaller customers in rural areas directly through mobile phones and other technological means besides having a widespread network of access points particularly to remote areas, either through their own branch network or through Business Correspondents or through networks provided by others. Thus, payment banks and small banks may cause a rapid change in the competitive landscape and demands of faced by the Indian banking sector.

These regulatory developments may increase competitive pressures in the banking sector and enable small banks and payment banks to more successfully operationalize their banking services, their business correspondent relationships and networks. We cannot assure you that we will be able to successfully compete with payment banks or small banks, who may be able to approach and retain customers in a faster and more effective manner. Our failure to tackle our competitors may affect our business, results of operations, financial condition and prospects, and our reputation and brand image.

32. Changing demographics – banks are spending and investing heavily in technology which is fast changing.

We are heavily reliant on our systems technology to carry out our business operations, financial controls, risk management and transaction processing, including successful implementation of our core banking solutions as required for all banks. Certain peers may be weighed down by their legacy platforms which require substantial capital and resource commitments to upgrade. However, in recent times, banks have begun to spend and invest heavily in scaling up their technological infrastructure in order to effectively compete with competitors and peers. Although we are capable of catering to a wide spectrum of clients who have differentiated needs and expectations by extending our reach far beyond our current physical network, our competitors may soon have systems and technology which may be as sophisticated or more advanced than our technology-enabled banking systems and processes.

We cannot assure you that we will be able to further scale up our technology or banking software systems and related infrastructure, or that such investment may reduce our operational costs or help us to manage competition. Our failure to ensure that our banking-related technology and operating software systems are better than our peers may result in our systems becoming obsolete and may affect our business, results of operations, financial condition and prospects, and our reputation and brand image.

External Risks

Risks Relating to India

33. The Companies Act, 2013 has effected significant changes to the existing Indian company law framework and the SEBI has introduced the listing regulations as well as changes to the listing agreement, which have been effective from October 1, 2014, which may subject us to greater compliance requirements and increase our compliance costs.

A majority of the provisions and rules under the Companies Act, 2013 have been notified and have come into effect from the date of their respective notification, resulting in the corresponding provisions of the Companies Act, 1956 ceasing to have effect. The Companies Act, 2013 has brought into effect significant changes to the Indian company law framework, such as in the provisions related to issue of capital (including provisions in relation to issue of securities on a private placement basis), disclosures in an offer document, corporate governance norms, accounting policies and audit matters, reporting on internal controls over financial reporting by the board of directors, specific compliance requirements such as obtaining prior approval from the audit committee, board of directors and shareholders for certain related party transactions, introduction of a provision allowing the initiation of class action suits in India against companies by shareholders or depositors, a restriction on investment by an Indian company through more than two layers of subsidiary investment companies (subject to certain permitted exceptions), prohibitions on loans to directors, insider trading and restrictions on directors and key managerial personnel from engaging in forward dealing. Subject to meeting certain specified net worth criteria, we may also need to spend, in each fiscal year, at least 2% of our average net profits during the three immediately preceding fiscal years towards corporate social responsibility activities or provide an explanation for not spending such amount. As a result of the changes brought about by the Companies Act, 2013 to the provisions relating to accounting policies, we are required to apply a different rate of depreciation as compared to the past. Further, the Companies Act, 2013 imposes greater monetary and other liability on our Bank and Directors for any non-compliance. Further, SEBI notified the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, on September 2, 2015 ("**Listing Regulations**") and certain provisions pertaining to shareholder resolutions for material related party transactions and re-classification of promoters as public shareholders in certain circumstances, are required to be implemented immediately.

To ensure compliance with the requirements of the Companies Act, 2013 and the Listing Regulations, we may need to allocate additional resources, which may increase our regulatory compliance costs and divert management attention. We may incur increased costs relating to compliance with these new requirements, which may also require significant management time and other resources, or we may be subject to fines or other penalties if we are unable to comply with such requirements, which may adversely affect our business, results of operations, cash flows and financial condition.

The Companies (Amendment) Act, 2015 has recently been introduced and the majority of its provisions have come into effect from May 29, 2015. The Companies (Amendment) Act, 2015 provides for, among other things, removal of the requirement of minimum share capital for incorporation of a company, relaxation from special resolution for approval of related party transactions by non-related shareholders, auditor reporting of frauds, empowering the audit committee to give omnibus approvals for related party transactions, exemptions to certain transactions in relation to subsidiaries and wholly owned subsidiaries from the provisions regarding restrictions on loans to directors and specific punishment for deposits accepted under the Companies Act, 2013.

Our business and financial performance could be adversely affected by any change in laws or interpretations of existing laws, or the promulgation of new laws, rules and regulations applicable to us and our business. There can be no assurance that the Government or state governments will not introduce new laws, regulations and policies which will require us to obtain additional approvals and licenses or impose onerous requirements on our business.

34. Public companies in India, including us, may be required to prepare financial statements under IFRS or a variation thereof, IND-AS. The transition to IND-AS in India is still unclear and we may be adversely affected by this transition.

We may be required to begin preparing financial statements in accordance with IND-AS in the near future once regulatory authorities notify us that the implementation of IND-AS will be mandatory for banking institutions. The Ministry of Corporate Affairs, in its press release dated January 2, 2015, issued a roadmap for implementation of Indian Accounting Standards (IND-AS) converged with IFRS. Subsequently, the Ministry issued the Companies (Indian Accounting Standards) Rules 2015 (the "**Rules**") on February 16, 2015 which became effective on April 1, 2015. Under the Rules, the (IND-AS) is applied to the following companies: (i) for accounting periods beginning on or after April 1, 2016 (with comparatives for the period ending March 31, 2016 or thereafter), all companies with net worth of ₹ 5,000 million or more; and (ii) for accounting periods beginning on or after April 1, 2017 (with comparatives for the period ending March 31, 2017 or thereafter) listed or to be listed companies (i.e., whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India) with net worth less than ₹ 5,000 million and unlisted companies with net worth between ₹ 2,500 million and ₹ 5,000 million. These requirements would also apply to any holding, subsidiary, joint venture or associate companies of such companies affected by the Rules. This roadmap is, however, not applicable to banking companies, insurance companies and non-banking finance companies. We have not determined with any degree of certainty the impact such adoption will have on its financial reporting. Further, the new accounting standards will change, among other things, our methodology for estimating allowances for probable loan losses and for classifying and valuing its investment portfolio and its revenue recognition policy. There can be no assurance that our financial condition, results of operations, cash flows or changes in shareholders' equity will not appear materially worse under IND-AS than under Indian GAAP (as applicable to banks). In our transition to IND-AS reporting, we may encounter difficulties in the ongoing process of implementing and enhancing its management information systems. Moreover, there is increasing competition for the small number of IFRS-experienced accounting personnel available as more Indian companies begin to prepare IND-AS financial statements. Further, there is no significant body of established practice on which to draw in forming judgments regarding the new system's implementation and application. There can be no assurance that our adoption of IND-AS will not adversely affect its reported results of operations or financial condition and any failure to successfully adopt IND-AS could adversely affect the Bank's business, financial condition and results of operations.

35. Financial instability in other countries may disrupt our business in India.

The Indian market and the Indian economy are influenced by economic and market conditions in other countries. Although economic conditions are different in each country, investors' reactions to developments in one country can have adverse effects on the economy as a whole, in other countries, including India. A loss of investor confidence in the financial systems of other emerging markets may cause volatility in Indian financial markets and indirectly, in the Indian economy in general. Any worldwide financial instability may also have a negative impact on the Indian economy, including the movement of exchange rates and interest rates in India. In the event that the current difficult conditions in the global credit markets continue or if the recovery is slower than expected or if there any significant financial disruption, this may have an adverse effect on our business, results of operations, financial condition and prospects.

36. Any adverse change in India's sovereign credit rating by an international rating agency could adversely affect our business and profitability.

In May 2013, Standard & Poor's, an international rating agency, reiterated its negative outlook on India's credit rating. It identified India's high fiscal deficit and heavy government borrowing as the most significant constraints on its ratings, and recommended the implementation of reforms and containment of deficits. In June 2013, Fitch, another international rating agency, returned India's sovereign outlook to "stable" from "negative" a year after its initial downgrade of the outlook, stating that the authorities had been successful in containing the upward pressure on the central government budget deficit in the face of a weaker-than-expected economy and that the authorities had also begun to address structural factors that have weakened the investment climate and growth prospects. Similarly, Standard & Poor's upgraded its outlook on India's sovereign debt rating to "stable", while reaffirming the "BBB" long-term rating on bonds. Standard & Poor's stated that the revision reflects the view that India's improved political setting offers an environment which is conducive to reforms that could boost growth prospects and improve fiscal management. Going forward, the sovereign ratings outlook will remain dependent on whether the government is able to transition the economy out of a low-growth and high inflation environment, as well as exercise adequate fiscal restraint. Any adverse change in India's credit ratings by international rating agencies may adversely impact our business.

37. Any volatility in the exchange rates may lead to a decline in India's foreign exchange reserves and may affect liquidity and interest rates in the Indian economy, which could adversely impact us.

Capital inflows into India have remained extremely volatile responding to concerns about the domestic macroeconomic landscape and changes in the global risk environment. The primary challenge for the Indian rupee was the volatile swings in capital flows. Even though the Indian rupee has been fairly stable since start of calendar year 2014, it may come back under pressure given the possibility of a gradual reversal in US monetary policy that may result in a rotation of global fund flows from emerging markets to the US markets over the medium term. Further, the devaluation of its currency by China has volatility in India's exchange rate. Additionally, some anxiety about the prospect of sub-normal monsoons adversely affecting the domestic economy could make investors circumspect of investing in domestic assets. Although the rupee is less vulnerable given the improvements in the CAD and visible moderation in inflation rates, there remains a possibility of needing to intervene in the foreign exchange market to control volatility of the exchange rates. The need to intervene at that point in time may result in the decline in India's foreign exchange reserves and subsequently reduce the amount of liquidity in the domestic financial system. This in turn could cause domestic interest rates to rise.

Further, increased volatility in capital flows may also affect monetary policy decision making. For instance, a period of net capital outflows might force the RBI to keep monetary policy tighter than optimal to guard against currency depreciation.

38. Our business is substantially affected by prevailing economic, political and others prevailing conditions in India.

Our Bank is incorporated in India, and the majority of our assets and employees are located in India. As a result, we are highly dependent on prevailing economic conditions in India and our results of operations are significantly affected by factors influencing the Indian economy. Factors that may adversely affect the Indian economy, and hence our results of operations, may include:

- any increase in Indian interest rates or inflation;
- any exchange rate fluctuations;
- any scarcity of credit or other financing in India, resulting in an adverse impact on economic conditions in India and scarcity of financing of our developments and expansions;
- prevailing income conditions among Indian consumers and Indian corporations;
- volatility in, and actual or perceived trends in trading activity on, India's principal stock exchanges;
- changes in India's tax, trade, fiscal or monetary policies;
- political instability, terrorism or military conflict in India or in countries in the region or globally, including in India's various neighbouring countries;
- occurrence of natural or man-made disasters;
- prevailing regional or global economic conditions, including in India's principal export markets; and
- other significant regulatory or economic developments in or affecting India or its banking sector.

Any slowdown or perceived slowdown in the Indian economy, or in specific sectors of the Indian economy, could adversely impact our business, results of operations and financial condition and the price of the Equity Shares.

Risk Relating to the Equity Shares

39. The trading price of our Equity Shares may fluctuate due to volatility of the Indian and global securities markets.

Stock exchanges in India have in recent years, in line with global developments, experienced substantial fluctuations in the prices of listed securities. The SENSEX, BSE's benchmark index, reduced by approximately 25%, representing approximately 5,000 points, in the calendar year 2011, subsequently increased by approximately 25%, representing approximately 4,000 points in the calendar year 2012 and thereafter increased by approximately 8%, representing approximately 1,600 points in the calendar year 2013 and thereafter increased by approximately 30.00%, representing approximately 6,300 points in the calendar year 2014. Further, for the period January 1, 2015, up to September 30, 2015, the SENSEX, BSE's benchmark index, decreased by approximately 5%, representing approximately 1350 points. Indian stock exchanges have also, in the past, experienced temporary closures, broker defaults, settlement delays and strikes by brokerage firm employees. In addition, Indian stock exchanges have, from time to time, imposed restrictions on trading in certain securities, limitations on price movements and margin requirements.

40. There will be restrictions on daily movements in the price of our Equity Shares, which may adversely affect your ability to sell, or the price at which you can sell, Equity Shares at a particular point in time.

Our Equity Shares will be subject to a daily circuit breaker imposed by the Stock Exchanges on listed companies which will not allow transactions beyond certain volatility in the trading price of our Equity Shares, as well as an index-based market-wide circuit breaker. The percentage limit on our Bank's circuit breaker shall be set by the Stock Exchanges based on historic volatility in the price and trading volumes of our Equity Shares and the index-based market-wide circuit breaker shall be set by the Stock Exchanges based on market-wide index variation of 10%, 15% and 20% based on the previous day's closing level of the relevant index. The Stock Exchanges are not required to inform our Bank of the percentage limit of the circuit breaker on our Equity Shares from time to time, and may change it without our knowledge. These circuit breakers will effectively limit upward and downward movements in the price of our Equity Shares. As a result, there can be no assurance regarding your ability to sell your Equity Shares over the Stock Exchanges or the price at which you may be able to sell your Equity Shares.

SECTION III - INTRODUCTION

SUMMARY OF FINANCIAL INFORMATION

The following tables set forth summary financial information derived from the Standalone Financial Statements of our Bank, prepared in accordance with the Companies Act and Indian GAAP (as applicable to banks) which comprises of the audited balance sheet of our Bank as at March 31, 2015 and audited statement of profit and loss and the cash flow statement for the period from October 21, 2014 to March 31, 2015, the unaudited limited review financial results for the period April 1, 2015 to June 30, 2015 and the audited condensed interim financial statements for the period ended September 30, 2015.

AUDITED BALANCE SHEET AS AT MARCH 31, 2015

Balance Sheet		
	As at March 31, 2015 ₹	**As at March 31, 2015 ₹**
EQUITY AND LIABILITIES		
SHAREHOLDERS' FUNDS		
(a) Share capital	500,000	
(b) Reserves and surplus	(25,848,802)	(25,348,802)
CURRENT LIABILITIES		
(a) Trade payables		51,180
(b) Other current liabilities		25,806,097
TOTAL		**508,475**
ASSETS		
NON-CURRENT ASSETS		
(a) Deferred tax asset		8,700
CURRENT ASSETS		
(a) Cash and bank balances		499,775
TOTAL		**508,475**

AUDITED STATEMENT OF PROFIT & LOSS FOR THE PERIOD FROM OCTOBER 21, 2014 (DATE OF INCORPORATION) TO MARCH 31, 2015

Statement of Profit and Loss	FOR THE PERIOD FROM OCTOBER 21, 2014 (DATE OF INCORPORATION) TO MARCH 31, 2015 (₹)
I. INCOME	
Other income	–
TOTAL INCOME (I)	**–**
II. EXPENSES	
Other expenses	25,857,502
TOTAL EXPENSES (II)	**25,857,502**
III. LOSS BEFORE TA X (I - II)	**(25,857,502)**
IV. TAX EXPENSE	
Current tax	–
Deferred tax	(8,700)
TOTAL TAX EXPENSES (IV)	**(8,700)**
V. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS (III - IV)	**(25,848,802)**
EARNINGS PER EQUITY SHARE (NOT ANNUALISED) (NOMINAL VALUE OF SHARE ₹ 10 EACH)	
Basic (₹)	(1,164.79)
Diluted (₹)	(1,164.79)

AUDITED CASH FLOW STATEMENT FOR THE PERIOD FROM OCTOBER 21, 2014 (DATE OF INCORPORATION) TO MARCH 31, 2015

Cash Flow Statement		FOR THE PERIOD FROM OCTOBER 21, 2014 (DATE OF INCORPORATION) TO MARCH 31, 2015 (₹)
A. CASH FLOW FROM OPERATING ACTIVITIES		
LOSS BEFORE TA X FOR THE PERIOD		(25,857,502)
Adjustment for changes in working capital:		
Adjustments for increase in operating liabilities:		
Trade payables		51,180
Current liabilities		25,806,097
NET CASH USED IN OPERATING ACTIVITIES	(A)	**(225)**
B. CASH FLOW FROM INVESTING ACTIVITIES		-
NET CASH FROM INVESTING ACTIVITIES	(B)	**-**
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Share Capital		500,000
NET CASH FROM FINANCING ACTIVITIES	(C)	**500,000**
Net increase/(decrease) in cash and cash equivalents	**(A) + (B) + (C)**	499,775
Cash and cash equivalents as at the beginning of the period		-

Cash Flow Statement		FOR THE PERIOD FROM OCTOBER 21, 2014 (DATE OF INCORPORATION) TO MARCH 31, 2015 (₹)
Cash and cash equivalents as at the end of the period		**499,775**

STATEMENT OF UNAUDITED LIMITED REVIEW FINANCIAL RESULTS FOR THE QUARTER ENDED JUNE 30, 2015

UNAUDITED BALANCE SHEET

	As at June 30, 2015	As at June 30, 2015	As at March 31, 2015 (Audited)
Equity and liabilities			
Shareholders' funds			
(a) Share capital	500,000		500,000
(b) Reserves and surplus	(25,969,767)		(25,848,802)
		(25,469,767)	(25,348,802)
Current liabilities			
(a) Trade payables		114,000	51,180
(b) Other current liabilities		375,864,018	25,806,097
TOTAL		**350,508,251**	**508,475**
Assets			
Non-current assets			
(a) Long term loans and advances		350,000,000	-
(b) Deferred tax asset		8,700	8,700
Current assets			
(a) Cash and cash equivalents		499,551	499,775
TOTAL		**350,508,251**	**508,475**

UNAUDITED STATEMENT OF PROFIT AND LOSS FOR THE QUARTER ENDED JUNE 30, 2015

Particulars	Quarter ended 30.06.2015	Period from 21.10.2014 to 31.03.2015
I Income	**-**	**-**
Other Income	-	-
Total Income (I)	**-**	**-**
II Expenses		
Other expenses	120,966	25,857,502
Total expenses (II)	**120,966**	**25,857,502**
III Loss Before Tax (I-II)	**(120,966)**	**(25,857,502)**
IV Tax Expense		
Current Tax	-	
Deferred Tax	-	(8,700)
Total Tax Expenses (IV)	**-**	**(8,700)**

Particulars	Quarter ended 30.06.2015	Period from 21.10.2014 to 31.03.2015
V Loss for the period from continuing operations (III-IV)	**(120,966)**	**(25,848,802)**
Earnings per equity share (not annualised) (nominal value of share of ₹ 10 each)		
Basic (₹)	(2.42)	(1,164.79)
Diluted (₹)	(2.42)	(1,164.79)

STATEMENT OF AUDITED CONDENSED INTERIM FINANCIAL RESULTS AS AT SEPTEMBER 30, 2015

CONDENSED INTERIM BALANCE SHEET*

	As at	As at	As at
	30-Sep-15	**30-Sep-15**	**31-Mar-15**
	Audited	**Audited**	**Audited**
Sources of Funds			
Capital		17,975,126,680	500,000
Reserves and Surplus		52,895,985,413	(25,848,802)
Total		**70,871,112,093**	**(25,348,802)**
Application of Funds			
Investments		70,631,410,607	-
Loans & Advances		829,063,973	-
Deferred Tax Asset		6,970	8,700
Current Assets			
a) Cash & Bank Balances	280,000		499,775
b) Others	598,863,495		-
Less: Current Liabilities & Provisions			
a) Liabilities	(1,188,403,302)		(25,806,097)
b) Provisions	(109,650)		(51,180)
Net Current Assets		(589,369,457)	(25,357,502)
Total		**70,871,112,093**	**(25,348,802)**

** Since the Company was incorporated on October 21, 2014, the above results does not include the figures for half year ended September 30, 2014.*

CONDENSED INTERIM PROFIT AND LOSS FOR THE PERIOD ENDED SEPTEMBER 30, 2015*

Particulars	Half year ended	October 21, 2014 to March 31, 2015
	30-Sep-15	
	Audited	**Audited**
Revenue From Operations	918,064,444	-
Total Income	**918,064,444**	**-**
Other expenses	6,029,264	25,857,502

Particulars	Half year ended	October 21, 2014 to March 31, 2015
	30-Sep-15	
	Audited	Audited
Total Expenditure (excluding provisions & contingencies)	**6,029,264**	**25,857,502**
Profit or (Loss) from ordinary activities before tax	**912,035,180**	**(25,857,502)**
Extraordinary Items	**-**	**-**
Profit or (Loss) before tax	**912,035,180**	**(25,857,502)**
Tax Expense (including deferred tax)	**315,794,730**	**(8,700)**
Net Profit or (Loss) for the period	**596,240,450**	**(25,848,802)**
Earnings per equity share (not annualised) (nominal value of share ₹ 10 each)		
Basic	**2.05**	**(1,164.79)**
Diluted	**2.05**	**(1,164.79)**

**Since the Company was incorporated on October 21, 2014, the above results does not include the figures for half year ended September 30, 2014.*

CONDENSED INTERIM CASH FLOW STATEMENT FOR THE PERIOD ENDED SEPTEMBER 30, 2015

Particulars	Half year ended September 30, 2015 (Audited)	October 21, 2014 to March 31, 2015 (Audited)
Cash flows from operating activities	336,345,307	-225
Cash flows from investing activities	-70,636,785,527	-
Cash flows from financing activities	70,300,220,445	500,000
Net increase / (decrease) in cash and cash equivalents	-219,775	499,775
Cash and cash equivalents at beginning of the period	499,775	-
Cash and cash equivalents at end of period	280,000	499,775

**Since the Company was incorporated on October 21, 2014, the above results does not include the figures for half year ended September 30, 2014.*

SUMMARY OF OUR BUSINESS

Overview

IDFC Bank Limited ("**IDFC Bank**") is a professionally managed new private sector bank in India, promoted by IDFC Limited ("**IDFC**"). IDFC, which we believe to be one of the leading integrated financial services companies in India, offers, including through its subsidiaries (the "**IDFC Group**") a wide range of customer-centric financing solutions and conducts complementary businesses under the well-recognized brand, "IDFC".

IDFC was incorporated in 1997 on the recommendations of the Expert Group on Commercialization of Infrastructure Projects, under the Chairmanship of Dr. Rakesh Mohan. IDFC was set up as a private sector enterprise by a consortium of public and private investors, with a focus on catalyzing the flow of private capital into the development of India's infrastructure sector. IDFC is a public financial institution under the Companies Act, 2013, registered with the Reserve Bank of India ("**RBI**") as an IFC-NBFC and as a NBFC-ND-SI. The equity shares of IDFC have been listed on the Stock Exchanges since 2005.

With our considerable domain knowledge in infrastructure financing and extensive portfolio of financial products and services, we believe that the IDFC Group has differentiated itself from other financiers in India and played a key role in advancing infrastructure development in India. Guided and managed by a strong core of qualified and experienced professionals and with a diversified shareholder base, we believe that we have built a track record of good governance as well as strong, multimodal institutional relationships with Government agencies as well as in the private sector in India.

Given our collective focus on long-term growth, sustainability and institutional excellence, we, as a group, seek to continue to diversify our assets and liabilities and investor bases, manage and mitigate our funding risk, reduce our cost of borrowing and other operational costs, and enhance our responsiveness to market trends, customer needs and sensitivities and regulatory and policy developments. Accordingly, we had approached RBI, through an application filed on July 1, 2013, with a vision to build a 'new age' bank which would serve the banking needs of the 'banked' as well as 'unbanked' population of the country.

After a rigorous screening process, during which only two of the original 25 applicants were granted permission by RBI to proceed, IDFC received RBI in-principle approval on April 9, 2014, to set up a new private sector bank. Accordingly, IDFC Bank was incorporated as a public limited company on October 21, 2014. Pursuant to the Scheme, approximately 53.00% of the share capital of IDFC Bank is held by IDFC FHCL, (an RBI-registered NBFC as on June 18, 2015), while the remaining 47.00% is held by shareholders of IDFC as on the specified Record Date. IDFC received final RBI approval on July 23, 2015, to set up a new private sector bank. IDFC Bank commenced its banking operations from October 1, 2015.

Our overall business strategy would be to replicate IDFC's success as an NBFC, through a differentiated and calibrated foray into the banking sector, with a diversified focus on wholesale, rural and consumer banking and an added emphasis on infrastructure financing. Accordingly, our banking business is envisaged to include three distinct strategic business verticals, further discussed later in this section:

- Commercial and Wholesale banking – will cater to large corporates, mid-markets & SME clients (commercial banking), government business, financial institutions, treasury, cash management, transaction banking and investment banking.

- Rural banking – will cater to semi-urban and rural areas.

- Personal and Business banking – will cater to the urban retail consumers.

IDFC had net interest income of ₹ 627 crores, non-interest income of ₹ 80 crores, operating income of ₹ 711 crores, net profit of ₹ 254 crores, gross loan book of ₹ 53,359 crores and gross loan disbursals of ₹ 3,104 crores, as reported on a consolidated basis for the quarter ended June 30, 2015, with 42% of its outstanding loan disbursals being directed towards the energy sector. 1% of its loan book was comprised of net non-performing loans, and a total of 1.50% being comprised of gross non-performing loans.

Accordingly, IDFC Bank has begun its operations with effect from October 1, 2015, with a gross loan book of approximately ₹ 46,381 crores.

Strengths

Strong relationships with private sector customers as well as government entities.

We believe that we enjoy strong institutional relationships, in the private sector as well as with Government entities in India, particularly in the infrastructure financing and development sectors, which have served to support our growth thus far and which we believe will continue to drive our future growth, including in our banking business.

We have a multidimensional relationship with Government entities in India, in advisory as well as beneficiary capacities. The Government of India is also a significant shareholder in IDFC as well as in the IDFC Bank. We believe that our historic and continued relationship with various Government agencies and entities in India, across Central, State and local and municipal levels, has given us access to key policy and decision makers in India, as well as access to major and diverse advisory and financing opportunities in India. In addition, we have, over the years, developed strong institutional relationships with several prominent private sector players, which have enabled us to play prominent and leadership roles in advising on and financing infrastructure projects in India, as well as supporting our growth as a diversified player across the financial services sector in India. We believe that our access to such private institutional entities and our long association with them provides us with potential customers for our banking business.

In addition, we believe that we are well positioned to leverage our institutional experience in servicing our retail customer base in our asset management business which would help us to bring a strong customer focus and orientation to our banking business, going forward. Presently, we service approximately 6 lakh retail customers in the asset management business. Further, a number of our shareholders and retail bondholders have subscribed to IDFC's equity and bonds.

Reputation and brand image.

With our extensive domain knowledge in infrastructure and other related sector financing, we believe that we have built a strong reputation and a proven track record for delivering quality customer-centric products and services under the "IDFC" brand, particularly in the infrastructure financing sector. IDFC has been recognized as a Superbrand by Business Superbrands.

Drawing on the deep pool of sectoral and industry domain knowledge available within our organization, and based on our track record for delivering quality customer-centric products and services, particularly in the infrastructure financing sector, we seek to leverage our demonstrated success in managing our diversified operations thus far under the "IDFC" brand, to grow our banking business, going forward.

In 2013, IDFC became the first financial institution from India to be a signatory to the Equator Principles. The Equator Principles constitute a risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in projects and are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. In 2010, IDFC became India's first signatory to the UNPRI, for its private equity, project equity and fund-of-funds businesses. The United Nations Principles for Responsible Investment ("**UNPRI**") is a global, collaborative investor network, which aims to help investors integrate consideration of environmental, social and governance ("**ESG**") issues into their investment decision-making and ownership practices, thereby improving long-term returns to beneficiaries. IDFC is also a member of the United Nations Global Compact ("**UNGC**"), a strategic policy initiative for businesses committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labor, environment and anti-corruption, by means of a practical framework for development, implementation, and disclosure of sustainability policies and practices, offering participants a wide spectrum of work-streams, management tools and resources designed to help advance sustainable business models and markets in a globalized business environment. IDFC is also a signatory investor and respondent to the Carbon Disclosure Project, an international not-for-profit organization providing a global system for companies and cities to measure, disclose, manage and share vital environmental information, including their impact on the environment and natural resources and on actions taken and that may be taken to reduce such impact.

We believe that these, among other recognitions, certifications and awards, serve to illustrate our operational excellence and our focus on quality and sustainable growth, on which our reputation and brand image are, and will continue to be, based, and which will facilitate our ability to grow our business.

Technology-enabled banking platform.

We believe that our robust technology which has been integrated with our core operations will be pivotal to the success of our banking operations.

With our sophisticated core banking system, our use of a central database and data recovery system, and our technology-enabled financial controls, risk management and transaction processing, we believe that we are well positioned to streamline and optimize our processes and systems, which in-turn will help reduce our operational costs and better manage our operating risks.

Many of our peers are weighed down by their legacy platforms which require substantial capital and resource commitments to upgrade. Since we do not have such legacy platforms, our investment in the latest IT infrastructure is expected to give us a competitive advantage vis-à-vis our peers. Further taking into account our aspirations for growth, our infrastructure platform is easily scalable which will allow us to sustain this advantage over a period of time.

Leveraging the IDFC Group's existing commitment towards technology-enabled processes and systems, we believe that we commence banking operations with a strong digital spine. Even as we commence our foray into the banking sector, we are capable of catering to a wide spectrum of clients who have differentiated needs and expectations to whom we can cater to more effectively by offering a diversified suite of customer-centric products and services which are customized to the relevant banking vertical and also by extending our reach far beyond our current physical network.

Strong asset quality.

We seek to benchmark ourselves against leading global peers and follow what we believe to be a conservative provisioning policy. We also believe that our strong asset quality, capital adequacy and leverage ratios, credit rating and loan exposure profiles, has been achieved through our comprehensive credit and project appraisal skills which we have managed to inculcate over the years in addition to disciplined risk management and mitigation practices, which has attributed to our success in managing our diversified operations thus far.

We believe that our strong asset quality contributes overall to our financial stability and growth. IDFC had Net Interest Income of ₹ 627 crores, Non-Interest Income of ₹ 80 crores, Operating Income of ₹ 711 crores, Net Profit of ₹ 254 crores, Gross Loan Book of ₹ 53,359 crores and Gross Loan Disbursals of ₹ 3,104 crores, as reported on a consolidated basis for the quarter ended June 30, 2015, with 42% of its outstanding loan disbursals being directed towards the energy sector. 1% of IFDC's loan book was comprised of Net Non-Performing Loans, and a total of 1.50% being comprised of Gross Non Performing Loans, as reported on a consolidated basis for the quarter ended June 30, 2015.

IDFC Bank has begun its operations with effect from October 1, 2015. We are also sufficiently capitalized to comply with the capital adequacy requirements right from the inception of our banking operations.

We believe that our robust financial performance has provided us with the ability to grow our business through a range of synergistic opportunities across the financial sector, creating enduring value for our shareholders and for other stakeholders in the financial sector and the nation as a whole. In particular, we believe that the consistent growth of our non-interest income has enabled us to develop a sustainable broad-based business model, and illustrates our ability to successfully manage our diversified operations thus far, as well as our potential for success in our banking business.

Professionally qualified and experienced management and key personnel.

As a professionally managed enterprise operating in the financial services sector, we are compliant with corporate governance norms and strongly believe that sound corporate governance is critical to our success. Our senior management and key personnel are professionally qualified persons with diverse backgrounds and experience, which we believe has contributed to our strong domain knowledge in the financial sector as a whole, and particularly in infrastructure financing and infrastructure sector-specific aspects of our business. For instance, we believe that we have benefited significantly from the vision, leadership and industry knowledge and relationships of IDFC founder and former chairman, Mr. Deepak Parekh, who is now associated with us in an advisory capacity with a view to provide continued guidance for our foray into the banking sector.

Mr. Anil Baijal is our Non-Executive Chairman (Independent Director). Dr. Rajiv B. Lall, who has recently stepped down as Executive Chairman of IDFC, is our Managing Director and Chief Executive Officer. Mr. Vikram Limaye, Managing Director & CEO at IDFC and Mr. Vinod Rai, Independent Director at IDFC, are both on our board as nominees of IDFC, our largest shareholder. In compliance with corporate governance requirements, Dr. Ashok Gulati, Mr. Abhijit Sen, Ms. Veena Mankar and Mr. Ajay Sondhi are Independent Directors of IDFC Bank.

Our commercial and wholesale banking business is headed by Mr. Ajay Mahajan, while our rural banking business is headed by Mr. Ravi Shankar, and our consumer banking business is headed by Mr. Naval Bir Kumar. We believe that the quality and depth of our human capital will play a significant role in extending our efficient, customer-centric and quality-oriented business ethos to our banking business.

Strategies

Leverage the IDFC Group's customer databases and relationships with customers and industry players, to develop new customer and industry relationships.

We seek to leverage our IDFC brand, and the IDFC Group's longstanding customer and industry relationships and customer databases, as well as our familiarity with the intricacies of the financial sector in general and project finance in particular, to build our presence in the banking sector and develop new customer and industry relationships that go beyond the infrastructure sector.

While we will continue to take advantage of our existing infrastructure finance operations, we intend to diversify our existing asset concentration and attract more customers through sectoral and product expansion in our banking business. Among other initiatives, we seek to create a strong retail assets portfolio and increase our liquidity by attracting more bank deposits from a diversified and extensive pool of customers. In this regard, we may explore opportunities to enter into strategic as well as service-level partnerships and collaborations for customer aggregation, which would increase our last mile and thereby build and expand our distribution network and increase our penetration of the non-institutional depositor and customer base. Towards this objective, we would continue our historic focus on customer care and relationship management.

We would also seek to utilize our bank status to optimize our long-term funding resources which would allow us to benefit from low cost of funds, while diversifying our asset base beyond our historic focus and concentration which was limited to the infrastructure sector. In addition, pursuant to the completion of our restructuring and the commencement of our banking operations, we believe that we have a well-capitalized bank, with significant headroom to raise capital from investors to support our future growth, including foreign institutional investors.

Utilize our 'digital spine' and advanced technology platforms to extend our distribution beyond our physical branch network.

We seek to deliver cost-effective, accessible, flexible and convenient multi-channel banking solutions beyond conventional banking services, including through the utilization of automated, digitized and other technology-enabled platforms and tools (which may, for instance, include internet, mobile and tele-banking), so as to grow our presence in the banking sector and to create, extend and maintain a lean, low-cost branch structure. Specifically, we seek to acquire a majority of our customers through non-branch channels through technology-led financial services, as well as alternate acquisition sources such as worksite marketing and referrals.

We intend to launch the IDFC Bank with a limited number of branches in the initial phase, commencing with a roll-out in the Hoshangabad, Khandwa and Harda districts of Madhya Pradesh, and a small number of branches in metropolitan cities. Following a suitably deep penetration and consolidation of our presence in the initial identified locations, we seek to expand our footprint to other locations in the future. As part of this initiative, while we seek to manage our geographical concentration, we currently expect that our branch expansion in rural India would exceed our branch expansion in urban India over the short to medium term future.

To this end, we seek to provide a differentiated technology framework, enhancing convenience for our customers and reducing operational expenditure for our branches. Creating a 'digital spine' for our banking services and for our organizational design will help us expand the reach of our services and branches, rationalize the size of our branches and facilitate cross-selling of our products. In this regard, we will seek to maintain streamlined employee counts at our bank branches and explore opportunities for utilizing technology-enabled tools and systems to lower our operating costs, optimize our operating efficiencies and extend our last-mile connectivity.

In the short term, our focus will be on developing and embedding key systems and processes, building our team and setting up the most appropriate branch architecture, and putting in place and testing the technology backbone for our banking operations, in a phased manner. In the longer term, we aim to achieve asset growth, scale-up our deposit franchise, cross-sell our products and leverage our capital base.

We seek to link our planned network of branches, Automated Telling Machines ("**ATMs**") and extension counters, through our robust IT architecture, including through the use of our virtual private network.

Deliver innovative and flexible multi-channel banking solutions, to better serve our customers' differentiated needs and to promote financial inclusion.

We propose to offer a broader range of financing solutions as part of our banking business than was possible for IDFC to offer as an NBFC-IFC, with the broader objective of establishing IDFC as a franchise providing end-to-end finance solutions to its customers.

We believe that our existing client base, which includes lending relationships with some of the largest companies in India, provides us with a captive customer base for cross-selling diversified products. In this relation, we intend to expand beyond the infrastructure sector to provide products and services such as current account, escrow account, cash credit, other working capital loans, trade finance (including letters of credit and bank guarantees), cash management, and foreign exchange (which only banks are permitted to offer, in the current regulatory framework in India) to a more diversified customer base.

Multi-channel solutions including internet banking, telephone banking and mobile banking – redefining products and services to ensure delivery to, and grow our market share in, underpenetrated segments and markets – improve asset concentration ratios through portfolio diversification over the medium to long-term.

We seek to offer a range of value propositions for our customers, including purpose-linked bank accounts and financial advice, convenient payment options through mobile and Internet banking, secure payment methods, need-based bundled products and financial solutions, conflict free relationship management and reliable and on-call service at the doorstep of our customers. In addition to flexible and multi-modal services, we propose to offer a differentiated value proposition to our wholesale, rural and commercial banking customers. For instance, we believe that our simplified product offerings to our rural banking customers would increase the ease of transacting for our banking customers.

Calibrated approach to expanding our banking business.

Our banking business is envisaged to include three distinct strategic business verticals, wherein our initial strategy and areas of focus are as set out below:

- Commercial and Wholesale banking – will cater to large corporates, mid-markets & SME clients (commercial banking), government business, financial institutions, treasury, cash management, transaction banking and investment banking. Leveraging our existing infrastructure business and using our existing corporate relationships as an anchor, we would seek to penetrate the eco-system comprising mid-corporates and SMEs. Our focus would be on better harvesting and deepening our corporate banking relationships and changing the composition of revenues, i.e., reducing dependency on term lending and supplementing it with income from working capital lending, cash management, transaction banking, foreign exchange services and other fee-based services.

- Rural banking – will cater to the semi-urban and rural areas, with a philosophy akin to a microfinance institution, although supported by a strong digital spine. Our calibrated foray into rural banking would be significantly technology-driven and would commence with the opening of a limited number of branches in rural sectors, supported by our housing loan officers and customer service managers delivering services to the rural community at their doorsteps, using handheld devices. We believe that this combination of scale and technology would, going forward, build our rural banking business into a viable business model contributing to a significant proportion of our customers.

- Personal and Business banking – will cater to the urban retail consumers, with our initial focus primarily on Tier I cities in India. Our calibrated foray into consumer banking would be significantly technology-driven and would commence with home loans and focus on affordable housing, which will be eligible for classification as priority sector lending ("**PSL**"). Over the medium to long term, we would seek to launch auto loans and credit cards, and other, more sophisticated products and services by leveraging on IDFC Group's extensive customer base and our advances and sophisticated technology and related infrastructure.

Leverage macroeconomic conditions and trends.

We believe that macro-economic conditions (including trends such as increasing financing needs of large corporates, accelerating urbanization and rising home ownership, the expanding needs of the rural economy and small and medium sized businesses, rising household incomes, and increasing penetration of the Internet and technology and technology-enabled services and platforms in India), coupled with a supportive regulatory environment and increasing regulatory rationalization in India (including deregulation of savings account interest rates, proposed flexible structuring opportunities related to long-term infrastructure financing, ability to raise long-term funds through unsecured bonds for lending to infrastructure sector with minimum regulatory compliance, permission to set up ultra-small branches or use of services of business correspondents and mobile vans where setting up branches is not feasible, and white label norms for setting up ATMs) will facilitate our banking operations.

Our three largest sectoral exposures are in the energy, telecommunications and transportation sectors. While growth in the Indian infrastructure (and, consequently, in infrastructure finance opportunities) has been dampened in recent periods, including on account of sub-optimal global economic conditions and developments, we believe that these sectors continue to be characterized by high demand and a supportive regulatory and policy environment, which can be expected to encourage future growth.

Pursue global best practices and build a reputation for banking excellence, through maintaining high levels of operational efficiency and streamlined risk management controls, policies and procedures.

We seek to build trust and a reputation for banking excellence, by tailoring global banking best practices to the Indian context, and through our consistent and transparent customer service. We also believe our institutional experience in the financial services sector and economic prudence demonstrated in previous years will enable us to offer an optimized and technology-driven banking experience to our customers.

Towards this objective, we seek to continually adopt and upgrade our technology so as to enhance our operating efficiencies and provide a better customer experience as well as better follow-up with customers. We believe that the collection and intensive use of data and analytical tools as well as efficient data storage and retrieval systems, would support our credit and operational risk management, while our adoption of green initiatives would corroborate our commitment towards a lean, technology driven structure.

In addition, we seek to attract, assimilate and retain the best talent available, and extend the ethos of organizational excellence within the IDFC Group to the IDFC Bank, thus capitalizing on opportunities for organic growth for the IDFC Group as a whole.

GENERAL INFORMATION

IDFC Bank Limited was incorporated on October 21, 2014 under the Companies Act, 2013 as a public limited company as per the Certificate of Incorporation issued by the Registrar of Companies, Tamil Nadu and got the Certificate of Commencement of Business on October 28, 2014.

Registered Office of our Bank

The Bank was incorporated with its registered office at:

KRM Tower, 8th floor, No.1
Harrington Road, Chetpet,
Chennai - 600031,
Tamil Nadu, India.
Tel: +91 44 4564 4000
Fax: +91 44 4564 4022

Corporate Identity Number: U65110TN2014PLC097792

Address of Registrar of Companies:

Our Bank is registered at the office of the Registrar of Companies, Tamil Nadu, situated at the following address:

Registrar of Companies, Tamil Nadu
Block No.6, B Wing, 2nd Floor
Shashtri Bhawan
26, Haddows Road,
Chennai - 600034,
Tamil Nadu, India.

Board of Directors

The following table sets out the details of our Board of Directors as on the date of filing of this Information Memorandum:

Name	Designation	DIN	Address
Mr. Anil Baijal	Non-Executive Chairman	01608892	E-524, 2nd Floor, Greater Kailash-II, New Delhi – 110048
Dr. Rajiv B. Lall	Managing Director & Chief Executive Officer	00131782	Sanghi House, 3rd Floor, 94 Nepean Sea Road, Mumbai – 400 006
Mr. Vinod Rai	Nominee Director	01119922	3, Palam Marg, 3rd Floor, Vasant Vihar, New Delhi – 110057

Name	Designation	DIN	Address
Mr. Vikram Limaye	Nominee Director	00488534	18, Shreenivas, Flat No. 501, 5th Floor, Shivaji Park, D.V. Deshpande Marg, Dadar (West), Mumbai - 400028, Maharashtra
Dr. Ashok Gulati	Independent Director	07062601	I-14, Indraprastha Apartments, 114 I.P. Extension, Patpar Ganj, New Delhi – 110092
Mr. Abhijit Sen	Independent Director	00002593	A 92, Grand Paradi, 572 Dady Seth Hill, August Kranti Marg, Mumbai – 400036
Ms. Veena Mankar	Independent Director	00004168	801, Park Heights,10th Road, Khar (West), Near Madhu Park, Mumbai - 400 052, Maharashtra, India
Mr. Ajay Sondhi	Independent Director	01657614	8 Cuscaden Walk, # 24-02, Singapore – 249692

For further details of the Board of Directors of the Bank, see "***Our Management***" given on page 143.

Filing

This Information Memorandum has been filed with BSE and NSE. All the legal requirements applicable till the date of filing the Information Memorandum with the Stock Exchanges have been complied with.

Listing

Application has been made to BSE and NSE for permission to deal in and for an official quotation of the Equity Shares of IDFC Bank. IDFC Bank has nominated NSE as the designated stock exchange for the aforesaid listing of the Equity Shares. The Bank has received in-principle approval from NSE and BSE for listing.

Authority for listing

The High Court of Madras, by its order dated June 25, 2015 has approved the Scheme of Demerger (the "**Scheme**"). For details relating to the Scheme, see "***Scheme of Arrangement***" on page 65 of this Information Memorandum.

In accordance with the Scheme, the equity shares of the Bank to be issued pursuant to the Scheme shall be listed and admitted to trading on NSE and BSE. Such listing and admission trading is not automatic and is subject to such other terms and conditions as may be prescribed by BSE and NSE at the time of application by our Bank seeking listing.

Prohibition by SEBI

Our Bank, its Directors, its Promoters, other companies promoted by the Promoters and companies with which our Directors are associated as directors have not been prohibited from accessing the capital markets under any order or direction passed by SEBI.

General disclaimer from our Bank

Our Bank accepts no responsibility for statement made otherwise than in the Information Memorandum or in the advertisements to be published in relation to the Scheme of Demerger in terms of SEBI Circular CIR/CFD/ DIL/5/2013 dated February 4, 2013 or any other material issued by or at the instance of our Bank and anyone placing reliance on any other source of information would be doing so at his or her own risk. All information shall be made available by our Bank to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner.

Designated Stock Exchange

The Designated Stock Exchange is NSE.

Demat credit

Our Bank has executed tripartite agreements with the Registrar and Share Transfer Agent and the Depositories, i.e. NSDL and CDSL respectively, for admitting its equity shares in demat form and has been allotted ISIN – INE092T01019 on July 7, 2015 and July 2, 2015 respectively.

Dispatch of share certificates and credit of dematerialized shares

Upon allotment of Equity Shares to eligible shareholders pursuant to the Scheme of Demerger sanctioned by the High Court of Madras on June 25, 2015, our Bank has dispatched physical share certificates to those shareholders who were holding shares in IDFC Limited (in physical form), as on the Record Date i.e. October 5, 2015. Further, our Bank has also instructed the Depositories to credit dematerialized shares to the demat accounts of the respective shareholders to whom dematerialized shares have been allotted as on the Record Date.

Previous rights and public issues

Other than by way of original allotment of 50,000 equity shares to IDFC FHCL and 1,797,462,668 equity shares issued to IDFC FHCL on a rights basis, our Bank has not issued its equity shares by way of any public issue or rights issue since incorporation.

Commission and brokerage on previous issues

No sum has been paid or has been payable as commission or brokerage for subscribing to or procuring or agreeing to procure subscription for any of the Equity Shares since our Bank's incorporation.

Companies under the same management

There are no companies under the same management other than included in this Information Memorandum.

Outstanding debenture or bonds and redeemable preference shares and other instruments issued by our Bank

Other than the outstanding debentures and bonds of IDFC Limited which will be demerged into our Bank in accordance with the Scheme of Demerger, there are no outstanding debentures, bonds or redeemable preference shares as of the date of this Information Memorandum.

Details of change, if any, in the auditors of our Bank since incorporation and reasons, thereof

Our Bank has not changed its auditors since its incorporation.

Experts

Except for the report of our Auditors on the financial statements for the year ended March 31, 2015, report on limited review of financial statements for the period ended June 30, 2015, audited condensed interim financial statements for the period ended September 30, 2015 and the statement of tax benefits included in this Information Memorandum on pages 209 and 67, respectively, our Bank has not obtained any expert opinion. The term 'experts' and consent thereof does not represent an expert or consent within the meaning under the 1933 Securities Act of the United States of America.

In the event of any queries, please contact the Bank's Compliance Officer, whose details are as given below:

Company Secretary and Compliance Officer:

Mr. Mahendra N. Shah
Company Secretary and Chief Compliance Officer,
IDFC Bank Limited,
Naman Chambers, C-32, G-Block, Bandra Kurla Complex,
Bandra East, Mumbai 400 051
Tel: (022) 4222 2016
Fax: (022) 2654 0354
Email: ig@idfcbank.com

Chief Financial Officer

Mr. Sunil Kakar
Chief Financial Officer,
IDFC Bank Limited,
Naman Chambers, C-32, G-Block, Bandra Kurla Complex,
Bandra East, Mumbai 400 051
Tel: (022) 4222 2120

Statutory Auditors

Deloitte Haskins & Sells,
Chartered Accountants
'Heritage' 3rd Floor,
Near Gujarat Vidhyapith,
Off Ashram Road,
Ahmedabad – 380 014
Tel.: (079) 2758 2542
Fax: (079) 2758 2551
Firm Registration number: 117365W

In case of any questions or any difficulties with regard to equity shares allotted to you, please contact the Bank's Registrar & Share Transfer Agent, whose details are as given below:

Registrar & Share Transfer Agent:

Karvy Computershare Private Limited
(Unit: IDFC Bank Limited)
Karvy Selenium Tower B, Plot 31 & 32, Financial District,
Gachibowli, Nanakramguda,
Serilingampally, Hyderabad - 500 032
Contact Person: M R V Subrahmanyam
Tel: (040) 6716 1510/12/13 **Fax :** (040) 2342 0814 **Toll Free:** 1800 345 4001
Email: idfcbank@karvy.com; **Website:** www.karvycomputershare.com

CAPITAL STRUCTURE

Share Capital of the Bank

Particulars	Amount (Rs)
Authorised capital	
5,000,000,000 equity shares of Rs. 10 each	50,000,000,000
Total	50,000,000,000
Issued, subscribed and paid-up	
3,391,533,336 equity shares of Rs. 10 each	33,915,333,360
Total	**33,915,333,360**

Changes in Share Capital

Notes to the Capital Structure:

1. Share Capital history of our Bank:

(a) The history of the equity share capital and securities premium account of our Bank is provided below:

Date of Allotment	Number of Equity Shares	Face Value (Rs.)	Issue Price (Rs.)	Consideration	Reason for Allotment	Cumulative number of equity shares	Cumulative paid-up equity share capital (Rs.)	Cumulative Share Premium (Rs.)
October 21, 2014	50,000	10	10	Cash	Initial subscribers to the Memorandum of Association	50,000	5,00,000	-
July 7, 2015	1,250,000,000	10	40	Cash	Shares were issued to IDFC Financial Holding Company Limited on rights basis at a premium of Rs.30/- (Rupees Thirty only)	1,25,00,50,000	12,50,05,00,000	37,50,00,00,000
September 30, 2015	547,462,668	10	37.08	Cash	Shares were issued to IDFC Financial Holding Company Limited on rights basis at a premium of Rs. 27.08/- (Rupees Twenty Seven and Eight paisa only)	1,797,512,668	17,975,126,680	52,325,593,765
October 9, 2015	1,594,020,668	10	10	-	Pursuant to Scheme of Demerger	3,391,533,336	33,915,333,360	-

2. **Issue of equity shares for consideration other than cash:**

Other than Equity Shares allotted to the shareholders of IDFC Limited in accordance with the Scheme of Demerger, we have not allotted any equity shares for consideration other than cash.

3. **History of equity share capital held by our Promoters:**

(a) Build-up of IDFC Limited's shareholding in our Bank:

Set forth below is a build-up of the shareholding of one of our Promoters, IDFC Limited, since incorporation of our Bank:

Name of the Promoter	Date of allotment/ transfer	Nature of allotment/Sale	No. of Equity Shares	Nature of consideration	Cumulative No. of Shares	Face value per Equity Share (Rs.)	Issue Price/ Transfer Price per Equity Share (Rs.)	% of the pre-Scheme Capita	% of the post-Scheme Capital
IDFC Limited	October 21, 2014	Initial subscribers to the Memorandum of Association	50,000*	Cash	50,000*	10	10	Nil	Nil
IDFC Financial Holding Company Limited	December 26, 2014	Transfer by IDFC Limited to IDFC Financial Holding Company Limited	50,000**	Cash	Nil	10	10	100	100
TOTAL SHAREHOLDING OF IDFC LIMITED			**Nil**	-	-	-	-	-	-

** Out of 50,000 shares allotted to IDFC, 60 shares were held by nominees of IDFC for and on behalf of IDFC.*
*** Out of 50,000 shares held by IDFC FHCL, 60 shares are held by nominees of IDFC FHCL for and on behalf of IDFC FHCL.*

All the Equity Shares held by IDFC Limited were fully paid-up on the date of acquisition of such Equity Shares.

(b) Build-up of IDFC Financial Holding Company Limited's shareholding in our Bank:

Set forth below is the build-up of the shareholding of one of our Promoters, IDFC Financial Holding Company Limited since incorporation of our Bank:

Name of the Promoter	Date of allotment/ transfer	Nature of allotment/ Purchase	No. of Equity Shares	Nature of consideration	Face value per Equity Share (Rs.)	Issue Price/ Transfer Price per Equity Share (Rs.)	% of the pre-Scheme Capita	% of the post-Scheme Capital
IDFC Financial Holding Company Limited	December 26, 2014	Transfer by IDFC Limited	50,000[*]	Cash	10	10.00		
	July 7, 2015	Rights issue	12,500,00,000	Cash	10	40.00[**]	100.00	53.00
	September 30, 2015	Rights Issue	547,462,668	Cash	10	37.08[***]		
TOTAL			**1,797,512,668**	-	**10**	**39.11**	**100.00**	**53.00**

[*] *Shares held by IDFC Limited were transferred to IDFC Financial Holding Company Limited in observance of the conditions laid down by RBI in the in-principle approval given to IDFC Limited.*
[**] *Shares were issued to IDFC Financial Holding Company Limited on a rights basis at a premium of Rs.30 (Rupees Thirty only).*
[***] *Shares were issued to IDFC Financial Holding Company Limited on a rights basis at a premium of Rs. 27.08/- (Rupees Twenty Seven and Eight paisa only).*

All the Equity Shares held by IDFC Financial Holding Company Limited were fully paid-up on the respective dates of acquisition of such Equity Shares.

(c) Shareholding of our Promoters and Promoter Group:

S. No.	Name of Shareholder	Pre-demerger		Post-Demerger	
		No. of equity shares	%	No. of equity shares	%
1	IDFC Financial Holding Company Limited	1,797,512,668	100.00	1,797,512,668	53.00
2	IDFC Limited	-	-	-	-
Total		**1,797,512,668**	**100.00**	**1,797,512,668**	**53.00**

(d) Details of lock-in:

In terms of SEBI circular SEBI/CFD/DIL/5/2013 dated February 4, 2013, equity shares held by the promoters of the unlisted issuer that shall be listed pursuant to the scheme of arrangement, shall be locked-in to the extent of 20% of the post merger paid-up capital of the issuer, for a period of three years from the date of listing of the shares of the unlisted issuer. Further, the balance of the entire pre-merger capital of the unlisted issuer shall also be locked in for a period of three years from the date of listing of the shares of the unlisted issuer.

We undertake to lock-in our Promoters' shares to the extent of 20% of the post merger paid-up capital of the issuer, for a period of three years from the date of listing of our Equity Shares. The details of the Equity Shares which are eligible for lock-in for a period of three years from the date of Allotment are set out in the following table:

Name of Promoter	**No. of Equity Shares**	**Face Value**	**Percentage of**	
			pre-Scheme paid-up capital	**post-Scheme paid-up capital**
IDFC Limited	-	-	-	-
IDFC Financial Holding Company Limited	678,306,668	10	37.74	20.00

SHAREHOLDING PATTERN OF THE BANK BEFORE AND AFTER ALLOTMENT OF EQUITY SHARES PURSUANT TO THE SCHEME OF DEMERGER

		Transferee Company			
		Pre-arrangement shareholding		**Post-arrangement shareholding – as on October 9, 2015**	
		No. of shares	% of shares	No. of shares	% of shares
(A)	**Shareholding of Promoter and Promoter Group**				
1	**Indian**				
(a)	Individuals/ Hindu Undivided Family	0	0	0	0
(b)	Central Government/ State Government(s)	0	0	0	0
(c)	Bodies Corporate	1,797,512,668	100	179,7512,668	53.00
(d)	Financial Institutions/ Banks	0	0	0	0
(e)	Any Others(Specify)	0	0	0	0
	Sub Total(A)(1)	**1,797,512,668**	**100**	**1,797,512,668**	**53.00**
2	**Foreign**				
A	Individuals (Non-Residents Individuals/ Foreign Individuals)	0	0	0	0
B	Bodies Corporate	0	0	0	0
C	Institutions	0	0	0	0
D	Any Others(Specify)	0	0	0	0
	Sub Total(A)(2)	0	0	0	0
	Total Shareholding of Promoter and Promoter Group (A)= (A)(1)+(A)(2)	**1,797,512,668**	**100**	**1,797,512,668**	**53.00**
(B)	**Public shareholding**				
1	**Institutions**				
(a)	Mutual Funds/ UTI	0	0	81,965,739	2.42
(b)	Financial Institutions / Banks	0	0	13,898,567	0.41

		Transferee Company			
		Pre-arrangement shareholding		**Post-arrangement shareholding – as on October 9, 2015**	
		No. of shares	% of shares	No. of shares	% of shares
(c)	Central Government/ State Government(s)	0	0	261,400,000	7.71
(d)	Venture Capital Funds	0	0	0	0
(e)	Insurance Companies	0	0	48,522,313	1.43
(f)	Foreign Institutional Investors	0	0	735,348,420	21.68
(g)	Foreign Venture Capital Investors	0	0	0	0
(h)	Any Other i. Qualified Foreign Investor	0	0	5,151,271	0.15
	Sub-Total (B)(1)	0	0	**1,146,286,310**	**33.80**
B 2	**Non-institutions**				
(a)	Bodies Corporate (Including Foreign Bodies Corporates)	0	0	140,739,562	4.15
(b)	Individuals				
I	Individuals -i. Individual shareholders holding nominal share capital up to Rs 1 lakh	0	0	167,204,536	4.93
II	ii. Individual shareholders holding nominal share capital in excess of Rs. 1 lakh.	0	0	92,527,673	2.73
(c)	Any Other				
i.	Trusts	0	0	12,629,684	0.37
ii.	Non Resident Indians	0	0	11,720,681	0.35
iii.	Clearing Members	0	0	22,912,222	0.68
	Sub-Total (B)(2)	0	0	**447,734,358**	**13.20**
(B)	**Total Public Shareholding (B)= (B)(1)+(B)(2)**	0	0	**1,594,020,668**	**47.00**
	TOTAL (A)+(B)	**1,797,512,668**	**100**	**3,391,533,336**	**100**
(C)	Shares held by Custodians and against which Depository Receipts have been issued	0	0	**0**	**0**
	GRAND TOTAL (A)+(B)+(C)	**1,797,512,668**	**100**	**3,391,533,336**	**100**

4. Shareholding Pattern of our Bank

Shareholding Pattern of our Bank as on October 27, 2015:

CATE-GORY CODE	**CATEGORY OF SHAREHOLDER**				**TOTAL SHAREHOLDING AS A % OF TOTAL NO OF SHARES**		**SHARES PLEDGE OR OTHERWISE ENCUMBERED**	
		NO OF SHAREHOLDERS	**TOTAL NUMBER OF SHARES**	**NO OF SHARES HELD IN DEMATERIALIZED FORM**	**AS a PERCENTAGE of (A+B)**	**As a PERCENTAGE of (A+B+C)**	**NUMBER OF SHARES**	**AS a PERCENTAGE**
(I)	**(II)**	**(III)**	**(IV)**	**(V)**	**(VI)**	**(VII)**	**(VIII)**	**(IX)=(VIII)/ (IV)*100**
(A)	**PROMOTER AND PROMOTER GROUP**							
(1)	INDIAN							
(a)	Individual /HUF	0	0	0	0.00	0.00	0	0.00
(b)	Central Government/State Government(s)	0	0	0	0.00	0.00	0	0.00
(c)	Bodies Corporate	1	1,797,512,668	1,797,512,608	53.00	53.00	0	0.00
(d)	Financial Institutions / Banks	0	0	0	0.00	0.00	0	0.00
(e)	Others	0	0	0	0.00	0.00	0	0.00
	Sub-Total A(1) :	**1**	**1,7975,12,668**	**1,797,512,608**	**53.00**	**53.00**	**0**	**0.00**
(2)	FOREIGN							
(a)	Individuals (NRIs/Foreign Individuals)	0	0	0	0.00	0.00	0	0.00
(b)	Bodies Corporate	0	0	0	0.00	0.00	0	0.00
(c)	Institutions	0	0	0	0.00	0.00	0	0.00
(d)	Qualified Foreign Investor	0	0	0	0.00	0.00	0	0.00
(e)	Others	0	0	0	0.00	0.00	0	0.00
	Sub-Total A(2) :	**0**	**0**	**0**	**0.00**	**0.00**	**0**	**0.00**
	Total A=A(1)+A(2)	**1**	**1,797,512,668**	**1,797,512,608**	**53.00**	**53.00**	**0**	**0.00**

CATE-GORY CODE	CATEGORY OF SHAREHOLDER	NO OF SHAREHOLDERS	TOTAL NUMBER OF SHARES	NO OF SHARES HELD IN DEMATERIALIZED FORM	TOTAL SHAREHOLDING AS A % OF TOTAL NO OF SHARES: As a PERCENTAGE of (A+B)	TOTAL SHAREHOLDING AS A % OF TOTAL NO OF SHARES: As a PERCENTAGE of (A+B+C)	SHARES PLEDGE OR OTHERWISE ENCUMBERED: NUMBER OF SHARES	SHARES PLEDGE OR OTHERWISE ENCUMBERED: AS a PERCENTAGE
(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)=(VIII)/(IV)*100
(B)	**PUBLIC SHAREHOLDING**							
(1)	INSTITUTIONS							
(a)	Mutual Funds /UTI	124	81,965,739	81,965,739	2.42	2.42		
(b)	Financial Institutions /Banks	36	13,898,567	13,898,567	0.41	0.41		
(c)	Central Government / State Government(s)	1	261,400,000	261,400,000	7.71	7.71		
(d)	Venture Capital Funds	0	0	0	0.00	0.00		
(e)	Insurance Companies	29	48,522,313	48,522,313	1.43	1.43		
(f)	Foreign Institutional Investors	250	735,348,420	735,348,420	21.68	21.68		
(g)	Foreign Venture Capital Investors	0	0	0	0.00	0.00		
(h)	Qualified Foreign Investor	1	5,151,271	5,151,271	0.15	0.15		
(i)	Others	0	0	0	0.00	0.00		
	Sub-Total B(1) :	**441**	**1,146,286,310**	**1,146,286,310**	**33.80**	**33.80**		
(2)	NON-INSTITUTIONS							
(a)	Bodies Corporate	4,010	140,751,562	140,751,562	4.15	4.15		
(b)	Individuals							
	(i) Individuals holding nominal share capital upto Rs.1 lakh	478,493	167,204,241	167,150,932	4.93	4.93		

CATE-GORY CODE	CATEGORY OF SHAREHOLDER				TOTAL SHAREHOLDING AS A % OF TOTAL NO OF SHARES		SHARES PLEDGE OR OTHERWISE ENCUMBERED	
		NO OF SHAREHOLDERS	TOTAL NUMBER OF SHARES	NO OF SHARES HELD IN DEMATERIALIZED FORM	AS a PERCENTAGE of (A+B)	As a PERCENTAGE of (A+B+C)	NUMBER OF SHARES	AS a PERCENTAGE
(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)=(VIII)/(IV)*100
	(ii) Individuals holding nominal share capital in excess of Rs.1 lakh	2,111	92,507,673	92,507,673	2.73	2.73		
(c)	Others							
	TRUSTS	46	12,629,684	12,629,684	0.37	0.37		
	OVERSEAS CORPORATE BODIES	1	2,000	2,000	0.00	0.00		
	NON RESIDENT INDIANS	6,671	11,740,976	11,739,449	0.35	0.35		
	CLEARING MEMBERS	333	22,898,222	22,898,222	0.68	0.68		
(d)	Qualified Foreign Investor	0	0	0	0.00	0.00		
	Sub-Total B(2) :	**491,665**	**447,734,358**	**447,679,522**	**13.20**	**13.20**		
	Total B=B(1)+B(2) :	**492,106**	**1,594,020,668**	**1,593,965,832**	**47.00**	**47.00**		
	Total (A+B) :	492,107	3,391,533,336	3,391,478,440	100.00	100.00		
(C)	Shares held by custodians, against which							
	Depository Receipts have been issued							
(1)	Promoter and Promoter Group							
(2)	Public	0	0	0	0.00	0.00		
	GRAND TOTAL (A+B+C)	**492,107**	**3,391,533,336**	**3,391,478,440**	**100.00**	**0.00**	**0**	**0.00**

(I)(b)	Statement showing holding of securities (including shares, warrants, convertible securities) of persons belonging to the category "Promoter and Promoter Group"										
Sr. No	Name of the Shareholder	Details of Shares held		Encumbered shares (*)			Details of Warrants		Details of convertible securities		Total Shares (including underlying shares assuming full conversion of warrants and convertible securities) as a % of diluted share capital
		No. of Shares held	As a % of grand total (A)+(B)+(C)	Pledge Shares	AS a percentage	AS a % of grand total (A) + (B) + (C) of sub-clause (I)(a)	Number of warrants held	As a % total number of warrants of the smae class	Number of convertible securities held	As a % total number of convertible securities of the same class	
(I)	(II)	(III)	(IV)	(V)	(VI)= (V)/(III) *100	(VII)	(VIII)	(IX)	(X)	(XI)	(XII)
1	IDFC Financial Holding Company Limited	1,797,512,608	53.00	0	0.00	0.00	0	0.00	0	0.00	53.00

(I)(b)	Statement showing holding of securities (including shares, warrants, convertible securities) of persons belonging to the category "Promoter and Promoter Group"										
Sr. No	**Name of the Shareholder**	**Details of Shares held**		**Encumbered shares (*)**			**Details of Warrants**		**Details of convertible securities**		**Total Shares (including underlying shares assuming full conversion of warrants and convertible securities) as a % of diluted share capital**
		No. of Shares held	**As a % of grand total (A)+(B)+(C)**	**Pledge Shares**	**AS a percentage**	**AS a % of grand total (A) + (B) + (C) of sub-clause (I)(a)**	**Number of warrants held**	**As a % total number of warrants of the smae class**	**Number of convertible securities held**	**As a % total number of convertible securities of the same class**	
(I)	**(II)**	**(III)**	**(IV)**	**(V)**	**(VI)= (V)/(III) *100**	**(VII)**	**(VIII)**	**(IX)**	**(X)**	**(XI)**	**(XII)**
2	IDFC Financial Holding Company Limited jointly with Mr. Mahendra N. Shah	10	0	0	0	0	0	0	0	0	0
3	IDFC Financial Holding Company Limited jointly with Mr. Sunil Kakar	10	0	0	0	0	0	0	0	0	0

(I) (b)	Statement showing holding of securities (including shares, warrants, convertible securities) of persons belonging to the category "Promoter and Promoter Group"										
Sr. No	**Name of the Shareholder**	**Details of Shares held**		**Encumbered shares (*)**			**Details of Warrants**		**Details of convertible securities**		**Total Shares (including underlying shares assuming full conversion of warrants and convertible securities) as a % of diluted share capital**
		No. of Shares held	**As a % of grand total (A)+(B)+(C)**	**Pledge Shares**	**AS a percentage**	**AS a % of grand total (A) + (B) + (C) of sub-clause (I)(a)**	**Number of warrants held**	**As a % total number of warrants of the smae class**	**Number of convertible securities held**	**As a % total number of convertible securities of the same class**	
(I)	**(II)**	**(III)**	**(IV)**	**(V)**	**(VI)= (V)/(III) *100**	**(VII)**	**(VIII)**	**(IX)**	**(X)**	**(XI)**	**(XII)**
4	IDFC Financial Holding Company Limited jointly with Mr. Vikram Limaye	10	0	0	0	0	0	0	0	0	0
5	IDFC Financial Holding Company Limited jointly	10	0	0	0	0	0	0	0	0	0

(I) (b)	Statement showing holding of securities (including shares, warrants, convertible securities) of persons belonging to the category "Promoter and Promoter Group"										
Sr. No	**Name of the Shareholder**	**Details of Shares held**		**Encumbered shares (*)**			**Details of Warrants**		**Details of convertible securities**		**Total Shares (including underlying shares assuming full conversion of warrants and convertible securities) as a % of diluted share capital**
		No. of Shares held	**As a % of grand total (A)+(B)+(C)**	**Pledge Shares**	**AS a percentage**	**AS a % of grand total (A) + (B) + (C) of sub-clause (I)(a)**	**Number of warrants held**	**As a % total number of warrants of the smae class**	**Number of convertible securities held**	**As a % total number of convertible securities of the same class**	
(I)	**(II)**	**(III)**	**(IV)**	**(V)**	**(VI)= (V)/(III) *100**	**(VII)**	**(VIII)**	**(IX)**	**(X)**	**(XI)**	**(XII)**
	with Dr. Rajeev Uberoi										
6	IDFC Financial Holding Company Limited jointly with Mr. Bipin Gemani	10	0	0	0	0	0	0	0	0	0
7	IDFC Financial Holding Company Limited jointly	10	0	0	0	0	0	0	0	0	0

(I) (b)	Statement showing holding of securities (including shares, warrants, convertible securities) of persons belonging to the category "Promoter and Promoter Group"										
Sr. No	Name of the Shareholder	Details of Shares held		Encumbered shares (*)			Details of Warrants		Details of convertible securities		Total Shares (including underlying shares assuming full conversion of warrants and convertible securities) as a % of diluted share capital
		No. of Shares held	As a % of grand total (A)+(B)+(C)	Pledge Shares	AS a percentage	AS a % of grand total (A) + (B) + (C) of sub-clause (I)(a)	Number of warrants held	As a % total number of warrants of the smae class	Number of convertible securities held	As a % total number of convertible securities of the same class	
(I)	(II)	(III)	(IV)	(V)	(VI)= (V)/(III) *100	(VII)	(VIII)	(IX)	(X)	(XI)	(XII)
	with Mr. Ketan Kulkarni										
	TOTAL :	**1,797,512,668**	**53.00**	**0**	**0.00**	**0.00**	**0**	**0.00**	**0**	**0.00**	**53.00**

5. The list of top 10 shareholders of the Bank and the number of Equity Shares held by them

a) Top ten shareholders as on October 27, 2015:

Sr. No.	Name of the shareholder	Number of shares	%
1	IDFC Financial Holding Company Limited and its nominees	1,797,512,668	53.00
2	President Of India	261,400,000	7.71
3	Sipadan Investments (Mauritius) Limited	151,145,989	4.46
4	National Westminster Bank PLC as Depositary of First State Asia Pacific Leaders Fund a sub-fund of First State Investments ICVC	74,206,298	2.19
5	Actis Hawk Limited	37,091,569	1.09
6	Orbis Sicav - Asia Ex-Japan Equity Fund	34,396,487	1.01
7	CLSA global markets pte. Ltd.	27,530,245	0.81
8	First State Investments (Hong Kong) Limited A/C First State Asian Equity Plus Fund	21,771,232	0.64
9	Orbis Global Equity Fund Ltd	17,919,198	0.53
10	JP Morgan Sicav Investment Company (Mauritius) Limited	13,503,111	0.40
	TOTAL	**2,436,476,797**	**71.84**

b) Top ten shareholders as on October 8, 2015:

Sr. No.	Name of the shareholder	Number of shares	%
1	IDFC Financial Holding Company Limited	1,797,512,608	100.00
2	IDFC Financial Holding Company Limited jointly with Mr. Mahendra N. Shah	10	0.00*
3	IDFC Financial Holding Company Limited jointly with Mr. Sunil Kakar	10	0.00*
4	IDFC Financial Holding Company Limited jointly with Mr. Vikram Limaye	10	0.00*
5	IDFC Financial Holding Company Limited jointly with Dr. Rajeev Uberoi	10	0.00*
6	IDFC Financial Holding Company Limited jointly with Mr. Bipin Gemani	10	0.00*
7	IDFC Financial Holding Company Limited jointly with Mr. Ketan Kulkarni	10	0.00*
	TOTAL	**1,797,512,668**	**100.00**

**Negligible percentage*

c) Top ten shareholders of the Bank on the date of incorporation.

Sr. No.	Name of the shareholder	Number of shares	%
1	IDFC Limited and its nominees	50,000	100
	TOTAL	**50,000**	**100**

6. <u>Details of equity shares held by Directors as on the date of this Information Memorandum</u>

(a) Dr. Rajiv B. Lall – 1,198,984 equity shares; and
(b) Mr. Vikram Limaye – 2,043,728 equity shares

7. Except as disclosed in this section and allotment of 1,250,000,000 equity shares and 547,462,668 equity shares allotted to IDFC FHCL on July 7, 2015 and September 30, 2015 respectively, none of the Promoters, Promoter Group or Directors have purchased/subscribed or sold any equity shares of our Bank within three years immediately preceding the date of filing this Information Memorandum with the SEBI which in aggregate is equal to or more than 1% of the pre Demerger capital of the Bank.

8. As on date of this Information Memorandum, our Bank has allotted 1,594,020,668 equity shares to the shareholders of IDFC Limited, pursuant to the terms and conditions laid down in the Scheme of Demerger approved by the High Court of Madras.

9. Neither we, nor our Directors nor their relatives have purchased, sold or financed, directly or indirectly, any equity shares of our Bank, during the six months immediately preceding the date of this Information Memorandum.

10. As of the date of this Information Memorandum, the total number of shareholders of our Bank is 492,113.

11. Except for the ESOP options, there are no outstanding warrants, rights to convert debentures or loans or other instruments into equity shares as on the date of filing this Information Memorandum.

12. The Bank has passed a special resolution at its AGM held on September 29, 2015 to set up a pool of Employee Stock Options upto 7% of the paid up share capital of the Bank. Till date the Bank has granted, out of this pool, ESOPs to the holders of Options in IDFC Limited as part of the Demerger Scheme and also to other employees.

13. Our Bank has not issued any equity shares out of its revaluation reserves.

14. At least 25% of the post-Scheme of Demerger paid up share capital of our Bank comprises of equity shares held by public shareholders.

15. Other than in the normal course of business of lending, there have been no financial arrangements whereby our Promoter Group, Directors or their relatives have financed another person's purchase of our securities, in the six months preceding the date of filing this Information Memorandum.

16. There shall be only one denomination of the Equity Shares, unless otherwise permitted by law. Our Bank shall comply with such disclosure and accounting norms as may be specified by SEBI from time to time.

SCHEME OF ARRANGEMENT

Background of the Scheme of Arrangement

IDFC Limited received an in-principle approval by RBI on April 9, 2014 to enable it, as a promoter, to set up a bank in the private sector. As per the conditions of the in-principle approval given by RBI, IDFC was required to demerge its lending and financing business ("**Financing Undertaking**") into a new entity.

Accordingly, a scheme of arrangement under sections 391 to 394 of the Companies Act, 1956 was undertaken, for the demerger of the Financing Undertaking and transfer of the same into IDFC Bank Limited, including (i) issuance of equity shares of our Bank to the shareholders of IDFC Limited; and (ii) obtaining required RBI approvals by our Bank, for carrying out operations under the Banking Regulation Act, 1949 ("**Scheme**" or "**Scheme of Demerger**"). The board of directors of IDFC Limited approved the Scheme pursuant to its resolution dated October 30, 2014.

50,000 equity shares held by IDFC Limited and its nominees were transferred to IDFC Financial Holding Company Limited on December 26, 2014. Further, 125,00,00,000 shares which were allotted by way of rights issue to IDFC Financial Holding Company Limited on July 7, 2015, and 547,462,668 equity shares which were allotted by way of rights issue to IDFC Financial Holding Company Limited on September 30, 2015, in accordance with conditions stipulated in RBI's In-Principle Approval and Guidelines for Licensing of New Banks in the Private Sector dated February 22, 2013 ("**New Banking Guidelines**").

The Scheme was approved by the Hon'ble High Court of Madras by an order dated June 25, 2015. However, as per the provisions of the Scheme and the terms and conditions of the license granted by the RBI, the transfer of the Financing Undertaking is conditional upon commencement of banking business. Our Bank received its banking license (from the RBI) on July 23, 2015. As a result, the Effective Date of the Demerger Scheme was October 1, 2015 and IDFC Bank started banking operations with effect from October 1, 2015. IDFC also simultaneously transferred the Financing Undertaking to our Bank as a going concern on October 1, 2015 and 1,594,020,668 shares of our Bank were allotted to the shareholders of IDFC Limited in concurrence with the Scheme.

Rationale for demerger as set forth in the Scheme of Arrangement

(a) To enable IDFC Limited to set up a bank in the private sector, as a promoter, in accordance with the in-principle approval granted to it by the RBI under the New Banking Guidelines.

(b) To fulfill the specific terms and conditions set out in the New Banking Guidelines and RBI's in-principle approval granted to IDFC Limited.

(c) To restructure and demerge the Financing Undertaking into IDFC Bank pursuant to the in-principle approval by RBI.

(d) To issue equity shares of IDFC Bank to the shareholders of IDFC Limited in accordance with the ratio approved by the board of directors of both the companies and as set of in the Scheme.

(e) To transfer its shareholding in IDFC Bank and all its shares in its regulated financial services entities, to a non-operative financial holding company (IDFC FHCL) to realign its businesses in compliance with the corporate structure requirements provided in the New Banking Guidelines.

(f) To provide scope for greater financial strength and flexibility, diversification of liability base and access to greater funds and resources including diversification of asset base and financial sector opportunities in the interests of maximising stakeholder value.

As consideration for the transfer of Financing Undertaking, our Bank issued 1,594,020,668 equity shares to the equity shareholders of IDFC Limited whose names appeared in the register of members of IDFC Limited as of such date as was mutually agreed by the board of directors of IDFC and our Bank, October 5, 2015 (i.e. the Record Date). Accordingly, each such shareholder of IDFC received one fully paid-up equity share of our Bank for every fully paid-up equity share of IDFC held by such shareholder on the Record Date.

Pursuant to the Scheme taking effect, the Financing Undertaking (i) all assets and liabilities pertaining to the Financing Undertaking stand transferred to our Bank; (ii) all legal or other proceedings by or against IDFC Limited relating to the Financing Undertaking also stand transferred to our Bank; (iii) IDFC Limited will be substituted by our Bank in all contracts and legal proceedings pertaining to the Financing Undertaking; and (iv) employees of IDFC Limited, engaged in activities pertaining to the Financing Undertaking have become the employees of our Bank.

Eligibility Criteria

There being no initial public offering or rights issue, the eligibility criteria in terms of Chapters III and IV of the SEBl (Issue of Capital and Disclosure Requirements) Regulations, 2009 are not applicable. Pursuant to SEBI circular CIR/CFD/DIL/5/2013 dated February 4, 2013, read with SEBI Circular No. CIR/CFD/DIL/8/2013 dated May 21, 2013, our Company has applied to SEBI for exemption from strict enforcement of provisions of Regulation l9(2)(b) of the Securities Contract (Regulations) Rules, 1957.

The Bank has submitted this Information Memorandum to BSE and NSE. The Information Memorandum would also be made available on the website of BSE, www.bseindia.com and NSE, www.nseindia.com and our Bank's website www.idfcbank.com.

Before commencement of trading, our Bank has published an advertisement in all editions of the Financial Express (English newspaper) and in all editions of Jansatta (Hindi newspaper) with nationwide circulation and in Makkal Kural (Chennai edition) at the place where the registered office of the Bank is located, containing details in accordance with the requirements set out in the SEBI circular CIR/CFD/DIL/5/2013 dated February 4, 2013. The advertisement is drawing a specific reference to the availability of the Information Memorandum on our Bank's website www.idfcbank.com.

See "***Management's Discussion and Analysis of Financial Condition and Results of Operations***" on page 172 of this Information Memorandum, for further details on the impact of the Scheme.

STATEMENT OF TAX BENEFITS

TAX BENEFIT STATEMENT

To,

The Board of Directors
IDFC Bank Limited
Naman Chambers, C-32, G Block,
Bandra Kurla Complex, Bandra (East)
Mumbai -400 051

Sub: Statement of possible Direct Tax Benefits available to IDFC Bank Limited ("Company") and to its shareholders

We report that the enclosed statement states the possible direct tax (viz under the Indian Income Tax Act, 1961) benefits available to the Company or its shareholders under the current direct tax law referred to above, presently in force in India. Several of these benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant provisions of the statute. Hence, the ability of Company or its shareholders to derive these direct tax benefits is dependent upon their fulfilling such conditions.

The possible direct tax benefits discussed in the enclosed annexure are not exhaustive. This statement is only intended to provide general information to investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the Issue particularly in view of the fact that certain recently enacted legislation may not have a direct legal precedent or may have a different interpretation on the benefits, which an investor can avail. Neither are we suggesting nor are we advising the investor to invest money based on this statement.

We do not express any opinion or provide any assurance as to whether:

i) The Company or its shareholders will continue to obtain these benefits in future; or
ii) the conditions prescribed for availing the benefits have been/would be met with.

The contents of the enclosed statement are based on the representations obtained from the Company and on the basis of our understanding of the business activities and operations of the Company.

This statement is intended solely for information and for inclusion in the Information Memorandum for listing of IDFC Bank Ltd's shares and is not to be used, circulated or referred to for any other purpose without our prior written consent.

Our views are based on the existing provisions of law ***referred to earlier*** *and its interpretation, which are subject to change from time to time. No assurance is given that the revenue authorities/courts will concur* *with the views expressed* ***in this Tax Benefit Statement****. We do not assume responsibility to update the views consequent to such changes.*

The views are exclusively for the use of IDFC Bank Limited and shall not, without our prior written consent, be disclosed to any other person, except to the extent disclosure is otherwise permitted by the terms of our engagement.

Disclosure of all or any part of this Tax Benefit Statement to any other person is on the basis that, to the fullest extent permitted by law, neither DELOITTE HASKINS & SELLS LLP nor any other Deloitte Entity accepts any duty of care or liability of any kind to the recipient, and any reliance on it is at the recipient's own risk.

Sincerely,

For DELOITTE HASKINS & SELLS LLP

Chartered Accountants

(Registration No. 117366W/W-100018

Vipul R. Jhaveri

Partner

(Membership No. 38604)

Mumbai, October 14, 2015

STATEMENT OF TAX BENEFITS AVAILABLE TO IDFC BANK LIMITED ("THE BANK")

The tax benefits listed below are the possible special benefits available under the current tax laws in India. These benefits are dependent on the Bank or its shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence, the ability of the Bank or its shareholders to derive the tax benefits is dependent upon fulfilling such conditions, which, based on business imperatives it faces in the future, it may not choose to fulfill.

STATEMENT OF POSSIBLE DIRECT TAX BENEFITS AVAILABLE TO IDFC Bank ("COMPANY") AND TO ITS SHAREHOLDERS

1. Under the Income-tax Act, 1961 ("the Act")

I. SPECIAL TAX BENEFITS AVAILABLE TO THE COMPANY

1. As per section 36(1)(viia)(a) of the Act, the Company is allowed a deduction in respect of any provision made for bad and doubtful debts for an amount not exceeding 7.50% of total income (computed before making any deduction under this Clause and Chapter VIA) and an amount not exceeding 10% of the aggregate average advances made by rural branches of the company.

2. As per section 36(1)(viii) of the Act, the Company is eligible for a deduction in respect of special reserve created and maintained by the Company of an amount not exceeding 20% of the profits derived from eligible business (viz., providing long-term finance for industrial or agricultural development or development of infrastructure facility in India or development of housing in India) computed under the head "profits and gains of business and profession" carried to such reserve account. Where the aggregate of the amounts carried to such reserve account from time to time exceeds twice the amount of the paid up share capital and general reserves of the Company, no allowance under this clause shall be made in respect of such excess.

3. Further the Company would be eligible for the special provision as prescribed under section 43D of the Act. As per the provisions income by the way of interest in relation to such categories of bad and doubtful debts as may be prescribed, shall be chargeable to tax in the previous year in which the Company receives the interest or in the year in which the Company credits the same to its profit and loss account whichever is earlier.

4. As per the provisions of section 194A(3)(iii)(a) of the Act no tax would be deducted on any interest (other than interest on securities) received / accrued to the Company.

5. As per the provisions of section 197A(1F) of the Act, no tax is required to be deducted on payments received by the Company (subject to Company being notified as Scheduled bank) in the nature of bank guarantee commission, cash management service charges, depositary charges on maintenance of DEMAT accounts, charges for warehousing services for commodities, underwriting service charges, clearing charges (MICR charges), credit card or debit card commission for transaction between the merchant establishment and the Company.

II. SPECIAL TAX BENEFITS AVAILABLE TO THE SHAREHOLDERS

1. As per section 47(vid), the transfer or issue of shares by the resulting company (i.e. IDFC Bank) in a scheme of demerger to the shareholders of the demerged company (i.e. IDFC Limited) would not be

liable to tax in the hands of shareholders under the head capital gains, if the transfer or issue is made in consideration of demerger of the undertaking.

2. As per section 49(2C), the cost of acquisition of the shares in resulting company (i.e. IDFC Bank) shall be the amount which bears to the cost of acquisition of shares held by the shareholder in demerged company (i.e. IDFC Limited), the same proportion as the net book value of the assets transferred in a demerger bears to the net worth of the demerged company (i.e. IDFC Limited) immediately before such demerger.

3. As per section 2(42A), while computing the period of holding in case of shares becoming property of the shareholder in consideration of a demerger, there shall be included the period for which the shares held in the demerged company (i.e. IDFC Limited) were held by the shareholder.

III. GENERAL TAX BENEFITS AVAILABLE TO THE COMPANY

1. As per section 10(34) of the Act, any income by way of dividends referred to in section 115O received on the shares of any Indian company is exempt from tax.

2. As per section 10(35) of the Act, the following income will be exempt in the hands of the Company:

   a) Income received in respect of the units of a Mutual Fund specified under clause (23D) of section 10; or
   b) Income received in respect of units from the Administrator of the specified undertaking; or
   c) Income received in respect of units from the specified company:

   However, this exemption does not apply to any income arising from transfer of units of the Administrator of the specified undertaking or of the specified Company or of a mutual fund, as the case may be.

3. As per section 10(35A) of the Act, any income received by the Company in the nature of distributed income from a securitization trust will be exempt in the hands of the Company.

4. Capital assets may be categorized into short term capital assets or long term capital assets based on the period of holding. Capital assets being shares or any other security listed in a recognised Stock Exchange in India or unit of Unit Trust of India or unit of a Mutual Fund (Equity Oriented) specified under section 10(23D) or a zero coupon bond held by the assessee for a period of more than 12 months are considered as long term capital assets. Consequently, capital gains arising on sale of these assets held for more than 12 months are considered as long term capital gains ("**LTCG**"). Capital gains arising on sale of these assets held for 12 months or less are considered as short term capital gains ("**STCG**").

   In respect of any other capital assets, the holding period should exceed 36 months to be considered as long term capital assets.

5. As per provisions of Section 48 of the Act, LTCG arising on transfer of capital assets, other than bonds and debentures (excluding capital indexed bonds issued by the Government) and depreciable assets, is computed by deducting the indexed cost of acquisition and indexed cost of improvement from the full value of consideration

6. As per section 10(38) of the Act, LTCG arising to the Company from the transfer of long term capital asset being an equity share in a company or a unit of an equity oriented fund where such transaction has

been entered into on a recognised stock exchange of India and is chargeable to securities transaction tax ("STT") will be exempt in the hands of the Company. However, income by way of LTCG shall not be reduced in computing the book profits for the purposes of computation of minimum alternate tax ("MAT") under section 115JB of the Act.

7. In accordance with section 112 of the Act, LTCG to the extent not exempt under Section 10(38) of the Act would be subject to tax at the rate of 20% (plus applicable surcharge and education cess) with indexation benefits. However, as per the proviso to Section 112 of the Act, if the tax on LTCG is resulting from transfer of listed securities (other than unit) or zero coupon bonds, then LTCG will be chargeable to tax at the rate lower of the following: -

    a. 20% (plus applicable surcharge and education cess) of the capital gains as computed after indexation of the cost; or

    b. 10% (plus applicable surcharge and education cess) of the capital gains as computed without indexation

8. Under section 54EC of the Act and subject to the conditions and to the extent specified therein, LTCG (in case not covered under section 10(38) of the Act) arising on the transfer of a Long Term Capital Asset would be exempt from tax if such capital gain is invested within 6 months from the date of such transfer in a "long term specified asset".

    A "long term specified asset" means any bond, redeemable after three years and issued on or after 1st day of April 2007 by the:

    a. National Highways Authority of India constituted under Section 3 of The National Highways Authority of India Act, 1988;

    b. Rural Electrification Corporation Limited, a company formed and registered under the Companies Act, 1956.

    The total deduction with respect to investment in the long term specified assets is restricted to Rs.50 lakhs whether invested during the financial year in which the asset is transferred or subsequent year.

    Where the "long term specified asset" are transferred or converted into money within three years from the date of their acquisition, the amount so exempted is taxable as capital gains in the year of transfer / conversion.

9. As per section 111A of the Act, short term capital gains ("STCG") arising to the Company from the sale of equity share or a unit of an equity oriented fund, where such transaction is chargeable to STT will be taxable at the rate of 15% (plus applicable surcharge and education cess). Further, STCG as computed above that are not liable to STT would be subject to tax as calculated under the normal provisions of the IT Act.

10. As per section 70 read with section 74 of the IT Act, Short Term Capital Loss computed for the given year is allowed to be set off against STCG as well as LTCG computed for the said year. The balance loss, which is not set off, is allowed to be carried forward for subsequent eight assessment years for being set off against subsequent years' STCG as well as LTCG.

However, the long term capital loss computed for a given year is allowed to be set off only against the LTCG. The balance loss, which is not set off, is allowed to be carried forward for subsequent eight assessment years for being set off only against subsequent years' LTCG.

11. Under Section 36 (1) (xv) of the Act, the amount of STT paid by an assessee in respect of taxable securities transactions offered to tax as "Profits and gains of Business or profession" shall be allowable as a deduction against such Business Income.

12. The Company would be entitled to claim allowance for expenditure incurred for the purposes of demerger. The company shall be allowed a deduction under section 35DD of the Act for an amount equal to one-fifth of such expenditure for five successive years beginning from the previous year in which the demerger takes place.

13. As per section 43 of the Act, where in a demerger any capital asset is transferred by the demerged company (i.e. IDFC Limited) to the resulting company (i.e. IDFC Bank), the actual cost of the transferred capital asset to the resulting company (i.e. IDFC Bank), shall be taken to be the same as it would have been if the demerged company (i.e. IDFC Limited) had continued to hold the capital asset for the purpose of its own business.

    However, such actual cost shall not exceed the written down value of such capital asset in the hands of the demerged company (i.e. IDFC Limited).

14. Under section 72A of the Act, the loss or unabsorbed depreciation directly relatable to the undertaking transferred to the Company shall be allowed to be carried forward and set off in the hands of the Company.

15. Business losses, if any, for an assessment year can be carried forward and set off against business profits for eight subsequent years.

16. Unabsorbed depreciation, if any, for an assessment year can be carried forward and set off against income from any other source in the subsequent assessment years as per section 32(2) subject to the provisions of section 72(2) and section 73(3) of the Act.

17. As per section 115JAA of the Act, credit is allowed in respect of any Minimum Alternate Tax paid under section 115JB of the Act for any assessment year commencing on or after 1st day of April 2006. Tax credit to be allowed shall be the difference between Minimum Alternate Tax paid and the tax computed as per the normal provisions of the Act for that assessment year. The Minimum Alternate Tax credit shall not be allowed to be carried forward beyond tenth assessment year immediately succeeding the assessment year in which tax credit become allowable.

IV. GENERAL TAX BENEFITS AVAILABLE TO RESIDENT SHAREHOLDERS

1. As per section 10(34) of the Act, any income by way of dividends referred to in section 115O received on the shares of any Indian company is exempt from tax.

2. As per provisions of Section 48 of the Act, LTCG arising on transfer of capital assets, other than bonds and debentures (excluding capital indexed bonds issued by the Government) and depreciable assets, is computed by deducting the indexed cost of acquisition and indexed cost of improvement from the full value of consideration

3. As per section 10(38) of the Act, LTCG arising from the transfer of a long term capital asset being an equity share of the company, where such transaction has been entered into on a recognized stock exchange of India and is chargeable to STT , will be exempt in the hands of the shareholder.

4. In accordance with section 112 of the Act, LTCG to the extent not exempt under Section 10(38) of the Act would be subject to tax at the rate of 20% (plus applicable surcharge and education cess) with indexation benefits. However, as per the proviso to Section 112 of the Act, if the tax on LTCG is resulting from transfer of listed securities (other than unit) or zero coupon bonds, then LTCG will be chargeable to tax at the rate lower of the following: -

    a. 20% (plus applicable surcharge and education cess) of the capital gains as computed after indexation of the cost; or

    b. 10% (plus applicable surcharge and education cess) of the capital gains as computed without indexation

5. Under section 54EC of the Act and subject to the conditions and to the extent specified therein, LTCG (in case not covered under section 10(38) of the Act) arising on the transfer of a Long Term Capital Asset would be exempt from tax if such capital gain is invested within 6 months from the date of such transfer in a "long term specified asset".

    A "long term specified asset" means any bond, redeemable after three years and issued on or after 1st day of April 2007 by the:

    c. National Highways Authority of India constituted under Section 3 of The National Highways Authority of India Act, 1988;

    d. Rural Electrification Corporation Limited, a company formed and registered under the Companies Act, 1956.

    The total deduction with respect to investment in the long term specified assets is restricted to Rs.50 lakhs whether invested during the financial year in which the asset is transferred or subsequent year.

    Where the "long term specified asset" are transferred or converted into money within three years from the date of their acquisition, the amount so exempted is taxable as capital gains in the year of transfer / conversion

6. As per section 54F of the Act, LTCG in cases not covered under section 10(38) arising on the transfer of the shares of the company held by an Individual or Hindu Undivided Family (HUF) will be exempt from capital gains tax if the net consideration is utilized to purchase or construct a residential house. The residential house is required to be purchased within a period of one year before or two year after the date of transfer or to be constructed within three years after the date of transfer.

7. As per section 111A of the Act, STCG arising from the sale of equity shares of the company, where such transaction is chargeable to STT, will be taxable at the rate of 15% (plus applicable surcharge and education cess). Further, STCG as computed above that are not liable to STT would be subject to tax as calculated under the normal provisions of the IT Act.

As per section 70 read with section 74 of the IT Act, Short Term Capital Loss computed for the given year is allowed to be set off against STCG as well as LTCG computed for the said year. The balance loss, which is not set off, is allowed to be carried forward for subsequent eight assessment years for being set off against subsequent years' STCG as well as LTCG.

However, the long term capital loss computed for a given year is allowed to be set off only against the LTCG. The balance loss, which is not set off, is allowed to be carried forward for subsequent eight assessment years for being set off only against subsequent years' LTCG.

8. Under Section 36 (1) (xv) of the Act, the amount of STT paid by an assessee in respect of taxable securities transactions offered to tax as "Profits and gains of Business or profession" shall be allowable as a deduction against such Business Income.

9. No income tax is deductible at source from income by way of capital gains under the present provisions of the Act in case of residents.

V. GENERAL TAX BENEFITS AVAILABLE TO NON-RESIDENT SHAREHOLDERS (OTHER THAN FII'S)

1. As per section 10(34) of the Act, any income by way of dividends referred to in section 115-O received on the shares of any Indian company is exempt from tax.

2. As per first proviso to section 48 of the Act, in case of a non-resident shareholder, the capital gain/loss arising from transfer of shares of the company, acquired in convertible foreign exchange, is to be computed by converting the cost of acquisition, sales consideration and expenditure incurred wholly and exclusively in connection with such transfer, into the same foreign currency which was initially utilized in the purchase of shares. Cost Indexation benefit will not be available in such a case.

3. As per section 10(38) of the Act, LTCG arising from the transfer of long term capital asset being an equity share of the company, where such transaction has been entered into on a recognised stock exchange of India and is chargeable to STT , will be exempt in the hands of the shareholder.

4. As per section 112 of the Act, LTCG to the extent not exempt under section 10(38) of the Act, would be subject to tax at the rate of 20% (plus applicable surcharge and education cess) after giving effect to the first proviso to section 48 of the Act. If the tax payable on transfer of listed securities exceeds 10% of the LTCG, the excess tax shall be ignored for the purpose of computing tax payable by the assesse.

5. Under section 54EC of the Act and subject to the conditions and to the extent specified therein, LTCG (in case not covered under section 10(38) of the Act) arising on the transfer of a Long Term Capital Asset would be exempt from tax if such capital gain is invested within 6 months from the date of such transfer in a "long term specified asset".

   A "long term specified asset" means any bond, redeemable after three years and issued on or after 1st day of April 2007 by the:

   a. National Highways Authority of India constituted under Section 3 of The National Highways Authority of India Act, 1988;

   b. Rural Electrification Corporation Limited, a company formed and registered under the Companies Act, 1956.

The total deduction with respect to investment in the long term specified assets is restricted to Rs.50 lakhs whether invested during the financial year in which the asset is transferred or subsequent year.

Where the "long term specified asset" are transferred or converted into money within three years from the date of their acquisition, the amount so exempted is taxable as capital gains in the year of transfer / conversion.

6. As per section 54F of the Act, LTCG (in cases not covered under section 10(38) arising on the transfer of the shares of the Company held by an Individual or Hindu Undivided Family (HUF) will be exempt from capital gains tax if the net consideration is utilized to purchase or construct a residential house. The residential house is required to be purchased within a period of one year before or two years after the date of transfer or to be constructed within three years after the date of transfer.

7. As per section 111A of the Act, STCG arising from the sale of equity shares of the Company, where such transaction is chargeable to STT, will be taxable at the rate of 15% (plus applicable surcharge and education cess). Further, STCG as computed above that are not liable to STT would be subject to tax as calculated under the normal provisions of the IT Act.

8. As per section 70 read with section 74 of the IT Act, Short Term Capital Loss computed for the given year is allowed to be set off against STCG as well as LTCG computed for the said year. The balance loss, which is not set off, is allowed to be carried forward for subsequent eight assessment years for being set off against subsequent years' STCG as well as LTCG.

   However, the long term capital loss computed for a given year is allowed to be set off only against the LTCG. The balance loss, which is not set off, is allowed to be carried forward for subsequent eight assessment years for being set off only against subsequent years' LTCG.

9. Under Section 36 (1) (xv) of the Act, the amount of STT paid by an assessee in respect of taxable securities transactions offered to tax as "Profits and gains of Business or profession" shall be allowable as a deduction against such Business Income.

10. In respect of non-residents, the tax rates and consequent taxation mentioned above will be further subject to any benefits available under the Tax Treaty, if any, between India and the country in which the nonresident is considered resident in terms of such Tax Treaty. As per the provisions of section 90(2) of the Act, the provisions of the Act would prevail over the provisions of the Tax Treaty to the extent they are more beneficial to the non-resident.

11. As per Finance Act 2015 ("**FA**") the income from transactions in securities (other than STCG arising on transactions on which STT is not chargeable), arising to a foreign company, shall be excluded from the computation of book profit liable to MAT and the book profit shall be increased by the amount of expenditure corresponding to such income

VI. SPECIAL TAX BENEFITS AVAILABLE TO NON-RESIDENT INDIANS

1. As per section 115C(e) of the Act, the term "non-resident Indians" means an individual, being a citizen of India or a person of Indian origin who is not a "resident". A person shall be deemed to be of Indian origin if he, or either of his parents or any of his grand-parents, was born in undivided India.

2. As per section 115E of the Act, in the case of a shareholder being a non-resident Indian, and subscribing to the shares of the Company in convertible foreign exchange, in accordance with and subject to the prescribed conditions, LTCG on transfer of the shares of the Company (in cases not covered under section 10(38) of the Act) will be subject to tax at the rate of 10% (plus applicable surcharge and education cess), without any indexation benefit.

3. As per section 115F of the Act and subject to the conditions specified therein, in the case of a shareholder being a non-resident Indian, gains arising on transfer of a long term capital asset being shares of the Company will not be chargeable to tax if the entire net consideration received on such transfer is invested within the prescribed period of six months in any specified asset or savings certificates referred to in section 10(4B) of the Act. If part of such net consideration is invested within the prescribed period of six months in any specified asset or savings certificates referred to in section 10(4B) of the Act then this exemption would be allowable on a proportionate basis. Further, if the specified asset or saving certificates in which the investment has been made is transferred or converted into money within a period of three years from the date of investment, the amount of capital gains tax exempted earlier would become chargeable to tax as long term capital gains in the year in which such specified asset or savings certificates are transferred / converted.

4. As per section 115G of the Act, Non-Resident Indians are not obliged to file a return of income under section 139(1) of the Act, if their only source of income is income from specified investments or long term capital gains earned on transfer of such investments or both, provided tax has been deducted at source from such income as per the provisions of Chapter XVII-B of the Act.

5. As per section 115H of the Act, where Non-Resident Indian becomes assessable as a resident in India, he may furnish a declaration in writing to the Assessing Officer, along with his return of income for that year under section 139 of the Act to the effect that the provisions of Chapter XII-A shall continue to apply to him in relation to investment income derived from the investment in equity shares of the Company as mentioned in section 115C(f)(i) of the Act for that year and subsequent assessment years until assets are converted into money.

6. As per section 115I of the Act, a Non-Resident Indian may elect not to be governed by the provisions of Chapter XII-A for any assessment year by furnishing a declaration along with his return of income for that assessment year under section 139 of the Act, that the provisions of Chapter XII-A shall not apply to him for that assessment year and accordingly his total income for that assessment year will be computed in accordance with the other provisions of the Act.

7. In respect of non-resident Indian, the tax rates and consequent taxation mentioned above will be further subject to any benefits available under the Tax Treaty, if any, between India and the country in which the non-resident is considered resident in terms of such Tax Treaty. As per the provisions of section 90(2) of the Act, the provisions of the Act would prevail over the provisions of the Tax Treaty to the extent they are more beneficial to the non-resident.

8. As per section 90(4) of the Act, the Non-Resident Indian shall not be entitled to claim relief under section 90(2) of the Act, unless a certificate of his being a resident in any country outside India, is obtained by him from the government of that country or any specified territory. As per section 90(5) of the Act, the Non-Resident Indian shall be required to provide such other information, as has been notified.

VII. BENEFITS AVAILABLE TO FOREIGN INSTITUTIONAL INVESTORS ('FIIS')

Special tax benefits

1. Under Section 115AD(1)(ii) of the Act, income by way of STCG arising to the FII on transfer of shares shall be chargeable at a rate of 30%, where such transactions are not subjected to STT, and at the rate of 15% if such transaction of sale is entered on a recognised stock exchange in India and is chargeable to STT. The above rates are to be increased by applicable surcharge and education cess.

   Under Section 115AD(1)(iii) of the Act income by way of LTCG arising from the transfer of shares (in cases not covered under Section 10(38) of the Act) held in the company will be taxable at the rate of 10% (plus applicable surcharge and education cess). The benefits of indexation of cost and of foreign currency fluctuations are not available to FIIs.

2. As per section 196D(2) of the Act, no deduction of tax at source will be made in respect of income by way of capital gain arising from the transfer of securities referred to in section 115AD.

3. As per Finance Act 2015 the income from transactions in securities (other than STCG arising on transactions on which STT is not chargeable), arising to a FII, shall be excluded from the computation of book profit liable to MAT and the book profit shall be increased by the amount of expenditure corresponding to such income.

General tax benefits

4. As per section 10(34) of the Act, any income by way of dividends referred to in section 115O (i.e. dividends declared, distributed or paid on or after 1 April 2003 by the Company) received on the shares of the Company is exempt from tax.

5. Section 2(14) of the Act has been amended by the FA such that any security held by a FII who has invested in such securities in accordance with the regulations made under Securities & Exchange Board of India Act, 1992 would be treated as a capital asset only so that any income arising from transfer of such security by a foreign institutional investor ("**FII**") would be treated in the nature of capital gains.

6. As per section 10(38) of the Act, LTCG arising from the transfer of long term capital asset being an equity share of the Company, where such transaction is chargeable to STT will be exempt to tax in the hands of the FIIs.

7. Under section 54EC of the Act and subject to the conditions and to the extent specified therein, LTCG (in case not covered under section 10(38) of the Act) arising on the transfer of a Long Term Capital Asset would be exempt from tax if such capital gain is invested within 6 months from the date of such transfer in a "long term specified asset".

   A "long term specified asset" means any bond, redeemable after three years and issued on or after 1st day of April 2007 by the:

   a. National Highways Authority of India constituted under Section 3 of The National Highways Authority of India Act, 1988;

   b. Rural Electrification Corporation Limited, a company formed and registered under the

Companies Act, 1956.

The total deduction with respect to investment in the long term specified assets is restricted to Rs.50 lakhs whether invested during the financial year in which the asset is transferred or subsequent year.

Where the "long term specified asset" are transferred or converted into money within three years from the date of their acquisition, the amount so exempted is taxable as capital gains in the year of transfer / conversion.

8. As per section 70 read with section 74 of the Act, short term capital loss, if any, arising during the year can be set off against STCG and LTCG . It also provides that long-term capital loss, if any arising during the year can be set-off only against LTCG. Both the short term capital loss and long term capital loss shall be allowed to be carried forward upto eight assessment years immediately succeeding the assessment year for which the loss was first computed. However the brought forward long term capital loss can be set off only against future LTCG.

9. The tax rates and consequent taxation mentioned above will be further subject to any benefits available under the Tax Treaty, if any, between India and the country in which the FII is considered as resident in terms of such Tax Treaty. As per the provisions of section 90(2) of the Act, the provisions of the Act would prevail over the provisions of the Tax Treaty to the extent they are more beneficial to the FII.

10. As per section 90(4) of the IT Act, the FIIs shall not be entitled to claim relief under section 90(2) of the IT Act, unless a certificate of their being a resident in any country outside India, is obtained by them from the government of that country or any specified territory. As per section 90(5) of the IT Act, the FIIs shall be required to provide such other information, as has been notified.

VIII. BENEFITS AVAILABLE TO VENTURE CAPITAL COMPANIES/ FUNDS

1. Under Section 10(23FB) of the IT Act, any income of Venture Capital Company registered with SEBI or Venture Capital Fund registered under the provision of the Registration Act, 1908 (set up to raise funds for investment in venture capital undertaking notified in this behalf), would be exempt from income tax, subject to conditions specified therein.

2. Venture capital companies / funds are defined to include only those companies / funds which have been granted a certificate of registration, before the 21st day of May, 2012 as a Venture Capital Fund or have been granted a certificate of registration as Venture Capital Fund as a sub-category of Category I Alternative Investment Fund. 'Venture capital undertaking' means a venture capital undertaking as defined in clause (n) of regulation 2 of the Venture Capital Funds Regulations or as defined in clause (aa) of sub-regulation (1) of regulation 2 of the Alternative Investment Funds Regulations.

3. As per Section 115U of the IT Act, any income accruing/arising/received by a person from his investment in Venture Capital Company/Venture Capital Fund would be taxable in the hands of the person making an investment in the same manner as if it were the income accruing/arising/received by such person had the investments been made directly in the venture capital undertaking.

4. Further, as per section 115U(5) of the IT Act, the income accruing or arising to or received by the venture capital company/funds from investments made in a venture capital undertaking if not paid or credited to a person (who has investments in a Venture Capital Company /Fund) shall be deemed to have been credited to the account of the said person on the last day of the tax year in the same proportion in which such person would have been entitled to receive the income had it been paid in the tax year.

5. The FA has introduced a new section (section 10(23FBA) wherein any income of an 'investment fund' other than the income chargeable under the head "Profits and gains of business & profession" would be exempt from income tax.

   Investment fund as per explanation 1(a) of section 115UB means any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which has been granted a certificate of registration as a Category I or a Category II Alternative Investment Fund and is regulated under the Securities Exchange Board of India (Alternative Investment Fund) Regulations, 2012, made under the Securities Exchange Board of India Act, 1992 (15 of 1992).

   Further, section 10(23FBB) also has been introduced wherein any income arising to a unit holder of an 'investment fund', which is of the same nature as income by way of profits and gain of business at investment fund level shall be exempt in the hands of the unit holder.

6. As per section 115UB of the Act (newly inserted section) any income accruing or arising to, or received by, a person, being a unit holder of an investment fund, out of investments made in the investment fund, shall be chargeable to income-tax in the same manner as if it were the income accruing or arising to, or received by, such person had the investments made by the investment fund been made directly by him.

   Where in any previous year, the net result of computation of total income of the investment fund without giving effect to the provisions of clause (23FBA) of section 10] is a loss under any head of income and such loss cannot be or is not wholly set-off against income under any other head of income of the said previous year, then:
   - Such loss shall be allowed to be carried forward and it shall be set off by the investment fund in accordance with the provisions of chapter VI; and
   - Such loss shall not be passed on to the unit holders.

   The income paid or credited by the investment fund shall be deemed to be of the same nature and in the same proportion in the hands of the person being a unit holder of an investment fund, as it had been received by, or had accrued or arisen to, the investment fund during the previous year (subject to the provisions in case of losses mentioned above).

7. Further, as per section 115UB(6), the income accruing or arising to, or received by, the investment fund, during a previous year, if not paid or credited to the person being a unit holder of an investment fund, shall (subject to the provisions in case of losses mentioned above), be deemed to have been credited to the account of the said person on the last day of the previous year in the same proportion in which such person would have been entitled to receive the income had it been paid in the previous year.

   Income (other than business income) accrued or paid by the Investment Fund to a Unit Holder shall be subject to deduction of tax at source at 10% as per the proposed provisions of Chapter XVII-B of the Act.

   "Investment fund" means any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which has been granted a certificate of registration as a Category I or a Category II AIF and is regulated under AIF Regulations.

8. The existing pass through regime will continue to apply to VCF/VCC which had been registered under SEBI (VCF) Regulations, 1996. Remaining VCFs, being part of Category-I AIFs, shall be subject to the new pass through regime.

IX. SPECIAL TAX BENEFITS AVAILABLE TO MUTUAL FUNDS

As per section 10(23D) of the Act, any income of Mutual Funds registered under the Securities and Exchange Board of India Act, 1992 or Regulations made thereunder, Mutual Funds set up by public sector banks or public financial institutions and Mutual Funds authorised by the Reserve Bank of India will be exempt from income tax, subject to such conditions as the Central Government may, by notification in the Official Gazette, specify in this behalf.

X. THE WEALTH TAX ACT, 1957

As per the Finance Act, 2015, Wealth Tax Act, 1957 has been abolished with effect from AY 2016-17.

XI. BENEFITS AVAILABLE UNDER THE GIFT TAX ACT, 1958

Gift tax is not leviable in respect of any gift made on or after 1 October 1998. Therefore any gift of share of a company will not attract gift tax.

NOTES:

1. The above benefits are as per the current tax law as amended by the Finance Act, 2015 (the "**FA**").

2. As per the FA, surcharge is to be levied on individuals, HUF, AOP, body of individuals, artificial juridical person, co-operative society and local authorities at the rate of 12% if the total income exceeds Rs 1 Crore.

3. As per the FA, surcharge is to be levied on domestic companies at the rate of 7% where the income exceeds Rs 1 crore but does not exceed Rs 10 crores and at the rate of 12% where the income exceeds Rs. 10 crores.

4. As per the FA, surcharge is to be levied on every company other than domestic company at the rate of 2% where the income exceeds Rs 1 crore but does not exceed Rs 10 crores and at the rate of 5% where the income exceeds Rs. 10 crores.

5. A 2% education cess and 1% secondary and higher education cess on the total income is payable by all categories of taxpayers.

6. The above statement of possible direct tax benefits sets out the provisions of law in a summary manner only and is not a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposal of Shares.

7. In respect of non-residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the DTAA, if any, between India and the country in which the non-resident has fiscal domicile.

8. This statement is intended only to provide general information to the investors and is neither designed nor intended to be substituted for professional tax advice. In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor with respect to specific tax

consequences of his/her participation in the scheme.

9. No assurance is given that the revenue authorities/courts will concur with the views expressed herein. Our views are based on the existing provisions of law and its interpretation, which are subject to changes from time to time. We do not assume responsibility to update the views consequent to such changes.

10. This statement of possible direct tax benefits enumerated above is as per the Act as amended by the FA.

Above are the possible tax benefits available to the company and shareholders under the current tax laws in India. Several of these benefits are dependent on the shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence, the ability of the shareholders to derive the tax benefits is dependent upon fulfilling such conditions. The benefits discussed above are not exhaustive. This statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the issue particularly in view of the fact that certain recently enacted legislation may not have a direct legal precedent or may have a different interpretation on the benefits, which an investor can avail.

SECTION IV – ABOUT OUR BANK

INDUSTRY OVERVIEW

The information in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Government of India and its various ministries, the RBI and the Indian Banks' Association, and has not been prepared or independently verified by us. Wherever we have relied on figures published by the RBI, unless stated otherwise, we have relied on RBI's Annual Report for the years 2014 and 2015, Profile of Banks 2013-14 and Financial Stability Report (Including Report on Trend and Progress of Banking in India 2013-14) December 2014 and Statistical Tables Relating to Banks in India, 2013-14, and the accompanying explanatory notes, available at http://www.rbi.org.in. Industry sources and publications referred to by us state that the information contained therein has been obtained from sources generally believed to be reliable, but their accuracy, completeness and underlying assumptions are not guaranteed and their reliability cannot be assured and, accordingly, investment decisions should not be based on such information. Statements in this section that are not statements of historical fact constitute "forward-looking statements", and are subject to various risks, assumptions and uncertainties and certain factors could cause actual results or outcomes to differ materially.

Indian Economy

The Indian economy is one of the largest and fastest growing economies in the world with a gross domestic product (GDP) at market prices of an estimated Rs.113.6 trillion for fiscal year 2014. *(Source: Summary of macroeconomic aggregates at current prices, 1950-51 to 2013-14, Ministry of Statistics and Programme Implementation available at http://mospi.nic.in as of 5 November 2014.)*. India's estimated GDP growth rate at constant prices of 7.50% for the quarter ended March 31, 2015 (*Source: Central Statistics Office*). In 2014, China and India sustained real GDP growth rates of 7.40% and 7.20%, respectively, which are among the highest of any economy in the world. In recent years, India has become a popular destination for foreign direct investment (FDI), owing to its well-developed private corporate sector, large consumer market potential, large pool of well-educated and english speaking work force and well established legal systems.

Cumulative FDI flows into India from April 2000 to May 2015 were approximately U.S.$377,310 million. Mauritius, Singapore and U.K. have been the top 3 investing countries accounting for approximately 35%, 14% and 9%, respectively, of the total percentage of FDI equity inflows during April 2000 to May 2015. *(Source: Department of Industrial Policy and Promotion, Ministry of Commerce & Industry, Government of India – Fact Sheet on FDI from April 2000 to May 2015.)*

Fiscal 2014 was a challenging year for the Indian economy driven by subdued domestic growth, extreme volatility in the exchange rate and a much higher than expected spike in inflation rates. Domestic GDP growth showed a marginal improvement from 4.50% in fiscal 2013 to 4.70% in fiscal 2014, primarily attributable to an increase in agricultural growth from 1.40% in fiscal 2013 to 4.70% in fiscal 2014. *(Source: RBI Handbook of Statistics of Indian Economy 2013-14.)* Growth in both the industrial and service sector remained slow due to a weakness in both consumption and investment demand. The global economic activity has recovered modestly in the first quarter of 2015 with the US economy rebounding on stronger consumption growth and steadily improving labour market conditions. The European nations has grown at a moderate pace through the first half of 2015, supported by consumer spending, easing financing conditions and a modest downturn in still-high unemployment.

Domestic consumption continued to remain weak, but manufacturing activity picked up in July and further strengthening of exports and corporate profitability could stimulate capital spending. In the emerging market economies (EMEs), activity decelerated due to weak external demand, tightening external financing conditions, deteriorating structural bottlenecks and spill overs from unsettled conditions in financial markets. *(Source: RBI Bulletin available at http://www.rbi.org.in.)* The RBI provided various incentives to commercial banks to raise foreign currency non-resident (FCNR) deposits and gradually removed emergency measures when the exchange rate showed some signs of stability in the second half of fiscal 2014. *(Source: RBI Annual Report 2013-14.)* However, both domestic and global cues were at play in buoying the Indian financial markets during 2014-2015 and equity markets reached all-time highs during the year. With ebbing inflationary pressures, receding risks to the inflation outlook and commitments to fiscal prudence, the Reserve Bank eased its monetary policy stance with a cumulative 75 bps cut in the policy repo rate during January-August 2015. *(Source: RBI Annual Report 2014-15.)*

Indications of an improvement in the overall domestic macroeconomic landscape have been visible over the fourth quarter of fiscal 2014 and the first quarter of fiscal 2015, which has helped to stabilize the Indian rupee. Inflationary pressures, both in terms of the CPI and the wholesale price index, have subsided as a result of a decline in food price inflation. Shrinking exports in some industries, in part a result of weak global demand and global overcapacity in those industries and in part a result of the significant depreciation of currencies of some major trading partners against the rupee, also contributed to weak aggregate demand. Investment, as measured by new projects, continued to remain weak, primarily due to still-low capacity utilization. Power sector saw a recent step-up and the easing of bottlenecks in coal supply being partly negated by structural problems relating to clogging of transmission grids and the dire financial state of electricity distribution companies ("**DISCOMs**"). *(Source: RBI Bulletin available at http://www.rbi.org.in.)*

The government appears to be firmly committed to fiscal consolidation by reducing the fiscal deficit from 4.50% in fiscal 2014 to 4.10% in fiscal 2015. Further, there has been an improvement in the current account deficit which has decreased from 4.80% of GDP in fiscal 2013 to 1.70% of GDP in fiscal 2014 and which is expected to widen marginally to 2.20% of GDP in fiscal 2015. The current account deficit was 1.70% of GDP at the end of the first quarter of fiscal 2015. The improvement in the current account position can partially be attributed to the reduction in the trade deficit as imports fell by 7.20% in fiscal 2014. The median base lending rates of banks has fallen by around 30 basis points since January 2015.

Indian Banking Industry

The Government's economic reform program, began in 1991, encompassed the financial sector. The first phase of the reform process began with implementation of the recommendations of the Committee on the Financial System, namely the Narasimham Committee I. Following that, reports were submitted in 1997 and 1998 by other committees, such as the second Committee on Banking Sector Reform, namely, the Narasimham Committee II, and the Tarapore Committee on Capital Account Convertibility. This, in turn, led to the second phase of reforms relating to capital adequacy requirements, asset classification and provisioning, risk management and merger policies. The deregulation of interest rates, the emergence of a liberalised domestic capital market and the entry of new private sector banks have progressively intensified the competition among banks.

Banks in India may be categorised as scheduled banks and non-scheduled banks, where the former are banks which are included in the second schedule to the RBI Act 1934, as amended. These banks comprise scheduled commercial banks and scheduled co-operative banks. Scheduled commercial banks may further be classified as the State Bank of India (SBI) and its associates, nationalised banks, private sector banks, foreign banks and regional rural banks. (In RBI reports, regional rural banks are usually excluded in tables providing details of individual banks and their summary tables at bank group level.) The focus of commercial banks in India has largely been on meeting the short-term financing needs of industry, trade and agriculture sectors. As of August 28, 2015, there were 146 scheduled commercial banks in the country and commercial banks had a nationwide network of 127,343 offices with 38.11% of the offices in rural areas and around 26.60% semi-urban areas. (*Source: RBI, "Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks" as of June 2015, available at http://www.rbi.org.in/*) Loan demand picked up in Q3 of 2015-16, and banks may see more gains from cutting rates to secure new lending. Growth may also be spurred by the Government's recent announcement pertaining to infusion of bank capital into public sector banks will help loan growth and hence transmission, as will currently easy liquidity conditions. The aggregate time deposits with all scheduled commercial banks stood at 78% (*Source: Reserve Bank of India – Bulletin Weekly Statistical Supplement dated August 28, 2015.*)

Constituents of the Indian Banking Industry

The Reserve Bank of India

The RBI is the central regulatory and supervisory authority for the Indian banking sector. Besides regulating and supervising the banking system, the RBI *inter alia* acts as the central bank and the monetary authority, issues currency, manages debt for the central and certain state governments that have entered into agreement with it, regulates and supervises NBFCs, manages the capital account of the balance of payments and develops initiatives such as financial inclusion and strengthening of the credit delivery mechanisms to priority sectors and weaker sections, including agricultural entities, small and micro-enterprises and for affordable housing and education.

The RBI issues guidelines on various issues relating to the classification and financial reporting of entities (including banking entities) under its supervision. Some of these guidelines regulate exposure standards, income recognition practices, asset classification, provisioning for non-performing and restructured assets, investment valuation and capital adequacy. All the institutions under the purview of the RBI are required to furnish information relating to their businesses on a regular basis.

Public sector banks

Public sector banks are scheduled commercial banks with a significant Government shareholding and constitute the largest category in the Indian banking system. These include the SBI and its six associate banks, 20 nationalised banks and 64 regional rural banks. As of fiscal year 2014, public sector banks in India had total deposits of approximately Rs.65,890 billion and loans and advances of approximately Rs.51,011 billion. SBI and its associates accounted for approximately 21.40% of the total deposits and approximately 23.20% of the loans and advances and nationalised banks accounted for approximately 55.80% of the total deposits and approximately 52.50% of the loans and advances of the scheduled commercial banks. The public sector banks, in total, accounted for approximately 77.20% of the deposits and approximately 75.70% of the advances of the scheduled commercial banks. These figures do not include regional rural banks. (*Source: Statistical Tables Relating to Banks in India, 2013-14.*) Regional rural banks were established from 1976 to 1987 by the central Government, state governments and sponsoring commercial banks jointly, with a view to develop the rural economy. Regional rural banks provide credit to small farmers, artisans, small entrepreneurs and agricultural labourers. The NABARD is responsible for regulating and supervising the functions of the regional rural banks.

Private sector banks

After bank nationalisation was completed in 1969 and 1980, the majority of Indian banks were public sector banks. Some of the existing private sector banks, which showed signs of an eventual default, were merged with state-owned banks. In July 1993, as part of the banking reform process and as a measure to induce competition in the banking sector, the RBI permitted entry by the private sector into the banking system. This resulted in the emergence of private sector banks, collectively known as the "New Private Sector

Banks". There were seven New Private Sector Banks operating as of fiscal year 2013. In addition, 13 private sector banks existing prior to July 1993 were operating as of fiscal year 2013. These are collectively known as the "Old Private Sector Banks". (*Source: RBI Report on Trend and Progress of Banking in India 2012-13*.)

As of the end of December 2014, private sector banks accounted for 19.20% and 21% of the aggregate deposits and the gross bank credit, respectively. *(Source: RBI's press release, RBI releases 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Bank: December, 2014)* RBI issued the New Banks Licensing on February 22, 2013 specifying that select entities or groups in the private sector, entities in the public sector and non-banking financial companies with a successful track record of at least 10 years would be eligible to promote banks. The RBI also published certain criteria for ascertaining whether a bank is 'fit and proper' for the grant of a licence.

As per the guidelines, new banks can be set up only through a non-operative financial holding company registered with the RBI and the initial minimum paid up equity voting capital requirement for the applicants is Rs.5.0 billion, with foreign shareholding not exceeding 49% for the first five years. The applicants were required to submit applications for these licences to the RBI by 1 July 2013 and 25 applications were considered by the RBI pursuant to withdrawal by two applicants. These applications were screened by the RBI before being forwarded to the RBI's High Level Advisory Committee (HLAC) for further scrutiny, which submitted its recommendations to the RBI on 25 February 2014.

IDFC Limited received an in-principle approval on April 9 2014, and IDFC Bank Limited received its banking license on July 23, 2015, from the RBI to set up banks under the New Banks Licensing Guidelines. Bandhan Financial Services Private Limited was the only other entity that received an in-principle approval from the RBI.

The RBI intends to issue licences on an on-going basis, subject to the RBI's qualification criteria. Further, on July 17, 2014, the RBI released the draft guidelines for "Licensing of Payments Banks" and for "Licensing of Small Banks", which are aimed at expanding the banking space and paving the way for corporate entities to enter these two segments. In its bi-monthly policy announcement on September 30, 2014, the RBI announced that, based on the feedback received, final guidelines would be issued by the end of November 2014. *(Source: RBI Press Release available at https://www.rbi.org.in dated 17 July 2014.)* On August 19, 2015, RBI granted in-principle approval to 11 new applicants to set up payment banks under the RBI New Banking Guidelines issued on November 27, 2014. On September 16, 2015, RBI also granted in-principle approval to 10 applicants to set up small finance banks under the RBI New Banking Guidelines. As per the guidelines, payments banks cannot undertake lending, and therefore may not be subject to the same risks as a full service bank. The selection process included a detail scrutiny by an external advisory committee and an internal screening committee which submitted a final list of recommendations to the Committee of the Central Board. *(Source: RBI Press Release dated August 19, 2015, available at https://www.rbi.org.in.)*

Foreign banks

As of fiscal year 2013, there were 43 foreign banks with 327 offices operating in India. (*Source: RBI website, data as of September 30, 2014*.) As of fiscal year 2014, foreign banks accounted for approximately 4.10% of deposits and approximately 4.30% of aggregate advances of scheduled commercial banks (not including regional rural banks). (*Source: Statistical Tables Relating to Banks in India, 2013-14*.)

As part of the liberalisation process, the RBI has permitted foreign banks to operate more freely, subject to requirements largely similar to those imposed on domestic banks. Foreign banks operate in India through branches of the parent bank. The primary activity of most foreign banks in India has been in the corporate segment. However, in recent years, some of the larger foreign banks have started to put a greater emphasis on consumer financing based on the growth opportunities in India.

Certain foreign banks also have wholly owned non-banking financial company subsidiaries or joint ventures for both corporate and retail lending. In 2004, the RBI stipulated that banks, including foreign banks operating in India, should not acquire any fresh stake in another bank's equity shares if by such acquisition, the investing bank's holding would exceed 5% of the investee bank's equity capital. In February 2005 the RBI issued a "Roadmap for Presence of Foreign Banks in India", announcing the following measures to be implemented in two phases:

- During the first phase (from March 2005 through to March 2009), foreign banks were allowed to establish a presence by setting up wholly owned subsidiaries or by converting existing branches into wholly-owned subsidiaries.

- Also during the first phase, foreign banks were allowed to acquire a controlling stake in private sector banks identified by the RBI for restructuring. This was only to be done in a phased manner.

- For new and existing foreign banks, proposals were made to go beyond the existing World Trade Organisation commitment of allowing increases of 12 branches per year. A more liberal policy will be followed for areas with a small number of banks.

- During the second phase (from April 2009 onwards) and after a review of the first phase, foreign banks would be allowed to acquire up to 74% in private sector banks in India. However, in light of deteriorating global financial markets, the RBI postponed the second phase until greater clarity emerged as to recovery and reform of the global regulatory and supervisory architecture.

In January 21, 2011, the RBI released a draft discussion paper on the mode of presence of foreign banks in India. The paper indicates a preference for a wholly-owned subsidiary model of presence over a branch model. Other recommendations of the discussion paper include requiring systemically important foreign banks to convert their Indian operations into wholly-owned subsidiaries, a less restrictive branch expansion policy and ability to raise Rupee debt through issuance of non-equity capital instruments for such converted subsidiaries, lower priority sector targets as compared to domestic banks and unified regulation for both Indian and foreign banks with respect to investments in subsidiaries and associates.

In July 2012, the RBI revised priority sector lending norms and mandated foreign banks with 20 branches or more in India to meet priority lending norms as prescribed for domestic banks. Further, a foreign bank that has set up operations in India through the branch mode after August 2010 will be required to convert its operations into a subsidiary if it is considered to be systemically important. A bank would be considered to be systemically important if the assets on its Indian balance sheet (including credit equivalent of off-balance sheet items) equals 0.25% of the total assets (inclusive of credit equivalents of off-balance sheet items) for all scheduled commercial banks in India as of 31 March of the preceding year.

Cooperative banks

Cooperative banks cater to the financing needs of agriculture, small industry and self-employed businessmen in urban, semi-urban and rural areas of India. The state land development banks and the primary land development banks provide long-term credit for agriculture. The Banking Regulation (Amendment) and Miscellaneous Provisions Act, 2004, which came into effect from September 24, 2004, specifies that all multi-state cooperative banks are under the supervision and regulation of the RBI. Accordingly, the RBI is currently responsible for the supervision and regulation of multi-state co-operative societies (being a primary co-operative bank), NABARD, state cooperative banks and district central cooperative banks. The wide network of co-operative banks, both rural and urban, supplements the commercial banking network for deepening financial intermediation by bringing a large number of depositors/borrowers under the formal banking network.

Key Banking Industry Trends in India

The current weak global growth outlook may prolong an easy monetary policy stance in most advanced economies. On the domestic front, macroeconomic vulnerabilities have abated significantly in recent months on the back of an improvement in growth outlook, a decrease in inflation, recovery in the external sector and increased political stability. However, growth in the banking sector and activity in primary capital markets remain subdued due to moderate investment intentions. Sustaining the turnaround in business sentiment remains contingent on outcomes on the ground. (*Source: Financial Stability Report (Including Trend and Progress of Banking in India 2013-14) December 2014.*)

Economic activity in India gained pace in the first quarter of fiscal year 2015, but its momentum appears to have slackened in the second quarter. With the exception of the impact of weather-related food supply disruptions, inflation has moderated in a broad-based manner. Elevated inflation expectations of households and ongoing risks from high input costs and sticky wages, however, present challenges to reducing inflation to 6% by January 2016 along the committed glide path. *(Source: RBI Monetary Policy Report-September 2014.)*

The growth of the Indian banking sector moderated further during 2013-14. Profitability declined on account of higher provisioning on banks' delinquent loans and lacklustre credit growth and, while the asset size of the non-deposit taking, systemically important non-banking financial companies (NBFCs) showed an expansion, the asset quality of such NBFCs deteriorated further during 2013-14. (*Source: Financial Stability Report (Including Trend and Progress of Banking in India 2013-14) December 2014.*)

Consumer credit

The consumer credit market in India has undergone a significant transformation over the last decade and has experienced rapid growth due to consumer credit becoming cheaper, more widely available and increasingly a more acceptable avenue of funding for consumers. The market has changed dramatically due to the following factors:

- increased focus by banks and financial institutions on consumer credit, resulting in a market shift towards regulated players from unregulated moneylenders/financiers;
- increasing desire by consumers to acquire assets such as cars, goods and houses on credit;
- fast emerging middle class and growing number of households in a bank's target segment;
- improved terms of credit;
- legislative changes that offer greater protection to lenders against fraud and potential default,
- increasing the incentive to lend; and

- growth in assignment and securitisation arrangements for consumer loans, enabling non-deposit based entities to access wholesale funding and compete in the market, based on the ability to originate, underwrite and service consumer loans.

Commercial Banking Trends

Credit

As of fiscal year 2014, the credit-deposit ratio for scheduled commercial banks was 77.7 as compared to 78.0 as of fiscal year 2013. The aggregate deposits increased by 14.60% while loans and advances increased by 14.30% in fiscal year 2014. (*Source: Reserve Bank of India – Bulletin Weekly Statistical Supplement dated April 11, 2014*.)

Fiscal year 2014 was marked by a slight improvement in the overall growth of credit. While credit to agriculture and allied activities and the service sector showed an improved growth, the industry sector saw a decline in comparison to fiscal year 2014, with a deceleration in credit growth observed in all major sub-sectors, barring construction. The increase in credit to the services sector saw a decline as compared to fiscal year 2014. The increase in credit to non-banking financial companies (NBFCs) and personal loans was also lower than fiscal year 2014. (*Source: RBI Data on Sectoral Deployment of Bank Credit – March 2015.)*

RBI revamped the priority sector guidelines and set new targets of 8% per cent of ANBC to small and marginal farmers and 7.50% for micro enterprises, while allowing medium-sized firms, social infrastructure such as renewable energy investments, etc. to qualify for priority sector credit. There was a sharp rise in the growth of priority sector credit in fiscal year 2014 to 22% as compared to previous year's growth of 8.4%. The growth in priority sector credit well surpassed the growth in overall credit. In fiscal year 2015, credit to priority sectors by public and private sector banks was 37.3% of adjusted net bank credit and 42.8% of credit equivalent of off-balance sheet exposure, whichever is higher. *(Source: RBI Annual Report 2014-15.)*

Interest rates and inflation

The monetary policy stance of the RBI changed significantly over three distinct phases during 2013-14 and underwent a complete transformation during 2014-15. The first phase, monetary easing, that started in 2012-13 continued until mid-July 2013. During the second phase of 2013-14, the RBI undertook exceptional monetary measures in order to address exchange market pressures. However, these monetary measures were normalised quickly by the end of November 2013. In the third phase, monetary policy became increasingly anti-inflationary as a result of CPI inflation and inflation expectations persisting at elevated levels. The monetary policy framework witnessed key changes during the year reflecting implementation of some of the recommendations of the Expert Committee to Revise and Strengthen the Monetary Policy Framework. Those recommendations included: adopting the CPI (combined) as the key metric of inflation for conducting monetary policy, explicit communication of a glide path for disinflation, transition to a bi-monthly monetary policy cycle beginning in 2014-15, progressive reduction in access to overnight liquidity under the liquidity adjustment facility at the fixed repo rate and a corresponding increase in access to liquidity through term repos and introduction of variable tenor term repos. *(Source: RBI Annual Report 2013-14.)* The conduct of monetary policy in India is undergoing a transformation, transiting to a flexible inflation targeting ("**FIT**") framework. During 2014-15, a formal architecture for FIT based on an agreement between the RBI and the Government of India pertaining to the monetary policy framework was put in place. The liquidity management framework was revised to bring in proactive liquidity operations based on variable rate term repo/reverse repo auctions to align the weighted average call rate, that is, the operating target around the policy rate. *(Source: RBI Annual Report 2014-15.)*

According to the most recently available data, WPI inflation was recorded at -2.40% in June 2015, remaining constant since May, 2015. Further, CPI inflation saw slight increase at 5.40% in June 2015, from 5% in May 2015. (*Source: RBI Bulletin dated August 10, 2015 available at http://www.rbi.org.in*.)

Earlier, in response to increased inflation, in fiscal years 2011 and 2012, the RBI had increased its policy rates 13 times, enacting gradual increases in the repo rate from 5% on March 31, 2010 to a peak of 8.50% with effect from October 25, 2011. However, the RBI cut the repo rate to 8% effective April 17, 2012 and to 7.75% effective January 29, 2013. RBI again decreased the repo rate to 7.50% on March 19, 2013 and then to 7.25% effective May 3, 2013. However, RBI reversed the trend on September 20, 2013 by raising the repo rate to 7.50% in response to the high inflation. RBI further increased the repo rate to 7.75% and 8% on October 29, 2013 and January 28, 2014, respectively, and reduced it to 7.75% effective January 15, 2015. The RBI reduced the repo rate by 50 bps from 7.25% to 6.75% on September 29, 2015. The reverse repo rate has been pegged at 1% below the repo rate since March 2011 and thus has followed a similar trend since that time. The RBI reduced the marginal standing facility (MSF) by 125 basis points in three tranches from 10.25% to 9%, the last tranche being effective from January 28, 2014. The MSF rate stood at 8.75% in line with the drop in the repo rate effective January 15, 2015. During fiscal year 2011, the RBI increased the cash reserve ratio (CRR) from 5.75% to 6%, but in fiscal year 2012, it lowered the CRR to 4.75% and on January 29, 2013, to 4% with effect from February 9, 2013. (*Source: RBI Notifications available at http://www.rbi.org.in*.)

In the first bi-monthly monetary policy statement for fiscal 2015 announced on April 1, 2014, the RBI kept the repo rate unchanged at 8%. The liquidity provided under the seven day and 14 day term repos was increased from 0.50% of demand and time liabilities to 0.75%. In the second bi-monthly monetary policy statement announced on June 3, 2014, the RBI reduced the statutory liquidity ratio by 50 basis points from 23% to 22.50% of demand and time liabilities while keeping the repo rate and cash reserve ratio unchanged at 8% and 4%, respectively. In the third bi-monthly monetary policy statement announced on August 5, 2014, the RBI further reduced the statutory liquidity ratio by 50 basis points to 22% of demand and time liabilities and kept the repo rate and cash reserve ratio unchanged. Also, the holding of total government securities forming part of statutory liquidity ratio in the held-to-maturity category were reduced from 24.50% of net demand and time liabilities to 24% with effect from August 9, 2014. In its press release dated January 15, 2015, the RBI reduced the repo rate to 7.75% with immediate effect. The RBI further reduced the repo rate by 50 bps from 7.25% to 6.75% on September 29, 2015. In its press release dated February 3, 2015, the RBI reduced the statutory liquidity ratio to 21.50% effective fortnight beginning February 7, 2015. Subsequently, on March 10, 2015 the RBI announced a 25 basis points reduction in repo rate with immediate effect, reducing it to 7.50% and further in the second bi-monthly monetary policy announcement for fiscal 2016, released on June 2, 2015, the RBI reduced the repo rate by another 25 basis points to 7.25% while keeping the cash reserve ratio constant at 4% of NDTL. The RBI did not announce any changes in its third bi-monthly monetary policy on August 10, 2015, however, the RBI reduced the repo rate by 50 bps from 7.25% to 6.75% on September 29, 2015.

The freeing of interest rates on export credit in foreign currency, effective May 5, 2012, has resulted in complete deregulation of interest rates on lending by commercial banks. As proposed in the RBI Second Quarter Review of Monetary Policy 2010-11 and pursuant to Guidelines on Deregulation of Savings Bank Deposit Interest Rate, the RBI decided to deregulate the savings bank deposit interest rate, effective October 25, 2011, subject to the following two conditions:

- first, each bank will have to offer a uniform interest rate on savings bank deposits up to Rs.100,000, irrespective of the amount in the account within this limit; and

- second, for savings bank balances over Rs.100,000, a bank may provide differential rates of interest, if it so chooses. However, there should not be any differentiation on interest rates between similar deposit amounts accepted on the same date at any of a bank's branches.

Asset quality

The gross NPA ratio at the aggregate level stood at 4.10% as of March 31, 2014 up from 3.60% as of March 31, 2013. This deterioration in NPAs occurred for both public sector banks and foreign banks. In March 2014, the gross and net NPA ratio for public sector banks stood at 4.70% and 2.70%, respectively. Private sector banks' gross NPA ratio declined despite economic downturn to 1.90% in March 2014 from 2.50% in March 2011. Their net NPA ratio has marginally increased from 0.60% in March 2011 to 0.70% in March 2014. *(Source: RBI Annual Report 2013-14.)* In recent years, asset quality of NBFCs-ND-SIs has deteriorated and their gross NPAs as a percentage of credit deployed stood at 4.60% as of March 31, 2015. Gross NPAs in the agriculture sector have steadily increased and the ratio of gross agricultural NPAs to agriculture loans outstanding increased to 4.70% as of March 31, 2015 up from 4.40% as of March 31, 2014. At the aggregate level, the NPA ratio and credit growth exhibited a statistically significant negative correlation of 0.8, based on quarterly data since 2010-11. During 2014-15, public sector banks recorded higher NPA ratios and experienced a sharp decline in credit growth. *(Source: RBI Annual Report 2014-15.)*

The gross NPA ratio of scheduled commercial banks (SCBs) increased to 4.50% in September 2014 from 4.10% in March 2014. The net NPA ratio also increased to 2.50% in September 2014 from 2.20% in March 2014. Stressed advances (defined as gross NPAs plus restructured standard advances) increased to 10.70% of total advances from 10% between March and September 2014. Public sector banks continued to record the highest level of stressed advances at 12.90% of their total advances in September 2014, followed by private sector banks at 4.40%. *(Source: RBI Report on Trend and Progress of Banking in India 2012-13.)*

Of the total number of cases referred to, or approved under CDR, 49% have been successfully implemented to date. Further, the number of cases referred to the CDR cell has fallen in recent months. One of the reasons for this reduction could be the RBI's move to allow banks to restructure their large credits with aggregate exposure of Rs.1 billion and above outside CDR under the Joint Lenders' Forum, which became effective on April 1, 2014.

Five sub-sectors (infrastructure, iron and steel, textiles, mining (including coal) and aviation) had significantly higher levels of stressed assets and thus these sub-sectors were identified as 'stressed' sectors. These five subsectors had 52% of total stressed advances of all SCBs as of June 2014, whereas, in the case of public sector banks, total stressed advances was at 54%. The data on exposure to infrastructure as of September 2014 shows that the exposure of SCBs to the sector further increased to 15.60% of their total loans. Exposure to the energy segment, largely comprising electricity, oil and gas, constituted the major portion (around 58%) of banks' aggregate exposure to infrastructure sectors, followed by transport (around 21%) and telecommunications (around 10%). Among bank groups, exposure of public sector banks to infrastructure stood at 17.05% of their gross advances as of September 2014. This was significantly higher than that of private sector banks (at 9.60%) and foreign banks (at 12.10%). (*Source: Financial Stability Report (Including Trend and Progress of Banking in India 2013-14) December 2014.*)

Income and profitability

During fiscal year 2014, the growth in net profits of SCBs, which has been on a declining trend since fiscal year 2012, turned negative. SCBs as a whole reported net profits of approximately ₹ 809 billion, indicating a decline of 11.30% compared to the previous year. This decline in net profits was primarily the result of higher provisioning on banks' delinquent loans, which registered an increase of nearly 34% coupled with growth in interest expenses of around 12% during the year. This, in turn, impacted banks' return on assets (RoA) and return on equity (RoE). In addition, banks also witnessed a decline in their spread and net interest margin. Following a contraction in net profit during fiscal year 2014, SCBs as a whole recorded positive growth in net profit of 10% in September 2014 as a result of significantly lower growth in both provisioning and write-offs. The RoA of all SCBs remained at 0.80% as of September 2014, while the RoE of all SCBs improved to 9.90% as of September 2014 from 9.50% as of March 2014. (*Source: Financial Stability Report (Including Trend and Progress of Banking in India 2013-14) December 2014.*)

Impact of Liberalisation on the Indian Financial Sector

Until 1991, the financial sector in India was heavily controlled and commercial banks and long-term lending institutions, the two dominant financial intermediaries, had mutually exclusive roles and objectives and operated in a largely stable environment, with little or no competition. Long-term lending institutions were focused on the achievement of the Government's various socio-economic objectives, including balanced industrial growth and employment creation, especially in areas requiring development. Long-term lending institutions were extended access to long-term funds at subsidised rates through loans and equity from the Government and from funds guaranteed by the Government originating from commercial banks in India and foreign currency resources originating from multilateral and bilateral agencies.

The focus of the commercial banks was primarily to mobilise household savings through demand and time deposits and to use these deposits to meet the short-term financial needs of borrowers in industry, trade and agriculture. In addition, the commercial banks provided a range of banking services to individuals and business entities. However, since 1991, there have been comprehensive changes in the Indian financial system. Various financial sector reforms, implemented since 1991, have transformed the operating environment of banks and long-term lending institutions. In particular, the deregulation of interest rates, the emergence of a liberalised domestic capital market, and the entry of new private sector banks, along with the transformation of long-term lending institutions into banks, have progressively intensified the competition among banks.

Impact of Global Macroeconomic Events on India

According to the RBI's financial stability report for 2012, the evolving global risks such as the fall in global growth and sovereign risk/contagion and a host of Indian domestic factors like the increasing fiscal deficit, deterioration in the growth outlook and bank asset quality are the major risks to the banking sector though the resilience of the banking system to credit, interest rate, equity and foreign exchange shocks remain satisfactory.

The Federal Reserve Bank of the United States started tapering its buying of treasuries in early 2014 and announced at the end of October 2014 that it would be ending its bond purchases. This wind down of the bond purchasing program has resulted in some exchange rate volatility of various emerging market currencies, including the rupee. In response, the RBI began tightening rates and liquidity in July 2013, which resulted in a spike in short and long term yields of corporate bonds and government securities. The RBI has since normalised liquidity and interest rates.

In addition, global financial markets seem to have largely internalised tapering in the Federal Reserve Bank's bond purchase programme and the focus has shifted to the likely path of policy interest rates in advanced economies (AEs), particularly the US. In the recent period, emerging market and developing economies (EMDEs) experienced a significant spill-over of changes in the monetary policy stance in AEs. Against this backdrop, growth-inflation dynamics seem to have turned less favourable for EMDEs, increasing their vulnerability to spill-overs from AEs.

Recent Developments in the Indian Banking Industry

- Going forward, the RBI will start working on the framework for on-tap licensing as well as differentiated bank licenses, building on the Discussion Paper on "Banking Structure in India – The Way Forward" placed on the RBI's website in August 2013 and leveraging on the experience gained from the recent licensing process. The intent is to expand the variety and efficiency of players in the banking system while maintaining financial stability. The RBI will also be open to banking mergers, provided that competition and stability are not compromised. *(Source: RBI's First Bi-monthly Monetary Policy Statement, 2014-15, April 1, 2014)*

- The RBI granted "in-principle" approval to two out of 25 applicants to set up banks under the Guidelines on Licensing of New Banks in the Private Sector issued on February 22, 2013. The RBI stated that its approach was conservative and that, going forward it intended to give licences more regularly, including to some entities whose application for a licence had been unsuccessful in this round.

- The RBI issued a master circular on July 1, 2015 in addition to circular dated April 3, 2014, for simplification of KYC related procedures for opening bank accounts by FPIs. The RBI has advised that those FPIs who have been duly registered in accordance with SEBI guidelines and have undergone the required KYC due diligence/verification prescribed by SEBI through a custodian/intermediary regulated by SEBI, banks may rely on the know-your-customer verification done by the third party (i.e. the custodian/SEBI regulated intermediary), subject to conditions laid down in the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.

- The RBI issued a master circular on July 1, 2015, whereby it established that banks, including overseas branches or subsidiaries of Indian banks, shall not issue standby letters of credit, guarantees, letter of comforts on behalf of overseas joint ventures, wholly owned subsidiaries or wholly owned step-down subsidiaries of Indian companies for the purpose of raising loans or advances of any kind from other entities except in connection with the ordinary course of overseas business. Further, while extending fund or non-fund based credit facilities to aforementioned entities in connection with their business, either through branches in India or through branches or subsidiaries abroad, banks should ensure effective monitoring of the end use of such facilities and its conformity with the business needs of such entities. (*Source: RBI's Circular DBOD.No.BP.BC.107/21.04.048/2013-14 – Fund/Non-Fund based Credit Facilities to Overseas Joint Ventures/ Wholly Owned Subsidiaries/ Wholly owned Step-down Subsidiaries of Indian Companies*)

- The RBI issued a master circular dated July 1, 2015, whereby it has decided to include the outstanding deposits placed by scheduled commercial banks (SCBs) under the rural infrastructure development fund (RIDF) and certain other funds established with NABARD as part of the ANBC. The change was made on account of SCBs shortfall in lending to the priority sector as part of indirect agriculture under the priority sector classifications. Accordingly, the outstanding deposits as of 31 March of the current year under RIDF, the Warehouse Infrastructure Fund, the Short Term Co-operative Rural Credit Refinance Fund and the Short Term RRB Fund with NABARD will be treated as part of indirect agriculture and will count towards overall priority sector target achievement. The outstanding deposits under the above funds with NABARD as of the preceding 31 March will form part of ANBC. The RBI announced the Guidelines on Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards. The LCR would be binding on banks from January 1, 2015. With a view to providing a transition time to banks, the LCR requirement would be a minimum of 60% for the 2015 calendar year beginning January 1, 2015 and would rise in equal steps to reach 100% on January 1, 2019. *(Source: RBI Circular DBOD.BP.BC.No.120 / 21.01.098/2013-14 dated June 9, 2014.)*

- The RBI released the Draft Guidelines for "Licensing of Payments Banks" and Draft Guidelines for "Licensing of Small Banks". Both payments banks and small banks are "niche" or "differentiated" banks; with the common objective of furthering financial inclusion. Whereas small banks will provide a whole suite of basic banking products, such as deposits and supply of credit (though in a limited area of operation), payments banks will provide a limited range of products, such as acceptance of demand deposits and remittances of funds, but will have a widespread network of access points, particularly to remote areas, either through their own branch network or through business correspondents or networks provided by others. Payments banks will add value by adapting technological solutions to lower costs. *(Source: RBI Press Release available at http://www.rbi.org.in dated July 17, 2014.)*

- The RBI issued a number of instructions to banks specifying the operational guidelines and incentives in the form of flexibility in loan structuring and refinancing, and also granting exemptions from regulatory pre-emptions, such as the CRR and SLR and priority sector lending. The objective of these instructions is to mitigate problems with asset-liability management faced by banks in extending project loans to infrastructure and core industries sectors, and also to ease the raising of long-term resources for project loans to infrastructure and affordable housing sectors. *(Source: RBI Press Release available at http://www.rbi.org.in dated July 15, 2014.)*

- A report by an RBI panel recommended that banks gradually build countercyclical capital buffers (CCCB) of up to 2.50% of the risk-weighted assets (RWAs) to guard against losses resulting from periods of excess credit growth. The panel stated that the CCCB be in the form of common Tier I equity, adding that, for all banks operating in India, the CCCB should be maintained on an individual as well as consolidated basis. The credit-to-GDP ratio would be used to make decisions relating to the CCCB. *(Source: RBI Circular DBOD.No.BP.BC.2 /21.06.201/2013-14)*

- The RBI released the Framework for dealing with Domestic Systemically Important Banks (D-SIBs). (*Source: RBI Press Release available at http://www.rbi.org.in dated July 22, 2014.*)

- The RBI clarified that a loan-to-value (LTV) ratio of 75% shall be maintained throughout the tenure of the loan for all loans extended against pledge of gold ornaments and jewellery for non-agricultural end uses. The LTV ratio shall be computed against the total outstanding in the account, including accrued interest and current value of gold jewellery accepted as security or collateral, determined as per the methodology prescribed in the circular dated January 20, 2014. For the purpose of valuation of the gold, banks may use the historical spot gold price data, which is publicly disseminated by a commodity exchange regulated by the Forward Markets Commission in a manner consistent with the bank's board-approved policy. In addition, banks may use the prices disseminated by the India Bullion and Jewellers Association Limited. This decision was taken after the RBI received requests from banks to increase the prescribed ceiling and to review other conditions applicable for non-agricultural loans against pledge of gold ornaments and jewellery where both interest and principal are payable at maturity of the loan following the introduction of the LTV ceiling for such loans in the RBI circular dated January 20, 2014. *(Source: RBI Circular DBOB.No.BP.BC.27/21.04.048/2014-15 dated July 22, 2014.)*

- Pursuant to the guidelines issued on the LCR on June 9, 2014, banks will be allowed to include government securities held by them up to another 5% of their net demand and time liabilities within the mandatory SLR requirement as Level 1 high quality liquid assets (HQLA) in order to meet the LCR requirement while retaining the prudential aspect of the SLR. This additional liquidity will be available, in addition to the MSF, through a special facility and at a rate higher than the MSF rate as decided by the RBI taking into account the market conditions. All government securities reckoned for the LCR are to be valued at an amount no greater than their current market value as HQLAs for the purpose of computing the LCR. *(Source: RBI Fourth Bi-Monthly Monetary Policy Statement 2014-15 dated September 30, 2014.)*

- The RBI advised scheduled commercial banks (excluding regional rural banks) that the eligible limit of the export credit refinance facility has been reduced from 32% of the outstanding rupee export credit eligible for refinance as at the end of the second preceding fortnight to 15% effective from October 10, 2014. *(Source: RBI Notification REF.No.MPD.BC. 374/07.01.279/2014-15 dated September 30, 2014.)*

- The RBI released the Final Guidelines for "Licensing of Small Finance Banks in the Private Sector". Small finance banks are aimed at furthering financial inclusion by (a) provision of savings vehicles, and (ii) supply of credit to small business units, small and marginal farmers, micro and small industries, and other unorganised sector entities, through high technology-low cost operations. *(Source: RBI Press Release available at http://www.rbi.org.in dated November 27, 2014.)*

- The RBI released the Final Guidelines for "Licensing of Payments Banks", which are aimed at furthering financial inclusion by providing (i) small savings accounts, and (ii) payments/remittance services to the migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users. *(Source: RBI Press Release available at http://www.rbi.org.in dated November 27, 2014.)*

- Going forward, the RBI will start working on the framework for on-tap licensing as well as differentiated bank licenses, building on the Discussion Paper on "Banking Structure in India – The Way Forward" placed on the RBI's website in August 2013 and leveraging on the experience gained from the recent licensing process. The intent is to expand the variety and efficiency of players in the banking system while maintaining financial stability. The RBI will also be open to banking mergers, provided that competition and stability are not compromised. *(Source: RBI's First Bi-monthly Monetary Policy Statement, 2014-15, April 1, 2014)*

Future Developments in the Banking Sector and Expected Domestic Reforms

Implementation of the Basel III capital regulations

In December 2010, the Basel Committee on Banking Supervision (BCBS) issued a comprehensive reform package of capital regulations, Basel III. The objective of the reform package is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spill over from the financial sector to the real economy. The RBI issued the RBI Basel III Capital Regulations and the guidelines became operational from April 1, 2013. However, the reform package and guidelines will be implemented in a phased manner. On December 31, 2013, the RBI further extended the implementation of credit valuation adjustment risk to April 1, 2014; and, on March 27, 2014, extended the deadline for full implementation of Basel III requirements to March 31, 2019. (*Source: RBI Circular*

DBOD.No.BP.BC.81/21.06.201/2013-14 dated December 31, 2013 and RBI Circular DBOD.No.BP.BC.102/21.06.201/2013-14 dated March 27, 2013.)

Under Basel III, total capital of a bank in India must be at least 9% of RWAs (8% as specified by the BCBS), Tier I capital must be at least 7% of RWAs (6% as specified by the BCBS) and Common Equity Tier I capital must be at least 5.5% of RWAs (4.5% as specified by BCBS). Due to the transitional arrangements, the capital requirements of banks may be lower during the initial periods and higher during later years. Therefore, banks have been advised to do their capital planning accordingly. In addition to the minimum requirements as indicated above, banks are required to maintain a capital conservation buffer (CCB) in the form of common equity of 2.5% of RWAs. Under the RBI Basel III Guidelines, total capital with CCB has been fixed at 11.5% of RWAs. In July 2014, the RBI released the *"Final Report of the Internal Working Group on Implementation of Counter-cyclical Capital Buffer (CCCB)",* which requires banks to maintain a buffer of up to 2.5% of RWAs in period of high credit growth as precaution for downturn. Further, as per the RBI's release on *"Framework for Dealing with Domestic Systemically Important Banks (D-SIBs)"* dated July 22, 2014, D-SIBs must have incremental capital of 0.2% to 0.8% and the quantum of capital required is dependent upon size, interconnectedness, substitutability and complexity of the bank.

Further, under Basel III, a simple, transparent, non-risk based leverage ratio has been introduced. The BCBS will test a minimum Tier I leverage ratio of 3% during a parallel run period from January 1, 2013 to January 1, 2017. The RBI has prescribed that during this parallel run period, banks should strive to maintain their existing leverage ratios, but in no case should a bank's leverage ratio fall below 4.5%. Banks whose leverage is below 4.5% have been advised to achieve this target as early as possible. This leverage ratio requirement is yet to be finalised and will be finalised taking into account the final proposals of the BCBS. (*Source: RBI Annual Report 2011-2012*.) Additionally, on June 9, 2014, the RBI released guidelines for a LCR as part of the Basel III framework on liquidity standards, which will require minimum LCRs starting at 60% as of January 1, 2015, increasing in equal annual steps to 100% by January 1, 2019.

Further, Additional Tier I non-equity capital instruments under Basel III are expected to provide additional features such as full coupon discretion, and principal loss absorption when the common equity ratio of a bank falls below 6.125% of its risk-weighted assets. In the case of Tier II non-equity capital instruments, the distinction between Upper Tier II and Lower Tier II instruments under Basel II is removed and a single class of Tier II instrument eligibility criteria has been prescribed. Additionally, under Basel III loss absorption features have been included in the event of occurrence of the 'Point of Non-Viability' trigger. The RBI has also fixed the base at the nominal amount of capital instruments outstanding on January 1, 2013, and their recognition will be capped at 90% from April 1, 2013, with the cap reducing by 10% points in each subsequent year.

Dynamic provisioning guidelines

At present, banks generally make two types of provisions; general provisions on standard assets and specific provisions on NPAs. Since the level of NPAs varies through the economic cycle, the resultant level of specific provisions also behaves cyclically. Consequently, lower provisions during upturns and higher provisions during downturns have a pro-cyclical effect on the real economy. To address the pro-cyclicality of capital and provisioning, efforts at an international level are being made to introduce countercyclical capital and provisioning buffers. The RBI has prepared a discussion paper on a countercyclical (dynamic) provisioning (CDP) framework.

The CDP framework is based on the concept of expected loss, or "EL", which is the average level of losses a bank can reasonably expect to experience, and is considered the cost of doing business. It is generally covered by provisioning and pricing. The objective of CDP is to soften the impact of incurred losses on the results of operations through the economic cycle, and not to provide a general provisioning cushion for EL. More specifically, the CDP created during a year will be the difference between the long run average EL of the portfolio for one year and the incremental specific provisions made during the year. The parameters of the model suggested in the discussion paper are calibrated based on data of Indian banks. Banks that have the capability to calibrate their own parameters may, with the prior approval of the RBI, introduce a CDP framework using the theoretical model indicated by the RBI. Other banks will have to use the standardised calibration provided by the RBI. (*Source: RBI Annual Report 2011-2012 and Discussion Paper on Introduction of Dynamic Loan Loss Provisioning Framework for Banks in India dated March 30, 2012*.)

The RBI, in its circular dated March 30, 2015, has decided that, as a countercyclical measure, a bank may utilise up to 50% of the countercyclical provisioning buffer/floating provisions held by it as of December 31, 2014 for making specific provisions for non-performing assets, as per the policy approved by the bank's Board of Directors. The RBI further clarified that the use of the countercyclical provisioning buffer/floating provisions under this measure may be over and above the use of the countercyclical provisioning buffer/floating provisions for the purpose of making accelerated or additional provisions as permitted by the RBI's circular dated February 26, 2014 on *"Framework for Revitalising Distressed Assets in the Economy – Refinancing of Project Loans, Sale of NPA and Other Regulatory Measures"*.

Finance Sector Legislative Reforms Commission (FSLRC)

The FSLRC was constituted on March 24, 2011 to redraft and harmonise legislation related to the financial sector. (*Source: RBI Report on Trend and Progress of Banking in India 2011-12*.)

In its approach paper released on October 1, 2012, the FSLRC has proposed a two-agency regulatory model; the RBI as the monetary authority, banking regulator and payment systems regulator, and a single regulator for the rest of the financial sector. (*Source: FSLRC, Ministry of Finance, Approach Paper and Press Release.)*

The FSLRC submitted its final report to the Government on March 22, 2013. As per this report, the FSLRC recommended a non-sectoral, principle-based, legislative architecture for the financial sector by restructuring and/or upgrading existing regulatory agencies and creating new agencies wherever necessary for better governance. On September 30, 2014, the Government announced the establishment of four new task forces to lay the roadmap for the upgrade of existing agencies and establishment of new agencies namely Financial Sector Appellate Tribunal, Resolution Corporation, Public Debt Management Agency and Financial Data Management Centre. *(Source: Government of India, Ministry of Finance, Department of Economic Affairs Press Release dated September 30, 2014.)*

Financial Holding Company (FHC)

In June 2010, the RBI set up a working group to examine the different holding company structures prevalent internationally in the financial sector and to examine the feasibility of introducing an FHC structure in India. FHCs are companies that own or control one or more banks or NBFCs. Currently, banks in India are organised under a bank-subsidiary model, or "BSM", in which the bank is the parent of all the subsidiaries of the group.

On May 23, 2011, the RBI released the working group's recommendations that included, among others, that the FHC model should be pursued as a preferred model for the financial sector in India and that the RBI should be designated as the regulator for FHCs. The recommendations have currently not been implemented. (*Source: RBI Report of the Working Group on Introduction of Financial Holding Company Structure in India and Press Release available at http://www.rbi.org.in as of November 2, 2014*.)

The RBI issued the "*Guidelines for Licensing of New Banks in the Private Sector*" on February 22, 2013 and the Guidelines for Licensing of Small Finance Banks in the Private Sector on November 27, 2014. Pursuant to such guidelines, promoters are permitted to set up such banks only through wholly-owned, non-operative financial holding companies. Since April 1, 2014, such financial holding companies have been required by the RBI to be registered as a separate category of NBFCs.

Proposed Bankruptcy Code

The Union Finance Minister made an announcement in his budget speech for 2015-2016 identified bankruptcy law reform as a key priority and stated that the government proposed to introduce a comprehensive bankruptcy code that will meet global standards and provide necessary judicial capacity.

Future Outlook and Key Trends

Going forward, banks will need to move towards the mandated higher capital standards, stricter liquidity and leverage ratios and a more cautious approach to risk. This implies that Indian banks will need to improve efficiency even as their costs of doing business increase. They will need to refine their risk management skills for enterprise-wide risk management. In addition, banks need to have in place a fair and differentiated risk pricing of products and services, since capital comes at a cost. This involves costing, a quantitative assessment of revenue streams from each product and service and an efficient transfer-pricing mechanism that would determine capital allocation.

The growth of the Indian banking sector moderated during the year 2013-14 and scaled up in the year 2014-2015. Several policy initiatives were undertaken during the 2013-2014 to handle these challenges. On August 19, 2015, RBI granted in-principle approval to 11 new applicants to set up payment banks under the RBI New Banking Guidelines issued on November 27, 2014. On September 16, 2015, RBI also granted in-principle approval to 10 applicants to set up small finance banks under the RBI New Banking Guidelines. As per the guidelines, payments banks cannot undertake lending, and therefore may not be subject to the same risks as a full service bank. The selection process included a detail scrutiny by an external advisory committee and an internal screening committee which submitted a final list of recommendations to the Committee of the Central Board. *(Source: RBI Press Release dated August 19, 2015, available at https://www.rbi.org.in.)*

On the regulatory and supervisory policy front, the RBI envisaged a move towards risk-based supervision, initiatives for improved cross border supervision and cooperation and enhanced oversight of financial conglomerates are important. In the short-term, the stress on banks' asset quality remains a major challenge. The credit quality of banks has deteriorated over the last few years. During fiscal year 2013 and 2014, NPAs rose. The slippage ratio of the banking system, which showed a declining trend during fiscal years 2005-2008, further increased during fiscal years 2009-2014. Gross NPAs increased from 2.4% of gross advances in March 2011 to 4.4% in December 2013, before declining to 4.1% in March 2014 and again increasing from 4.1% in March 2014 to 5.4% in September 2014. Banks need to not only utilise effectively the various measures put in place by the RBI and the Government for the resolution and recovery of bad loans, but also strengthen their due diligence, credit appraisal and post sanction loan monitoring systems to minimise and mitigate the problem of increasing NPAs in fiscal 2015 and beyond. Many policies are contemplated to expand and strengthen the banking infrastructure. Banks need to capitalize on these and play a major role in supporting economic activity and meeting the financial needs of all the sections of society. (*Sources: RBI's Report on Trend and Progress of Banking in India 2012-13; RBI's Annual Report for 2013-14; RBI's Financial Stability Report (Including Trend and Progress of Banking in India 2013-14) Issue No. 10, December 2014)*

OUR BUSINESS

*The following information is qualified in its entirety by, and should be read together with, the more detailed financial and other information included in this Information Document, including the information contained in the sections "**Risk Factors**", "**Forward-looking Statements**", "**Management's Discussion and Analysis of Financial Condition and Results of Operations**" and "**Financial Statements**".*

Overview

IDFC Bank Limited ("**IDFC Bank**") is a professionally managed new private sector bank in India, promoted by IDFC Limited ("**IDFC**"). IDFC, which we believe to be one of the leading integrated financial services companies in India, offers, including through its subsidiaries (the "**IDFC Group**") a wide range of customer-centric financing solutions and conducts complementary businesses under the well-recognized brand, "IDFC".

IDFC was incorporated in 1997 on the recommendations of the Expert Group on Commercialization of Infrastructure Projects, under the Chairmanship of Dr. Rakesh Mohan. IDFC was set up as a private sector enterprise by a consortium of public and private investors, with a focus on catalyzing the flow of private capital into the development of India's infrastructure sector. IDFC is a public financial institution under the Companies Act, 2013, registered with the Reserve Bank of India ("**RBI**") as an IFC-NBFC and as a NBFC-ND-SI. The equity shares of IDFC have been listed on the Indian stock exchanges since 2005.

With our considerable domain knowledge in infrastructure financing and extensive portfolio of financial products and services, we believe that the IDFC Group has differentiated itself from other financiers in India and played a key role in advancing infrastructure development in India. Guided and managed by a strong core of qualified and experienced professionals and with a diversified shareholder base, we believe that we have built a track record of good governance as well as strong, multimodal institutional relationships with Government agencies as well as in the private sector in India.

Given our collective focus on long-term growth, sustainability and institutional excellence, we, as a group, seek to continue to diversify our assets and liabilities and investor bases, manage and mitigate our funding risk, reduce our cost of borrowing and other operational costs, and enhance our responsiveness to market trends, customer needs and sensitivities and regulatory and policy developments. Accordingly, we had approached RBI, through an application filed on July 1, 2013, with a vision to build a 'new age' bank which would serve the banking needs of the 'banked' as well as 'unbanked' population of the country.

After a rigorous screening process, during which only two of the original 25 applicants were granted permission by RBI to proceed, IDFC received RBI in-principle approval on April 9, 2014, to set up a new private sector bank. IDFC Bank was incorporated as a public limited company on October 21, 2014. Pursuant to the Scheme, approximately 53.00% of the share capital of IDFC Bank is held by IDFC FHCL, (an RBI-registered NBFC as on June 18, 2015), while the remaining 47.00% is held by shareholders of IDFC as on the specified Record Date. IDFC received final RBI approval on July 23, 2015, to set up a new private sector bank. IDFC Bank commenced its banking operations from October 1, 2015.

Our overall business strategy would be to replicate IDFC's success as an NBFC, through a differentiated and calibrated foray into the banking sector, with a diversified focus on wholesale, rural and consumer banking and an added emphasis on infrastructure financing.

Accordingly, our banking business is envisaged to include three distinct strategic business verticals, further discussed later in this section:

- Commercial and Wholesale banking – will cater to large corporates, mid-markets & SME clients (commercial banking), government business, financial institutions, treasury, cash management, transaction banking and investment banking.

- Rural banking – will cater to the semi-urban and rural areas.

- Personal and Business banking – will cater to the urban retail consumers.

IDFC had net interest income of ₹ 627 crores, non-interest income of ₹ 80 crores, operating income of ₹ 711 crores, net profit of ₹ 254 crores, gross loan book of ₹ 53,359 crores and gross loan disbursals of ₹ 3,104 crores, as reported on a consolidated basis for the quarter ended June 30, 2015, with 42% of its outstanding loan disbursals being directed towards the energy sector. 1% of its loan book was comprised of net non-performing loans, and a total of 1.5% being comprised of gross non-performing loans.

Accordingly, IDFC Bank has begun its banking operations with effect from October 1, 2015, with a gross loan book of approximately ₹ 46,381crores.

Strengths

Strong relationships with private sector customers as well as government entities.

We believe that we enjoy strong institutional relationships, in the private sector as well as with Government entities in India, particularly in the infrastructure financing and development sectors, which have served to support our growth thus far and which we believe will continue to drive our future growth, including in our banking business.

We have a multidimensional relationship with Government entities in India, in advisory as well as beneficiary capacities. The Government of India is also a significant shareholder in IDFC as well as in the IDFC Bank. We believe that our historic and continued relationship with various Government agencies and entities in India, across Central, State and local and municipal levels, has given us access to key policy and decision makers in India, as well as access to major and diverse advisory and financing opportunities in India. In addition, we have, over the years, developed strong institutional relationships with several prominent private sector players, which have enabled us to play prominent and leadership roles in advising on and financing infrastructure projects in India, as well as supporting our growth as a diversified player across the financial services sector in India. We believe that our access to such private institutional entities and our long association with them provides us with potential customers for our banking business.

In addition, we believe that we are well positioned to leverage our institutional experience in servicing our retail customer base in our asset management business which would help us to bring a strong customer focus and orientation to our banking business, going forward. Presently, we service approximately 6 lakh retail customers in the asset management business. Further, a number of our shareholders and retail bondholders have subscribed to IDFC's equity and bonds.

Reputation and brand image.

With our extensive domain knowledge in infrastructure and other related sector financing, we believe that we have built a strong reputation and a proven track record for delivering quality customer-centric products and services under the "IDFC" brand, particularly in the infrastructure financing sector. IDFC has been recognized as a Superbrand by Business Superbrands.

Drawing on the deep pool of sectoral and industry domain knowledge available within our organization, and based on our track record for delivering quality customer-centric products and services, particularly in the infrastructure financing sector, we seek to leverage our demonstrated success in managing our diversified operations thus far under the "IDFC" brand, to grow our banking business, going forward.

In 2013, IDFC became the first financial institution from India to be a signatory to the Equator Principles. The Equator Principles constitute a risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in projects and are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. In 2010, IDFC became India's first signatory to the UNPRI, for its private equity, project equity and fund-of-funds businesses. The United Nations Principles for Responsible Investment ("**UNPRI**") is a global, collaborative investor network, which aims to help investors integrate consideration of environmental, social and governance ("**ESG**") issues into their investment decision-making and ownership practices, thereby improving long-term returns to beneficiaries. IDFC is also a member of the United Nations Global Compact ("**UNGC**"), a strategic policy initiative for businesses committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labor, environment and anti-corruption, by means of a practical framework for development, implementation, and disclosure of sustainability policies and practices, offering participants a wide spectrum of work-streams, management tools and resources designed to help advance sustainable business models and markets in a globalized business environment. IDFC is also a signatory investor and respondent to the Carbon Disclosure Project, an international not-for-profit organization providing a global system for companies and cities to measure, disclose, manage and share vital environmental information, including their impact on the environment and natural resources and on actions taken and that may be taken to reduce such impact.

We believe that these, among other recognitions, certifications and awards, serve to illustrate our operational excellence and our focus on quality and sustainable growth, on which our reputation and brand image are, and will continue to be, based, and which will facilitate our ability to grow our business.

Technology-enabled banking platform.

We believe that our robust technology which has been integrated with our core operations will be pivotal to the success of our banking operations. With our sophisticated core banking system, our use of a central database and data recovery system, and our technology-enabled financial controls, risk management and transaction processing, we believe that we are well positioned to streamline and optimize our processes and systems, which in-turn will help reduce our operational costs and better manage our operating risks.

Leveraging the IDFC Group's existing commitment towards technology-enabled processes and systems, we believe that we commence banking operations with a strong digital spine. Even as we commence our foray into the banking sector, we are capable of catering to a wide spectrum of clients who have differentiated needs and expectations to whom we can cater to more effectively by offering a diversified suite of customer-centric products and services which are customized to the relevant banking vertical and also by extending our reach far beyond our current physical network.

Strong asset quality.

We seek to benchmark ourselves against leading global peers and follow what we believe to be a conservative provisioning policy. We also believe that our strong asset quality, capital adequacy and leverage ratios, credit rating and loan exposure profiles, has been achieved through our comprehensive credit and project appraisal skills which we have managed to inculcate over the years in addition to disciplined risk management and mitigation practices, which has attributed to our success in managing our diversified operations thus far.

We believe that our strong asset quality contributes overall to our financial stability and growth. IDFC had Net Interest Income of ₹ 627 crores, Non-Interest Income of ₹ 80 crores, Operating Income of ₹ 711 crores, Net Profit of ₹ 254 crores, Gross Loan Book of ₹ 53,359 crores and Gross Loan Disbursals of ₹ 3,104 crores, as reported on a consolidated basis for the quarter ended June 30, 2015, with 42% of its outstanding loan disbursals being directed towards the energy sector. 1% of IFDC's loan book was comprised of Net Non-Performing Loans, and a total of 1.5% being comprised of Gross Non Performing Loans, as reported on a consolidated basis for the quarter ended June 30, 2015.

IDFC Bank has begun its banking operations with effect from October 1, 2015, pursuant to the demerger of all the assets and liabilities of the Financing Undertaking into IDFC Bank. We are also sufficiently capitalized to comply with the capital adequacy requirements right from the inception of our banking operations.

We believe that our robust financial performance has provided us with the ability to grow our business through a range of synergistic opportunities across the financial sector, creating enduring value for our shareholders and for other stakeholders in the financial sector and the nation as a whole. In particular, we believe that the consistent growth of our non-interest income has enabled us to develop a sustainable broad-based business model, and illustrates our ability to successfully manage our diversified operations thus far, as well as our potential for success in our banking business.

Professionally qualified and experienced management and key personnel.

As a professionally managed enterprise operating in the financial services sector, we are compliant with corporate governance norms and strongly believe that sound corporate governance is critical to our success. Our senior management and key personnel are professionally qualified persons with diverse backgrounds and experience, which we believe has contributed to our strong domain knowledge in the financial sector as a whole, and particularly in infrastructure financing and infrastructure sector-specific aspects of our business. For instance, we believe that we have benefited significantly from the vision, leadership and industry knowledge and relationships of IDFC founder and former chairman, Mr. Deepak Parekh, who is now associated with us in an advisory capacity with a view to provide continued guidance for our foray into the banking sector.

Mr. Anil Baijal is our Non-Executive Chairman (Independent Director). Dr. Rajiv B. Lall, who has recently stepped down as Executive Chairman of IDFC, is our Managing Director and Chief Executive Officer. Mr. Vikram Limaye, Managing Director & CEO at IDFC and Mr. Vinod Rai, Independent Director at IDFC, are both on our board as nominees of IDFC, our largest shareholder. In compliance with corporate governance requirements, Dr. Ashok Gulati, Mr. Abhijit Sen, Ms. Veena Mankar and Mr. Ajay Sondhi are Independent Directors of IDFC Bank.

Our commercial and wholesale banking business is headed by Mr. Ajay Mahajan, while our rural banking business is headed by Mr. Ravi Shankar, and our personal and business banking business is headed by

Mr. Naval Bir Kumar. We believe that the quality and depth of our human capital will play a significant role in extending our efficient, customer-centric and quality-oriented business ethos to our banking business.

Strategies

Leverage the IDFC Group's customer databases and relationships with customers and industry players, to develop new customer and industry relationships.

We seek to leverage our IDFC brand, and the IDFC Group's longstanding customer and industry relationships and customer databases, as well as our familiarity with the intricacies of the financial sector in general and project finance in particular, to build our presence in the banking sector and develop new customer and industry relationships that go beyond the infrastructure sector.

While we will continue to take advantage of our existing infrastructure finance operations, we intend to diversify our existing asset concentration and attract more customers through sectoral and product expansion in our banking business. Among other initiatives, we seek to create a strong retail assets portfolio and increase our liquidity by attracting more bank deposits from a diversified and extensive pool of customers. In this regard, we may explore opportunities to enter into strategic as well as service-level partnerships and collaborations for customer aggregation, which would increase our last mile and thereby build and expand our distribution network and increase our penetration of the non-institutional depositor and customer base. Towards this objective, we would continue our historic focus on customer care and relationship management.

We would also seek to utilize our bank status to optimize our long-term funding resources which would allow us to benefit from low cost of funds, while diversifying our asset base beyond our historic focus and concentration which was limited to the infrastructure sector. In addition, pursuant to completion of our restructuring and the commencement of our banking operations, we believe that we have a well-capitalized bank, with significant headroom to raise capital from investors to support our future growth, including foreign institutional investors.

Utilize our 'digital spine' and advanced technology platforms to extend our distribution beyond our physical branch network.

We seek to deliver cost-effective, accessible, flexible and convenient multi-channel banking solutions beyond conventional banking services, including through the utilization of automated, digitized and other technology-enabled platforms and tools (which may, for instance, include internet, mobile and tele-banking), so as to grow our presence in the banking sector and to create, extend and maintain a lean, low-cost branch structure. Specifically, we seek to acquire a majority of our customers through non-branch channels through technology-led financial services, as well as alternate acquisition sources such as worksite marketing and referrals.

We intend to launch the IDFC Bank with a limited number of branches in the initial phase, commencing with a roll-out in the Hoshangabad, Khandwa and Harda districts of Madhya Pradesh, and a small number of branches in metropolitan cities. Following a suitably deep penetration and consolidation of our presence in the initial identified locations, we seek to expand our footprint to other locations in the future. As part of this initiative, while we seek to manage our geographical concentration, we currently expect that our branch expansion in rural India would exceed our branch expansion in urban India over the short to medium term future.

To this end, we seek to provide a differentiated technology framework, enhancing convenience for our customers and reducing operational expenditure for our branches. Creating a 'digital spine' for our banking services and for our organizational design will help us expand the reach of our services and branches, rationalize the size of our branches and facilitate cross-selling of our products. In this regard, we will seek to maintain streamlined employee counts at our bank branches and explore opportunities for utilizing technology-enabled tools and systems to lower our operating costs, optimize our operating efficiencies and extend our last-mile connectivity.

In the short term, our focus will be on developing and embedding key systems and processes, building our team and setting up the most appropriate branch architecture, and putting in place and testing the technology backbone for our banking operations, in a phased manner. In the longer term, we aim to achieve asset growth, scale-up our deposit franchise, cross-sell our products and leverage our capital base.

We would seek to link our planned network of branches, Automated Telling Machines ("**ATMs**") and extension counters, through our robust IT architecture, including through the use of our virtual private network.

Deliver innovative and flexible multi-channel banking solutions, to better serve our customers' differentiated needs and to promote financial inclusion.

We propose to offer a broader range of financing solutions as part of our banking business than was possible for IDFC to offer as an NBFC-IFC, with the broader objective of establishing IDFC as a franchise providing end-to-end finance solutions to its customers.

We believe that our existing client base, which includes lending relationships with some of the largest companies in India, provides us with a captive customer base for cross-selling diversified products. In this relation, we intend to expand beyond the infrastructure sector to provide products and services such as current account, escrow account, cash credit, other working capital loans, trade finance (including letters of credit and bank guarantees), cash management, and foreign exchange (which only banks are permitted to offer, in the current regulatory framework in India) to a more diversified customer base.

Multi-channel solutions including internet banking, telephone banking and mobile banking – redefining products and services to ensure delivery to, and grow our market share in, underpenetrated segments and markets – improve asset concentration ratios through portfolio diversification over the medium to long-term.

We seek to offer a range of value propositions for our customers, including purpose-linked bank accounts and financial advice, convenient payment options through mobile and Internet banking, secure payment methods, need-based bundled products and financial solutions, conflict free relationship management and reliable and on-call service at the doorstep of our customers. In addition to flexible and multi-modal services, we propose to offer a differentiated value proposition to our wholesale, rural and commercial banking customers. For instance, we believe that our simplified product offerings to our rural banking customers would increase the ease of transacting for our banking customers.

Calibrated approach to expanding our banking business.

Our banking business is envisaged to include three distinct strategic business verticals, wherein our initial strategy and areas of focus are as set out below:

- Commercial and Wholesale banking – will cater to large corporates, mid-markets & SME clients (commercial banking), government business, financial institutions, treasury, cash management, transaction banking and investment banking. Leveraging our existing infrastructure business and using our existing corporate relationships as an anchor, we would seek to penetrate the eco-system comprising mid-corporates and SMEs. Our focus would be on better harvesting and deepening our corporate banking relationships and changing the composition of revenues, i.e., reducing dependency on term lending and supplementing it with income from working capital lending, cash management, transaction banking, foreign exchange services and other fee-based services.

- Rural banking – will cater to the semi-urban and rural areas, with a philosophy akin to a microfinance institution, although supported by a strong digital spine. Our calibrated foray into rural banking would be significantly technology-driven and would commence with the opening of a limited number of branches in rural sectors, supported by our customer service managers delivering services to the rural community at their doorsteps, using handheld devices. We believe that this combination of scale and technology would, going forward, build our rural banking business into a viable business model contributing to a significant proportion of our customers.

- Personal and Business banking – will cater to the urban retail consumers, with our initial focus primarily on Tier I cities in India. Our calibrated foray into personal and business banking would be significantly technology-driven and would commence with home loans and focus on affordable housing, which will be eligible for classification as priority sector lending ("**PSL**"). Over the medium to long term, we would seek to launch auto loans and credit cards, and other, more sophisticated products and services by leveraging on IDFC Group's extensive customer base and our advances and sophisticated technology and related infrastructure.

Leverage macroeconomic conditions and trends.

We believe that macro-economic conditions (including trends such as increasing financing needs of large corporates, accelerating urbanization and rising home ownership, the expanding needs of the rural economy and small and medium sized businesses, rising household incomes, and increasing penetration of the Internet and technology and technology-enabled services and platforms in India), coupled with a supportive regulatory environment and increasing regulatory rationalization in India (including deregulation of savings account interest rates, proposed flexible structuring opportunities related to long-term infrastructure financing, ability to raise long-term funds through unsecured bonds for lending to infrastructure sector with minimum regulatory compliance, permission to set up ultra-small branches or use of services of business correspondents and mobile vans where setting up branches is not feasible, and white label norms for setting up ATMs) will facilitate our banking operations.

Our three largest sectoral exposures are in the energy, telecommunications and transportation sectors. While growth in the Indian infrastructure (and, consequently, in infrastructure finance opportunities) has been dampened in recent periods, including on account of sub-optimal global economic conditions and developments, we believe that these sectors continue to be characterized by high demand and a supportive regulatory and policy environment, which can be expected to encourage future growth.

Pursue global best practices and build a reputation for banking excellence, through maintaining high levels of operational efficiency and streamlined risk management controls, policies and procedures.

We seek to build trust and a reputation for banking excellence, by tailoring global banking best practices to the Indian context, and through our consistent and transparent customer service. We also believe our institutional experience in the financial services sector and economic prudence demonstrated in previous years will enable us to offer an optimized and technology-driven banking experience to our customers.

Towards this objective, we seek to continually adopt and upgrade our technology so as to enhance our operating efficiencies and provide a better customer experience as well as better follow-up with customers. We believe that the collection and intensive use of data and analytical tools as well as efficient data storage and retrieval systems, would support our credit and operational risk management, while our adoption of green initiatives would corroborate our commitment towards a lean, technology driven structure.

In addition, we seek to attract, assimilate and retain the best talent available, and extend the ethos of organizational excellence within the IDFC Group to the IDFC Bank, thus capitalizing on opportunities for organic growth for the IDFC Group as a whole.

Details of our Business

IDFC was incorporated in 1997 on the recommendations of the Expert Group on Commercialization of Infrastructure Projects, under the Chairmanship of Dr. Rakesh Mohan. IDFC was set up as a private sector enterprise by a consortium of public and private investors, with a focus on catalyzing the flow of private capital into the development of India's infrastructure sector.

Our institutional evolution into an integrated financial services platform has been divided into three phases so far.

In the first phase, we were focused on developing a framework and ecosystem for funding commercially viable long gestation private sector and PPP infrastructure projects, largely on the basis of non-recourse debt financing, which required us to develop a deep pool of sectoral and industry domain knowledge within our organization.

In the second phase, as project financing for the private infrastructure sector began to gain wider acceptance and the size of financing requirements of such projects began to grow beyond our balance sheet size and funding capacity at the time, we extended our focus to building our net worth, including through capital market initiatives, and expansion of our loan book, so as to build an array of capabilities, organically and inorganically, to address a wider range of financing needs of the Indian infrastructure sector. In addition, we expanded our business beyond our core financing business to include complementary business opportunities including asset management comprising both mutual fund management and alternative asset management, investment banking business comprising debt syndication, equity capital raising, and merger and acquisitions. Each of our business verticals complement our core financing business and our business model has allowed us to leverage funding from a wide range of capital pools – domestic and international, debt and equity and retail and institutional, primarily into India's infrastructural development.

Our third and current stage of evolution is our foray into the banking business. See "***History and Certain Corporate Matters***" for an overview of the salient features of the Demerger Scheme, and organization structure chart as on the date of commencement of banking operations with effect from October 1, 2015. See "***Key Regulations and Polices in India***" for an overview of the applicable regulatory framework including conditions applicable under RBI Guidelines for Licencing of New Banks in the Private Sector, dated February 22, 2013.

Pursuant to the Demerger Scheme, while banking operations (including fund-based and non-fund-based project finance previously carried out by IDFC) are now demerged, restructured and organized under the IDFC Bank, the rest of the IDFC Group continues to carry on various other activities (which would not have been permitted to be carried out by a banking company, under applicable laws and banking regulations in India) such as institutional broking, investment banking, asset management and an infrastructure debt fund, as well as holding windmill operations, investments in non-regulated business entities and certain strategic investments.

Risk Management

As a professionally managed enterprise operating in the financial services sector, we follow robust risk management practises designed to book, manage and mitigate risks in our businesses. We believe that a robust risk management system is one of the key components to our long-term success. We are exposed to primarily three categories of risks: market risk, credit risk and operational risk. We have implemented an Enterprise Risk Management framework, which adopt an integrated approach to managing all three types of risks.

We have invested in modern technology platforms to identify and monitor and manage our risks. Our risk management process begins with client-selection and screening of customers, thorough documentation and use of systems and technologies such as early warning systems to continuously monitor the health of our portfolio.

Our Credit Risk Group, Market Risk Group and Operational Risk Group directly oversee these risks. Our Credit Risk Group independently evaluates all loan proposals and recommends proposals for loan sanction to our Credit Committee or otherwise as per delegated corporate authority. Our Market Risk Group is supervised by our Asset Liability Management ("**ALM**") Committee. Among other measures, we utilize a software-based ALM system, to allow comprehensive and regular analysis of interest rate, liquidity, currency and equity price risks. Our Operational Risk Group is engaged in regular data collection and assimilation of data pertaining to operational risk, supported by our enterprise-wide Group Operational Risk Committee and guided by our Group Operational Risk Policy. A Portfolio Management Group has also been constituted, that reports to a Portfolio Risk Committee, to regularly monitor performance of and compliance with covenants across all project assets and equity investments.

We also place emphasis on environmental risk, which is evaluated by a dedicated Environmental Risk Group. We also have an Environment and Social ("**E&S**") Policy and risk management framework, pursuant to which our Environmental Risk Group oversees and makes recommendations as to management and mitigation of environmental risk. An Environmental Risk Officer is engaged in assessing and monitoring environmental risks of each project before and after the sanction of any project loan, through Environmental and Social Due Diligence ("**ESDD**") and an annual Environmental and Social Monitoring Review ("**ESMR**"), in compliance with the Equator Principles.

Our risk management policies are continuously reviewed, updated and enhanced for changes in the regulatory and market environment. As a result of our focus on effective risk management, we believe that we have been able to maintain our asset quality amidst a challenging macro environment.

Competition

Our primary competitors are banks and NBFCs with operations in India, including public sector banks, private sector banks and foreign banks with Indian bank branches, as well as deposit-taking and non-deposit-taking NBFCs, and certain NBFCs that are also classified by RBI as IFCs, or as PFIs.

Technology

The commencement of our banking operations offers us an opportunity to blend new age technology with time-tested banking principles. We believe that technology would be pivotal to the success of our banking operations, as we go on to build a differentiated, digitally enabled bank. We are, thus, heavily reliant on our systems technology in connection with financial controls, risk management and transaction processing, including for the successful implementation of the core banking system, as required for all banks, and in relation to extending banking services through delivery channels such as ATMs, call centres and the Internet.

We provide shared and centralized technology infrastructure and services across IDFC Group operations, including our hardware, storage and network, creating helpdesk operations, outsourcing certain non-critical functions, enhancing network security, availability and robustness. We have migrated all our internet facing portals and devices to Internet Protocol Version 6, which is the latest version of the Internet Protocol, the communications protocol that provides an identification and location system for computers on networks and routes traffic across the Internet. Our key offices are connected to our network. For our unified communication initiative that progressively integrated voice, data and video into the IP domain, IDFC's Chief Information Officer received the 'Networking Pioneer Award 2013' from CIO Magazine, at the CIO 100 2013 Awards. As a group, we have also adopted Data Center Infrastructure Management, with a focus on better control on energy and cost.

IDFC has obtained recertification of its ISO 27001 certification from TÜV Rheinland, a German group that documents the safety and quality of business and technology systems to establish sustainability in social and industrial development, for maintaining an Energy Efficient Data Center. IDFC has also renewed its LEED 'Gold' certification for its registered office in Chennai.

Human Resources

Being a professionally managed enterprise in the financial services sector, our focus has been on hiring and retaining individuals who are not just technically competent but culturally aligned. As on October 1, 2015, IDFC Bank had, a total of 1,247 permanent employees.

With a view to strengthening leadership, communication and collaboration as well as marketing and sales effectiveness within our organization, we have extended our integrated coaching program to cover all employees at the director level. The integrated coaching program is an internal initiative that combines elements of coaching and peer learning to drive a customized learning opportunity for each participating individual over a nine month period. We also undertake regular safety and skill upgradation training for our other employees.

Corporate Social Responsibility

IDFC Group's CSR initiatives are primarily implemented through IDFC Foundation, which is a not-for-profit company within the meaning of Section 8 of the Companies Act 2013 (Section 25 of the erstwhile Companies Act 1956).

IDFC Foundation adopts a comprehensive approach towards promoting the development of livelihoods, rural areas, social infrastructure such as healthcare and education and other infrastructure that would meet the objectives of inclusion and environmental sustainability such as water supply, sanitation, sustainable urbanization, public transportation, public transport systems, renewable energy, slum redevelopment and affordable housing. This comprehensive approach is designed to ensure that the IDFC Group's CSR activities are not performed in silos, but are skillfully and inextricably woven into our business strategy, for overall value creation for all stakeholders.

IDFC Foundation has partnered with various Government and non-governmental agencies and organizations for providing support in a number of strategic capacity building initiatives, including through the preparation of studies and reports, participation in pilot studies and programs and participation as a project execution or implementation agency, and providing project oversight.

The weblink to our CSR policy and projects or programs is as follows: www.idfc.com/foundation.

As part of our CSR initiatives, we have also launched an internal 'Go Green' policy initiative, aimed at reducing our environmental impact and carbon footprint at an enterprise-wide level.

Insurance

As a group, we maintain what we believe to be standard insurance coverage in India and worldwide, commensurate with industry standards and with reputed insurers, including, for instance, a comprehensive commercial liability insurance policy with India coverage, a directors and officers' insurance policy with worldwide coverage, a group kidnap and ransom insurance (in the nature of special contingencies insurance) with worldwide coverage for individuals working in high risk areas, fidelity guarantee insurance with India coverage, standard fire and special perils insurance policies with machinery breakdown coverage, burglary policy for protection against loss of property due to burglary and business insurance coverage for any loss of, or damage to, or similar risks with respect to assets such as portable equipment, baggage and cash. It is further clarified that the although the insurance policies mentioned hereinabove are presently maintained by the IDFC Group, the endorsement of IDFC Bank Ltd. is currently pending.

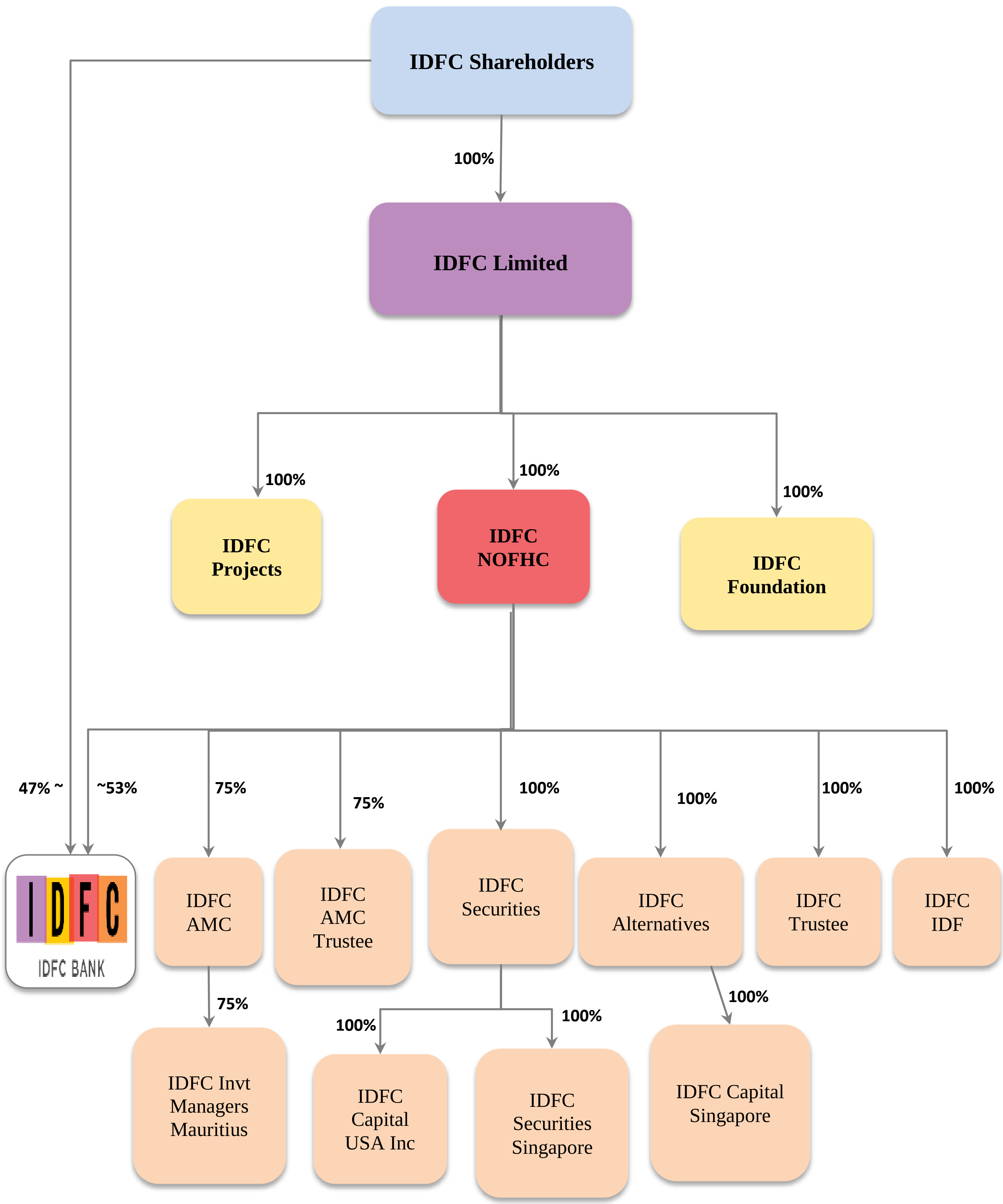
Intellectual Property

Our intellectual property includes trademarks associated with our business. IDFC Limited has registered IDFC (black and white and colour) label in goods and services under various classes including, financial and advisory services, financial brokerage services, real estate affairs, loans, mutual funds, consultancy, management, etc, as its trademark and has applied to the trademarks registry for registration of the same under different classes. Further, IDFC Limited has e-filed requisite applications before the concerned trademark registry, Mumbai for registration of the mark IDFC (in color), IDFC (in greyscale) and IDFC (in black & white) in five different classes (Class 16, Class 35, Class 36, Class 41 and Class 42) under the Trademarks Act, 1999 and Rules made thereunder. The said trademarks are being used by IDFC Bank Limited and other identified group companies of IDFC Limited. The said applications are pending approval of the concerned trademark registry.

Real Estate

Our Registered Office is located at leased premises at KRM Tower, 8th Floor, No. 1, Harrington Road, Chetpet, Chennai 600 031. Our Corporate Office is located in premises located at Naman Chambers, C-32, G-Block, Bandra Kurla Complex, Bandra (East), Mumbai 400 051, was originally owned by IDFC, but is now owned by our Bank pursuant to the Scheme of Demerger.

CORPORATE STRUCTURE



KEY REGULATIONS AND POLICIES

The following is an overview of certain sector-specific Indian laws and regulations which are relevant to our Bank's business. Taxation statutes such as the Income Tax Act, labour laws such as Contract Labour (Regulation and Abolition) Act, 1970 and other miscellaneous regulations and statutes such as the Trade Marks Act, 1999, apply to us as they do to any other Indian company.

The description of laws and regulations set out below is not exhaustive, and is only intended to provide general information to investors and is neither designed nor intended to be a substitute for professional legal advice. The statements below are based on the current provisions of Indian law, and the judicial and administrative interpretations thereof, which are subject to change or modification by subsequent legislative, regulatory, administrative or judicial decisions.

The primary legislation governing commercial banks in India is the Banking Regulation Act. The provisions of the Banking Regulation Act are in addition to and not, save as expressly provided in the Banking Regulation Act, in derogation of the Companies Act and any other law for the time being in force. Other important laws include the Reserve Bank of India Act, 1934, the Negotiable Instruments Act, 1881, the SARFAESI Act, 2002, the Prevention of Money Laundering Act, 2002, Recovery of Debts due to Banks and Financial Institutions Act, 1993, and the Banker's Books Evidence Act, 1891. Additionally, the RBI, from time to time, issues guidelines, regulations, policies, notifications, press releases and circulars to be followed by banks. Banking companies are also subject to the purview of the Companies Act, to the extent applicable, and if such companies are listed on a stock exchange in India then various regulations of the SEBI would additionally apply to such companies, including the Listing Agreements. Compliance with applicable regulatory requirements is evaluated with respect to financial statements under Indian GAAP (as applicable to banks), as well as through periodic inspection and audit.

RBI Regulations

Reserve Bank of India Act, 1934

RBI may, subject to certain conditions, direct the inclusion or exclusion of any bank from the second schedule of the RBI Act. Scheduled banks are required to maintain cash reserves with the RBI. In this regard, RBI may stipulate an average daily balance requirement to be complied with by such banks and may direct that such banks regard a transaction or class of transactions as a liability. Further, RBI may direct any banking company to submit returns for the collection of credit information and may also furnish such information to a banking company upon an application by such company. RBI has the power to impose penalties against any person for *inter-alia* failure to produce any book, account or other document or furnish any statement, information or particulars which such person is duty-bound to produce or furnish under the RBI Act, or any order, regulation or direction thereunder.

Banking Regulation Act, 1949

Commercial banks in India are required under the Banking Regulation Act to obtain a license from the RBI to carry on banking business in India. Such license is granted to the bank subject to the bank complying with certain conditions which include: (i) that the bank has the ability to pay its present and future depositors in full as their claims accrue; (ii) that the affairs of the bank will not be or are not likely to be conducted in a manner detrimental to the interests of present or future depositors; (iii) that the bank has adequate capital and earnings prospects; (iv) that having regard to the banking facilities available in the proposed principal area of operations of the bank, the potential scope for expansion of banks already in existence in the area and other relevant factors the grant of the license would not be prejudicial to the operation and consolidation of the banking system consistent with monetary stability and economic growth; and (v) that the bank has adequate capital structure and earnings prospects; and (vi) that public interest will be served if such license is granted to the bank. The RBI has the power to cancel the license if a bank fails to meet the conditions or if the bank ceases to carry on banking operations in India.

Additionally, the RBI has issued various reporting and record-keeping requirements for commercial banks and issued guidelines for commercial banks on recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy and provisions for non-performing and restructured assets. The appointment of the auditors of the banks is also subject to the approval of the RBI. The RBI can direct a special audit in public interest, or in the interest of the banking company, or in the interest of its depositors. It also sets out the provisions in relation to the loan granting activities of a banking company. The Banking Regulation Act specifies the business activities in which a bank may engage. Banks are prohibited from engaging in business activities other than the specified activities. The RBI annually conducts an inspection to examine matters addressing banking operations. The observations given by the RBI in its inspection report are required to be incorporated and complied with by the bank. Any failure to meet any of RBI's requirements could materially and adversely affect our reputation, business, financial conditions, results of operations, etc. and our ability to obtain regulatory permits and licenses required to expand our business. The RBI has issued guidelines for commercial banks on recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy and provisioning for non-performing and restructured assets among others. The RBI has set up a Board for Financial Supervision, under the chairmanship of its Governor, with the primary objective of undertaking consolidated supervision of the financial sector comprised of commercial banks, financial institutions and non-banking finance companies. This Board oversees the functioning of the Department of Banking Supervision, Department of Non-Banking Supervision and Financial Institutions Division of the RBI and gives directions relating to regulatory and supervisory issues.

The RBI may impose penalties on banks, directors and its employees in case of infringement of regulations under the Banking Regulation Act. The penalty may be a fixed amount or may be related to the amount involved in the contravention. The penalty may also include imprisonment. Banks are also required to disclose the penalty in their annual report.

Entry of new banks in the private sector

In February 22, 2013, the RBI released guidelines for licensing of new banks in the private sector. The key items covered under these guidelines are as follows: i) promoters eligible to apply for banking licenses; ii) corporate structure; iii) minimum voting equity capital requirements for new banks; iv) regulatory framework; v) foreign shareholding cap; vi) corporate governance; vii) prudential norms; viii) exposure norms; and ix) business plan.

The RBI has permitted private sector entities owned and controlled by Indian residents and entities in the public sector in India to apply to the RBI for a license to operate a bank through a wholly owned non-operative financial holding company, subject to compliance with certain specified criteria. Such a non-operative financial holding company is permitted to be the holding company of the bank as well as any other financial services entity, with the objective that the holding company ring-fences the regulated financial services entities in the group, including the bank, from other activities of the group. The RBI grants a license to commence banking operations only after it is satisfied that the applicants have complied with the conditions established as part of the in-principle approval. Applicants are prohibited from carrying out banking operations until the RBI issues the banking license. We have obtained a banking license from the RBI on July 23, 2015.

On November 27, 2014, the RBI also released guidelines of the licensing of small finance banks in the private sector and payments banks. Pursuant to such guidelines, promoters are permitted to set up such banks only through wholly-owned, non-operative financial holding companies ("**NOFHCs**") and such financial holding companies have been required by the RBI to be registered as a separate category of NBFCs.

Regulations relating to the opening of branches

Section 23 of the Banking Regulation Act provides that banks must obtain the prior permission of the RBI to open new branches. The RBI may cancel a license for violations of the conditions under which it was granted. As per the "Master Circular on Area of Operation, Branch Authorisation Policy, Opening/Up-gradation of Extension Counters, ATMs and Shifting/Splitting/Closure of Offices" dated July 1, 2015 banks may open branches in Tier 1 to Tier 6 centres without permission from the RBI, subject to certain conditions. Prior approval from RBI is not required to shift a branch to any location within the city, town or village. Permission of the RBI is not required for installation of on-site ATMs. Since June 12, 2009 the RBI has permitted installation of off-site ATMs at centres identified by scheduled commercial banks, without the need for permission from the RBI in each case, provided certain stipulated conditions are met. This is also subject to any direction which the RBI may issue, including for closure/shifting of any such off-site/ mobile ATMs, wherever so considered necessary by it. Banks are required to report full details of the off-site ATMs so installed. Further, private sector banks are required to ensure that at least 25% of their total branches are in unbanked rural centres in Tier 5 and Tier 6 centres which do not have a brick and mortar structure of any scheduled commercial bank for customer based banking transactions. Furthermore, the total number of branches opened in Tier 1 centres during the financial year cannot exceed the total number of branches opened in Tier 2 to Tier 6 centres and all centres in the north eastern states and Sikkim.

Branches are categorized as Tier 1 to Tier 6 based on population (as per the 2001 census) and classified in the following manner:

- Tier 1—100,000 and above;
- Tier 2—50,000 to 99,999;
- Tier 3—20,000 to 49,999;
- Tier 4—10,000 to 19,999;
- Tier 5—5,000 to 9,999; and
- Tier 6—Less than 5,000

Foreign banks setting up wholly-owned subsidiaries in India

On November 6, 2013, the RBI issued a scheme for setting up wholly-owned subsidiaries by foreign banks in India. The scheme envisages that foreign banks that commenced business in India after August 2010, or do so in the future, would be permitted to do so only through wholly-owned subsidiaries if certain specified criteria apply to them.

These criteria include incorporation in a jurisdiction which gives legal preference to home country depositor claims in case of a winding up proceeding, among others. Further, a foreign bank that has set up operations in India through the branch mode after August 2010 will be required to convert its operations into a subsidiary if it is considered to be systemically important. A bank would be considered to be systemically important if the assets on its Indian balance sheet (including credit equivalent of off-balance sheet items) equals 0.25% of the total assets (inclusive of credit equivalents of off-balance sheet items) for all scheduled commercial banks in India as of March 31 of the preceding year. Establishment of a subsidiary would require approval of the home country regulator/supervisor and the RBI, which would be subject to various factors including economic and political relations with the country of incorporation of the parent bank and reciprocity with the home country of the parent bank. The regulatory framework for a subsidiary of a foreign bank would be substantially similar to that applicable to domestic banks, including with respect to priority sector lending and branch expansion. Wholly-owned subsidiaries of foreign banks may, after further review, be permitted to enter into merger and acquisition transactions with Indian private sector banks, subject to adherence to the foreign ownership limit of 74% that is currently applicable to Indian private sector banks.

Capital adequacy requirements

The RBI has set out the minimum capital adequacy standards for banks based on the guidelines of the Basel Committee on Banking Supervision ("**BCBS**"). Under the "Master Circular on Prudential Guidelines on Capital Adequacy and Market Discipline- New Capital Adequacy Framework" dated July 1, 2015, a bank is required to maintain a minimum total Capital to Risk Asset Ratio ("**CRAR**") of 9% and Tier 1 CRAR of 6%.

Further, under "Guidelines on Implementation of Basel III Capital Regulations in India", RBI has permitted Banks to raise Additional Tier 1 ("**AT1**") capital which may include *inter-alia* perpetual non-cumulative preference shares that comply with regulatory requirements, debt capital instruments eligible for inclusion in AT1 capital and that comply with regulatory requirements. One of the important criteria for AT1 instruments is that they should have principal loss absorption through either (i) conversion into common shares at an objective pre-specified trigger point or (ii) a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point.

The RBI also permits banks to raise Basel III compliant Tier II capital in the form of (i) debt capital instruments; (ii) preference share capital instruments that could be perpetual cumulative preference shares, redeemable non-cumulative preference shares ("**RNCPS**"), redeemable cumulative preference shares. These instruments also need to have certain loss absorption features. To further ensure compliance with the guidelines of Basel II, the RBI has set out compliance periods for banks to transition into the Internal Ratings Based and Advanced Measurement Approach methods of risk assessment. Under the RBI's guidelines, banks were to submit their revised methodologies by April 1, 2012 and RBI was to submit their revised roadmap for transition to these methodologies.

The RBI Basel III guidelines became effective from April 1, 2013 in a phased manner. The RBI deferred the implementation of credit valuation adjustment risk capital charges to January 1, 2014 due to certain issues related to introduction of mandatory forex forward guaranteed settlement through a central counterparty. On December 31, 2013, RBI further extended the abovementioned implementation timeline to April 1, 2014. Basel III capital regulations will be fully implemented by March 31, 2018.

The RBI, with effect from June 21, 2013, prescribed a risk weight of 50% for residential mortgage loans of less than Rs.2 million with loan-to-value ratios of up to 90% and for loans with values of more than Rs. 2 million but less than Rs.7.5 million with loan-to-value ratios of up to 80% and a risk weight of 75% for mortgage loans above Rs.7.5 million with loan to-value ratios of up to 75%. Previously, the risk weight for residential mortgage loans of less than Rs.3 million with loan to-value ratios of up to 75% was 50% and for loans with values of more than Rs.3 million but less than Rs.7.5 million with loan-to-value ratios of up to 75% was 75%, for mortgage loans below Rs.7.5 million with loan-to-values greater than 75% the risk weight was 100% and that for residential mortgage loans of Rs.7.5 million and above, irrespective of the loan to value ratio, was 125%. Consumer credit and advances that are included in capital market exposure carry a risk weight of 125% or higher corresponding to the rating of the exposure. Exposure to venture capital funds are risk weighted at 150%. Other loans/credit exposures are risk weighted based on their ratings or turnover. The RBI has also prescribed detailed guidelines for the capital treatment of securitization exposures. A capital charge for operational risk equal to the average of 15% of a bank's annual gross income (excluding extraordinary income) for the previous three years, where positive, has been prescribed. Banks are required to maintain a capital charge for market risks on their trading books in respect of securities included under the held-for-trading and available-for-sale categories, open gold position, open foreign exchange position limits, trading positions in derivatives and derivatives entered into for hedging trading book exposures.

With effect from the fiscal year ended March 31, 2015, banks are also required to quantify incurred credit valuation adjustment losses and standard credit valuation adjustment capital charge on their derivatives portfolio.

The RBI has issued guidelines on liquidity risk management on November 7, 2012 in accordance with the BCBS's Principles for Sound Liquidity Risk Management and Supervision. The RBI has prescribed certain ratios that it considers as critical to the management of liquidity risk, which are required to be defined internally and monitored by the boards of directors of banks. These ratios are designed to measure, inter alia, the extent to which volatile money supports the bank's basic earning assets, the extent to which assets are funded through a stable deposit base, the degree of illiquidity embedded in the balance sheet and the extent of available liquid assets. The guidelines also prescribe enhanced reporting requirements with respect to structural liquidity by banks. Banks are also required to adhere to certain prescribed limits to reduce the extent of concentration of their liabilities. Further, banks are required to submit statements of structural liquidity at varying intervals for (i) domestic currency Indian operations; (ii) foreign currency Indian operations; (iii) combined Indian operations; (iv) overseas operations; and (v) consolidated bank operations.

The RBI also released a draft report of the Internal Working Group on the implementation of countercyclical capital buffer ("**CCCB**"). The RBI, with the introduction of CCCB, seeks to ensure that not only individual banks remain solvent through a period of stress, but also that the banking sector has capital in hand to help maintain the flow of credit in the economy during economic downturns and periods of stress. The introduction of CCCB will require banks to have an additional capital requirement increasing linearly up to 2.5% of the risk weighted assets of a bank. The key recommendations of the internal working group on the implementation of CCCB in India include: (i) making use of indicators such as credit-to-GDP gap and increase in gross nonperforming assets for prescribing CCCB requirements; (ii) linearly increasing the CCCB requirement up to 2.5% of the risk-weighted assets of banks; (iii) providing a lead time of 12 months for banks to comply with CCCB requirements; and (iv) mandating the requirement of CCCB on a standalone basis as well as consolidated basis for banks operating in India.

Framework for revitalising distressed assets in the economy

RBI issued the framework for revitalising distressed assets in the economy on January 30, 2014 which lays down the corrective action plan that will incentivise early identification of problem cases, timely restructuring of accounts which are considered to be viable, and taking prompt steps by banks for recovery or sale of unviable accounts.

The salient features of this framework include, inter alia, (a) early formation of a lenders' committee with timelines to agree to a plan for resolution, (b) incentives for lenders to agree collectively and quickly to a plan - better regulatory treatment of stressed assets if a resolution plan is underway, accelerated provisioning if no agreement can be reached, and (c) independent evaluation of large value restructurings mandated, with a focus on viable plans and a fair sharing of losses (and future possible upside) between promoters and creditors. This framework became fully effective on April 1, 2014.

The guidelines for revitalising distress assets are applicable to all scheduled commercial banks, term-lending institutions and refinancing institutions (hereinafter "**lenders**") and require these institutions to identify standard accounts showing signs of stress. Such accounts are to be categorized into different levels of Special Mention Accounts ("**SMA**") based on the overdue vintage and signs of incipient stress. The RBI shall set up a Central Repository of Information on Large Credits ("**CRILC**") to collect, store and disseminate credit related information to lenders. Lenders shall be required to report credit information, including the classification of an account as an SMA to the CRILC. Failure to report the SMA status of accounts to CRILC could lead to supervisory actions by the RBI such as accelerated provisioning on non-performing assets. In relation to accounts with a specified SMA category, where lenders collectively have an exposure to that borrower in excess of specified amounts, banks are required to form a Joint Lenders' Forum ("**JLF**") in order to explore various options to resolve the stress in the account and set right the irregularities/weaknesses in the account. The JLF may also decide the recovery process from among the various legal options available, subject to the consent of such majority of the lenders as required under the applicable laws.

Corporate debt restructuring mechanism ("CDR system")

The RBI has developed a corporate debt restructuring system, to serve as an institutional mechanism for the restructuring of corporate debt in 2001. It is a joint forum of all banks and financial institutions and operates as a non-judicial body. The CDR system operates on the principle of super-majority amongst the participating banks and financial institutions for a particular advance. The prudential norms issued by RBI (detailed hereinafter) as mentioned above equally apply to the accounts restructured under the CDR system.

Guidelines on corporate debt restructuring issued by the RBI specify that for debt amounts of Rs. 100 million and above, 60% of the creditors by number and 75% of creditors by value can decide to restructure the debt and that such a decision would be binding on the remaining creditors. If we own 25% or less of the debt of a borrower, we could be forced to agree to an extended restructuring of debt which may not be in our interests. On January 30, 2014 and on February 26, 2014, the RBI issued guidelines on the framework for revitalizing distressed assets in the economy. These guidelines envisage formation of a joint lenders' forum and the taking of a corrective action plan in relation to delinquent accounts where the overdues are between 61 and 90 days and the aggregate exposure of all lenders in an account is Rs. 1,000 million or above. Such accounts may be restructured under the joint lenders' forum or the corporate debt restructuring mechanism.

In June 8, 2015, the RBI issued the strategic debt restructuring scheme, pursuant to which the joint lenders' forum was authorized to permit banks to convert a whole or a part of the loan and interest outstanding into equity shares in the borrower company, so as to acquire a majority shareholding in such borrower company. All such decisions of the joint lenders' form are required to be documented and approved by a minimum of 75% of the creditors by value and 60% of the creditors by number. Further, a bank acquiring any such shareholding in a borrower company pursuant to such scheme is required to (i) hold such shares in accordance with the limits prescribed under the Banking Regulation Act; and (ii) divest such shareholding as soon as possible.

Loan Loss Provisions and Non-Performing Assets

The RBI has issued guidelines on income recognition, asset classification, provisioning standards and the valuation of investments applicable to banks, which are revised from time to time. These guidelines are applied for the calculation of impaired assets under Indian GAAP (as applicable to banks). The principal features of the RBI guidelines are set forth below.

Non-Performing Assets

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. The RBI guidelines stipulate the criteria for determining and classifying a non-performing asset ("**NPA**"). An NPA is a loan or an advance where:

- interest and/or an installment of principal remain overdue (as defined below) for a period of more than 90 days in respect of a term loan;
- the account remains "out-of-order" (as defined below) in respect of an overdraft or cash credit for more than 90 days;
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted;
- the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops;
- the installment of principal or interest thereon remains overdue for one crop season for long duration crops;
- the amount of a liquidity facility remains outstanding for more than 90 days, in respect of securitization transactions undertaken in accordance with the RBI guidelines on securitization dated February 1, 2006;
- or in respect of derivative transactions, the overdue receivables representing the positive mark-to-market value of a derivative contract, remain unpaid for a period of 90 days from the specified due date for payment.
- Banks should classify an account as an NPA only if the interest imposed during any quarter is not fully repaid within ninety days from the end of the relevant quarter.

Overdue

Any amount due to the bank under any credit facility is "overdue" if it is not paid on the due date fixed by the bank.

Out-of-Order Status

An account should be treated as "out-of-order" if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In circumstances where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but (i) there are no credits continuously for a period of 90 days as on the date of the balance sheet of the bank, or (ii) the credits are not sufficient to cover the interest debited during the same period, these accounts should be treated as "out-of-order".

Prudential norms on income recognition, asset classification and provisioning pertaining to advances ("Prudential Norms") & Restructured Assets

The RBI, pursuant to its "Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances" ("**Prudential Norms**") issued on July 1, 2015, classifies NPAs into (i) standard assets; (ii) sub-standard assets; (iii) doubtful assets; and (iv) loss assets. These guidelines specify provisioning requirements specific to the classification of the assets.

Standard Assets: Assets in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business. A standard asset can be restructured by rescheduling principal repayments and/or the interest element, subject to compliance with certain conditions, but must be separately disclosed as a restructured asset. Consumer and personal advances; advances classified as capital market exposures; and advances classified as commercial real estate exposures are not eligible for being classified as a standard asset upon restructuring. The criteria to be fulfilled for the restructured advance to be treated as a "standard asset" includes the viability of the business, infusion of promoters' contribution, full security coverage and cap on maximum tenor of repayment. The economic loss, if any, arising as a result of a restructuring needs to be provided for in the books of the bank. The provision is computed as the difference between the fair value of the account before and after restructuring.

Sub-standard Assets: Assets that are non-performing for a period less than or equal to 12 months. Such an asset has well defined credit weaknesses that jeopardize the liquidation of the debt and is characterized by the distinct possibility that the bank will sustain some loss if deficiencies are not corrected. Sub-standard accounts which have been subjected to restructuring, whether in respect of a principal instalment or interest amount, are eligible to be upgraded to the standard category only after the specified period, i.e. a period of one year after the date when the first payment of interest or of principal, whichever is later, falls due, subject to satisfactory performance during the specified period.

Doubtful Assets: An asset will be classified as doubtful if it remains in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that are classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss Assets: Assets on which losses have been identified by the bank or internal or external auditors or on inspection by the RBI, but the amount has not been written off fully. Such an asset is considered uncollectable and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value.

There are separate asset classification guidelines which will apply to projects under implementation before the commencement of their commercial operation.

In 2013, the RBI issued additional guidelines in relation to restructured assets which are also applicable to non-performing assets, which upon restructuring would continue to have the same asset classification as prior to the restructuring and may be classified into lower categories in accordance with applicable asset classification norms based on the pre-restructuring repayment schedule.

<u>Guidelines on sale and purchase of NPAs</u>

On July 13, 2005, the RBI issued guidelines on sales and purchases of NPAs between banks, financial institutions and NBFCs. In terms of these guidelines, banks' boards are required to establish policies covering, among others, a valuation procedure to be followed to ensure that the economic value of financial assets is reasonably estimated based on the assessed cash flows arising out of repayment and recovery prospects. In October 4, 2007, the RBI issued guidelines regarding valuation of NPAs being put up for sale.

Purchases and sales of NPAs must be without recourse to the seller, on a cash basis, with the entire consideration being paid up-front, and after the sale there should not be any known liability devolving on the seller. An asset must have been classified as non-performing for at least two years by the seller to be eligible for sale. The purchasing bank must hold the NPA on its books for at least 15 (fifteen) months before it can sell the asset to another bank. The asset cannot be sold back to the original seller. In February 26, 2014, the RBI issued guidelines wherein the requirement of a minimum holding period of 2 (two) years by the seller in relation to sale transactions with other banks, financial institutions and non-banking finance companies, was removed. These guidelines reduce the requirement of the holding period by the purchasing bank to 12 (twelve) months before it can sell the asset to another bank, financial institution or non-banking finance company.

The RBI revised the "Prudential Guidelines on Restructuring of Advances by Banks and Financial Institutions" on May 30, 2013. Pursuant to the revised guidelines the provisioning requirement has been increased to 5% in respect of new restructured standard accounts (flow) with effect from June 1, 2013 and in a phased manner for the stock of restructured standard accounts as of March 31, 2013 as follows:

a) 3.50% with effect from March 31, 2014 (spread over the four quarters of 2013-2014);

b) 4.25% with effect from March 31, 2015 (spread over the four quarters of 2014-2015); and

c) 5% with effect from March 31, 2016 (spread over the four quarters of 2015-2016).

Guidelines on Sale of Standard Assets

The RBI first issued guidelines for the securitization of standard assets in February 2, 2006. The guidelines provide that for a transaction to be treated as a securitization, a two-stage process must be followed. In the first stage there must be a sale of a single asset or pooling and transferring of assets to a bankruptcy remote special purpose vehicle ("**SPV**") in return for immediate cash payment and in the second stage repackaging and selling the security interests representing claims on incoming cash flows from the asset or pool of assets to third party investors should be effected. Further, for enabling the transferred assets to be removed from the balance sheet of the seller in a securitization structure, the isolation of assets or 'true sale' from the seller or originator to the SPV is an essential prerequisite. Also, an arms-length relationship must be maintained between the originator, the seller and the SPV.

Certain regulatory standards for capital adequacy, valuation, profit and loss on sale of assets, income recognition and provisioning, accounting treatment for securitization transactions and disclosure standards have been prescribed. The guidelines are applicable for originators and have prescribed provisions for service providers like: credit enhancers, liquidity support providers and underwriters and investors. Quarterly reporting to the audit sub-committee of the board of directors by originating banks of the securitization transactions has also been prescribed. Apart from banks, these guidelines are also applicable to financial institutions and non-banking financial companies.

The RBI subsequently revised the guidelines on transfer of assets through securitization and direct assignment of cash flows on May 7, 2012. These guidelines govern the securitization of debt obligations of a homogenous pool of obligors as well as the direct sale or transfer of a single standard asset. The roles of both the selling and purchasing banks have been defined more clearly. All on-balance sheet standard assets except those expressly disallowed in the guidelines are eligible for securitization subject to being held by the originating bank for a minimum holding period. The guidelines also prescribe a minimum retention requirement, i.e. the minimum part of the securitized debts that the originator is required to retain during the term of securitization. Overseas branches of Indian banks cannot undertake securitization in other jurisdictions unless there is a minimum retention requirement in that jurisdiction. These requirements have been established to ensure that the originator exercises due diligence with regard to the securitized assets. The guidelines also establish the upper limit on the total retained exposure of the originator, the disclosures to be made by the originators, applicability of capital adequacy and asset classification and provisioning norms to these transactions. The norms also stipulate stress testing and extensive monitoring requirements on the purchased portfolios. Transactions which do not meet the requirements established by the guidelines will be assigned very high risk weights under capital adequacy norms. The guidelines on transfer of assets through securitization and direct assignment of cash flows do not apply to:

- transfer of loan accounts of borrowers by a bank to other bank/financial institutions/non-banking finance companies and vice versa, at the request/instance of borrower;
- inter-bank participations;
- trading in bonds;
- sale of entire portfolio of assets consequent upon a decision to exit the line of business completely (which should have the approval of board of directors of the bank);
- consortium and syndication arrangements and arrangement under corporate debt restructuring mechanism; and
- any other arrangement/transactions, specifically exempted by the RBI.

Provisioning and Write-Offs

Provisions are based on guidelines specific to the classification of the assets. The following guidelines apply to the various asset classifications:

- Standard Assets: A general provision for standard assets at the following rates is made for the funded outstanding amount on a global loan portfolio basis:

  (a) direct advances to agricultural and SME sectors at 0.25%;

  (b) advances to Commercial Real Estate ("**CRE**") Sector at 1%;

  (c) advances to Commercial Real Estate – Residential Housing Sector at 0.75%;

  (d) housing loans extended at teaser rates (at 2%) and restructured advances as provided by the RBI; and

  (e) all other advances and advances not included in (a), (b) and (c) at 0.40%.

  - Sub-Standard Assets: A general provision of 15% on total outstanding should be made without making any allowance for guarantee cover provided by the Export Credit Guarantee Corporation of India, or ECGC and securities available. The 'unsecured exposures' which are identified as 'substandard' would attract an additional provision of 10%, *i.e.*, a total of 25% on the outstanding balance.

- Doubtful Assets: A 100% provision is made against the unsecured portion of the doubtful asset. In cases where there is a secured portion of the asset, depending upon the period for which the asset remains doubtful, a 25% to 100% provision is required to be made against the secured asset as follows:

    - Up to one year: 25% provision.
    - One to three years: 40% provision.
    - More than three years: 100% provision.

- Loss Assets: The entire asset is required to be written off or provided for. If loss assets are permitted to remain in the books for any reason, 100% of the outstanding should be provided for.

- Restructured Assets: The RBI has also issued separate guidelines for restructured loans.

On June 22, 2006, the RBI issued prudential norms on the creation and utilization of floating provisions (provisions which should not be made in respect of specific NPAs or are made in excess of regulatory requirements for provisions for standard assets).

Floating Provisions

Floating provisions cannot be reversed by credit to the profit and loss account. They can only be utilized for making specific provisions in extraordinary circumstances. Until the utilization of such provisions, they can be netted off from gross NPAs to arrive at disclosure of net, or, alternatively, can be treated as part of Tier II capital within the overall ceiling of 1.25% of credit risk-weighted assets. Further, floating provisions would not include specific voluntary provisions made by banks for advances at rates which are higher than the stipulated rates.

Prudential Coverage Ratio

Pursuant to the Second Quarter Review of the Monetary Policy for the year 2009-10 issued on October 27, 2009, the RBI directed banks to augment their provisioning cushions consisting of specific provisions against NPAs as well as floating provisions, and ensure that their total provisioning coverage ratio, including floating provisions, is not less than 70%. Provisioning Coverage Ratio ("**PCR**") is the ratio of provisioning to gross non-performing assets and indicates the extent of funds a bank has kept aside to cover loan losses. Banks were required to achieve this norm not later than September 30, 2010. Pursuant to a circular dated April 21, 2011, the RBI relaxed this requirement and stated that banks should maintain a minimum PCR of 70% with reference to the gross NPA position as of September 30, 2010 and that the surplus of the provision under PCR vis-à-vis as required under the applicable prudential norms should be segregated into an account called the "countercyclical buffer", which can be used by the banks for making specific provisions for NPAs during any system-wide downturn with the prior approval of the RBI. The PCR should be disclosed in the notes to accounts to the balance sheet. In February 7, 2014, the RBI, as a countercyclical measure, permitted banks to utilize up to 33% of countercyclical provisioning buffer or floating provisions held by them as on March 31, 2013, to make specific provisions for non-performing assets.

While the provisions indicated above are mandatory, banks may make higher provisions over and above the mandatory level. On March 30, 2012, the RBI issued a discussion paper on the introduction of dynamic loan loss provisioning framework for banks in India. Due to the recent global financial crisis, the impairment accounting framework for financial assets has come under criticism and the BCBS has sought to address the financial issues by introducing a number of new measures, including promoting forward looking provisions.

Under the Basel III reforms, the BCBS has suggested a change in the accounting standards on an expected loss approach by reflecting actual losses more transparently and reducing the procyclical "incurred loss" approach that is followed currently. It has also recommended that its supervisory guidance should be updated to be consistent with the move towards an "expected loss" approach and stronger provisioning in the regulatory capital framework should be incentivized.

In its notification on 'Utilisation of Floating Provisions/Counter Cyclical Provisioning Buffer' dated February 7, 2014, the RBI indicated that banks should develop necessary capabilities to compute their long term average annual expected loss for different asset classes, to enable switching over to the dynamic provisioning framework. The RBI's guidelines on the framework for revitalizing distressed assets, envisage formation of a joint lenders' forum and the taking of a corrective action plan in relation to delinquent accounts where the overdues are between 61 and 90 days and the aggregate exposure of all lenders in an account is Rs. 1,000 million or above. Such accounts may be restructured under the joint lenders' forum or corporate debt restructuring mechanism.

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 ("SARFAESI Act")

The SARFAESI Act provides for sale of financial assets by banks and financial institutions to asset reconstruction companies. The Act enables the enforcement of security interest created in favour of a secured creditor, without the intervention of court or tribunal. Further, a secured creditor may, under certain conditions, also take over the management of the business of the borrower including the right to transfer by way of lease, assignment or sale for realising the secured asset. The Prudential Norms issued by the RBI describe the process to be followed for sale of financial assets to asset reconstruction companies. The banks may not sell financial assets at a contingent price with an agreement to bear a part of the shortfall on ultimate realisation. However, banks may sell specific financial assets with an agreement to share in any surplus realised by the asset reconstruction company in the future. Consideration for the sale may be in the form of cash, bonds or debentures or security receipts or pass-through-certificates issued by the asset reconstruction company or trusts set up by it to acquire the financial assets. Pursuant to the amendment of the SARFAESI Act vide notification dated January 4, 2013, means for recovery of assets available to banks and financial institutions have been strengthened. Further, banks and financial institutions have been empowered to accept immovable property in full or partial satisfaction of the bank's claim against the defaulting borrower at times when they cannot find a buyer for the securities. The amendment also enables banks and financial institutions to enter into a settlement or compromise with the borrower and empowers DRTs to pass an order acknowledging any such settlement or compromise.

Regulations relating to making loans

The provisions of the Banking Regulation Act govern the making of loans by banks in India. In addition, the RBI also issues directions in relation to the loan activities of banks. Some of the major requirements that banks are to observe are as follows:

- The RBI has prescribed norms for banks lending to non-bank financial companies and the financing of public sector disinvestment.

- RBI introduced the 'Base Rate' in place of the 'Benchmark Prime Lending Rate' with effect from July 1, 2010. For loans sanctioned up to June 30, 2010, BPLR would be applicable. However, for those loans sanctioned up to June 30, 2010 which come up for renewal from July 1, 2010 onwards, Base Rate would be applicable.

- Section 21A of the Banking Regulation Act provides that the rate of interest charged by a bank shall not be reopened by any court on the ground that the rate of interest charged by a bank is excessive. The Banking Regulation Act provides for protection to banks for interest rates charged by them.

- Section 20(1) of the Banking Regulation Act provides that banks shall not grant loans on the security of their own shares. Further, banks cannot grant loans or advances to or on behalf of their directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company (not being a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956, or a Government company) of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor. There are certain exemptions in this regard as the explanation to the Section provides that 'loans or advances' shall not include any transaction which the RBI may specify by general or special order as not being a loan or advance for the purpose of such Section.

- Prior to July 1, 2010, banks advanced loans in accordance with it benchmark prime lending rate. Banks were free to determine their own lending rates but each bank had to declare its benchmark prime lending rate as approved by its board of directors. Benchmark prime lending rate was determined on the basis of various parameters, which inter alia, include actual cost of funds, operating expenses, a minimum margin to cover the regulatory requirement of provisioning / capital charge and profit margin. Each bank was also required to indicate the maximum spread over the benchmark prime lending rate for all credit exposures other than retail loans over Rs. 200,000. The interest charged by banks on advances up to ₹200,000 to any one entity (other than most retail loans) could not exceed the benchmark prime lending rate. Banks were also given freedom to lend at a rate below the prime lending rate in respect of creditworthy borrowers and exporters on the basis of a transparent and objective policy approved by their boards. Interest rates for certain categories of advances are regulated by the RBI. Banks were also free to stipulate lending rates without reference to their own benchmark prime lending rates in respect of certain specified categories of loans.

- Since July , 2010, other than in respect of certain exempted categories, the Base Rate is required to be the minimum rate for all loans and banks are not permitted to resort to any lending below the Base Rate. In order to give banks some time to stabilize the system of Base Rate calculation, banks were permitted to change the benchmark and methodology any time until June 30, 2011. The Base Rate system is aimed at enhancing transparency in lending rates of banks and enabling better assessment of transmission of monetary policy. Base Rate shall include all those elements of the lending rates that are common across all categories of borrowers. Banks may choose any benchmark to arrive at the Base Rate for a specific tenor that may be disclosed transparently. Banks may determine their actual lending rates on loans and advances with reference to the Base Rate and by including such other customer specific charges as considered appropriate. There can be only one Base Rate for each bank. Banks have the freedom to choose any benchmark to arrive at a single Base Rate which should be disclosed transparently and any changes in the Base Rate are required to be communicated to the general public through appropriate channels. Banks are required to review the Base Rate at least once in every quarter with the approval of the board of directors or the asset and liability management committees in accordance with the bank's practices. Even after introduction of the Base Rate system, banks have the freedom to offer all categories of loans on fixed or floating rates. Where loans are offered on fixed rate basis, notwithstanding the quarterly review of the Base Rate, the rate of interest on fixed rate loans will continue to remain the same subject to the condition that such fixed rate should not be below the Base Rate at the time of the sanction.

However, the RBI may (subject to conditions as it may deem fit to impose), exempt any banking company from the restriction on lending to the subsidiary, holding company or any other company in which any of the directors of the banking company is a director, managing agent, manager, employee, guarantor or in which such person holds substantial interest.

The RBI has permitted banks to extend financial assistance to Indian companies for the acquisition of equity in overseas joint ventures or wholly owned subsidiaries or in other overseas companies. There are guidelines on loans secured by shares, debentures and bonds, money market mutual funds, fixed deposits receipts issued by other banks, bullion/primary gold etc. in respect of amount, margin requirement and purpose.

Directed Lending

Priority sector lending

The RBI's Master Circular on "Priority Sector Lending- Targets and Classification" dated July 1, 2015, sets out the broad policy in relation to priority sector lending. In accordance with this circular, the priority sectors for all scheduled banks include (i) agriculture; (ii) MSE; (iii) education; (iv) housing, (v) social infrastructure; (vi) export credit; and (vii) renewable energy.

The guidelines take into account the revised definition of MSEs as per the Micro, Small and Medium Enterprises Development Act, 2006. Under the RBI guidelines, the priority sector lending targets are linked to Adjusted Net Bank Credit ("**ANBC**") (outstanding bank credit minus bills rediscounted with RBI and other approved Financial Institutions plus permitted non SLR bonds/debentures under Held to Maturity category plus other investments eligible to be treated as part of priority sector lending (e.g. investments in securitised assets)) or credit equivalent amount of off-balance sheet exposure, whichever is higher, as on March 31 of the previous year. Currently, the total priority sector lending target for domestic banks is 40% of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher.

Of such priority sector advances, (i) agricultural advances are required to be 18% of ANBC or credit equivalent amount of off-balance sheet exposure whichever is higher, with lending to small and medium farmers required to be 7% of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher, by March 2016 and 8% of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher, by March 2017; (ii) micro-sector advances are required to be 7% of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher, by March 2016 and 7.5% of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher, by March 2017; and (iii) advances to weaker sections are required to be 10% of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher. Pursuant to recent amendments in April 23, 2015, the earlier distinction between direct and indirect lending with respect to the agriculture sector has been dispensed with.

Banks that have a shortfall in lending to overall priority sector target or agriculture target and weaker sections target shall be allocated amounts for contribution to the Rural Infrastructure Development Fund ("**RIDF**") established with the National Bank for Agricultural and Rural Development ("**NABARD**") or funds with the National Housing Bank ("**NHB**") or Small Industries Development Bank of India ("**SIDBI**") or other financial institutions, as specified by the RBI. Outstanding deposits with the RIDF and other eligible funds with NABARD (on account of past priority sector shortfalls) are treated as advances to the agriculture sector. Foreign banks having 20 or more branches in India will be brought at par with domestic banks for priority sector targets in a phased manner over a maximum period of five years commencing from April 1, 2013 and will have a priority sector lending target of 40% of ANBC instead of the earlier requirement of 32%. Foreign banks having less than 20 branches in India continue to have the overall target of 32% of ANBC.

The RBI has stated that banks will be permitted to purchase priority sector lending certificates, which shall be eligible for classification under the respective categories, provided that such assets originate from banks and are eligible to be classified as priority sector advances, in accordance with detailed guidelines that will be issued by the RBI. The RBI is yet to issue specific guidelines in this respect. Priority sector lending includes advances towards housing finance. This can be in the form of home loans up to specified limits to individuals, loans for repairs to damaged dwelling units, bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers, loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses only to economically weaker sections and low income groups and bank loans to housing finance companies, approved by the NHB for their refinance, for on-lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers.

The RBI has also stated that investments made by banks in securitized assets originated by NBFCs or purchase/assignment transactions undertaken by banks with NBFCs, where the underlying assets are loans against gold jewellery are not eligible for priority sector status. The RBI also periodically issues instructions/directives to banks with regard to providing credit facilities to minority communities. The RBI has also directed banks to provide "basic savings bank deposit accounts" which offer certain minimum common facilities to all customers without any charges and that do not have any requirement of minimum balance.

Exposure Norms

Credit Exposure Limits

As a prudent measure aimed at better risk management and avoidance of concentration of credit risk, the RBI has prescribed credit exposure limits for banks and long-term lending institutions in respect of their lending to individual borrowers and to all companies in a single group (or sponsor group). In addition, banks are also required to observe certain statutory and regulatory exposure limits in respect of advances against or investments in shares, convertible debentures or bonds, units of equity-oriented mutual funds and all exposures to venture capital funds ("**VCFs**"). The RBI has prescribed exposure ceiling for a single borrower as 15% of capital funds and group exposure limit as 40% of capital funds. The capital funds for this purpose are comprised of Tier I and Tier II capital, as defined under the capital adequacy standards as per the bank's last audited balance sheet. Infusion of Tier I or Tier II capital either through domestic or overseas issuance after the audited balance sheet date is also eligible for inclusion in the capital funds for determining the exposure ceiling.

Relaxations are permitted in exceptional circumstances and if lending to the infrastructure sector. The total exposure to a single NBFC has been limited to 10% of the bank's capital funds while exposure to non-banking asset finance company has been restricted to 15% of the bank's capital funds. The limit may be increased to 15% and 20%, respectively, provided that the excess exposure is on account of funds lent by the NBFC to the infrastructure sector.

With effect from May 29, 2008, the RBI revised the prudential limit to 25% of capital funds in respect of a bank's exposure to oil companies to whom specified oil bonds have been issued by the Government of India. Banks would need to make appropriate disclosures in their annual financial statements in respect of exposures where they had exceeded the prudential exposure limits during the year.

The exposure (both lending and investment, including off balance sheet exposures) of a bank to a single NBFC or NBFC-asset financing companies ("**NBFC-AFC**") must not exceed 10% or 15%, respectively, of the bank's capital funds. Banks may however, assume exposures on a single NBFC or NBFC-AFC up to

15% or 20% of capital funds, respectively, if it is on account of funds on-lent by the NBFC or NBFC-AFC to the infrastructure sector. Exposure of a bank to infrastructure finance companies ("**IFC**") should not exceed 15% of its capital funds, with a provision to increase it to 20% if the same is on account of funds on-lent by the IFC to the infrastructure sector. Further, all banks may also consider fixing internal limits for their aggregate exposure to all NBFCs put together.

Exposure includes credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). The sanctioned limits or outstandings, whichever are higher, would be included when arriving at the exposure limit. However, in the case of fully drawn term loans, where there is no scope for re-drawing of any portion of the sanctioned limit, banks may consider the outstanding as the exposure.

For the purpose of exposure norms, banks shall compute their credit exposures, arising on account of the interest rate and foreign exchange derivative transactions and gold, using the Current Exposure Method. While computing credit exposures, banks may exclude 'sold options', provided that the entire premium or fee or any other form of income is received or realized. Credit exposure comprises the following elements:

- all types of funded and non-funded credit limits; and

- facilities extended by way of equipment leasing, hire purchase finance and factoring services.

Apart from limiting exposures to an individual or a group of borrowers, as indicated above, the RBI guidelines also require banks to consider fixing internal limits for aggregate commitments to specific sectors, so that their exposures are evenly spread across various sectors. These limits are subject to a periodic review by banks.

Regulations Relating to Capital Market Exposure Limits

The RBI has issued guidelines on financing to participants in the capital markets. These guidelines limit the aggregate exposure of a bank to the capital markets in all forms (both fund based and non-fund based) to 40% of its net worth, on both standalone and consolidated basis as on March 31 of the previous year. Within this overall ceiling, the bank's direct investment in shares, convertible bonds/debentures, units of equity-oriented mutual funds and exposure to VCFs must not exceed 20% of its net worth (both for the stand-alone and the consolidated bank). Net worth is comprised of the aggregate of paid-up capital, free reserves (including share premium but excluding revaluation reserves), investment fluctuation reserve and credit balance in the profit and loss account, less the debit balance in the profit and loss account, accumulated losses and intangible assets. There are guidelines on loans against equity shares in respect of amount, margin requirement and purpose.

The following exposures are subject to the above ceilings:

- direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds, the fund assets of which are not exclusively invested in corporate debt;

- advances against shares/bonds/debentures or other securities or advances without security to individuals for investment in shares (including in primary offerings and employee stock option plans), convertible bonds, convertible debentures and units of equity-oriented mutual funds;

- advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;

- advances for any other purposes to the extent secured by collateral of shares, convertible bonds, convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares or convertible bonds or convertible debentures or units of equity oriented mutual funds does not fully secure the advances;

- secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;

- loans sanctioned to companies against the security of shares/bonds/debentures or other securities or on a clean basis for meeting a promoter's contribution to the equity of new companies;

- bridge loans to companies against expected equity flows/issues;

- underwriting commitments taken up by banks in respect of primary issues of shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds. Banks are however permitted to exclude their own underwriting commitments, and the underwriting commitments of their subsidiaries, through the book running process for the purpose of arriving at the capital market exposure of the single bank as well as the consolidated bank;

- financing to stockbrokers for margin trading; and

- all exposure to venture capital funds (both registered and unregistered).

Regulations Relating to Other Loan Exposures

The RBI requires banks to have put in place a policy for exposure to real estate with the approval of their boards. The policy is required to include exposure limits, collateral to be considered, collateral cover and margins and credit authorization. The RBI has also permitted banks to extend financial assistance to Indian companies for the acquisition of equity in overseas joint ventures or wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investments. Banks are not however permitted to provide companies "acquisition finance" to acquire companies in India.

Guidelines on management of intra-group transactions and exposures

The RBI issued the "Guidelines on Management of Intra-Group Transactions and Exposures" on February 11, 2014 which have been in effect since October 1, 2014. Pursuant to the said guidelines, RBI has prescribed quantitative limits on financial intra-group transactions and exposures and prudential measures for the non-financial intra-group transactions and exposures. The objective of these guidelines is to ensure that banks engage in intra-group transactions and exposures on an arm's length basis and in a safe and sound manner in order to contain concentration and contagion risks arising out of such transactions. The guidelines prescribe minimum requirements with respect to group risk management and group-wide oversight and prudential limits on intra-group exposures.

Effective October 2014, a bank's exposure to non-financial or unregulated financial services entity in its group will be capped at 5% of its paid-in capital and reserves and its exposure to regulated financial services company in its group will be capped at 10% of its paid-in capital and reserves. Appropriate transitional arrangements have been prescribed for banks whose exposures breach the limits once the guidelines are implemented.

Liquidity Adjustment Facility

Liquidity Adjustment Facility ("**LAF**") is a facility extended by RBI to scheduled commercial banks (excluding Regional Rural Banks) and primary dealers to avail of liquidity in case of requirement or park excess funds with the RBI in case of excess liquidity on an overnight basis against government securities as collateral. Therefore, LAF enables liquidity management on a day to day basis and enables RBI to transmit interest rate signals to the market. The operations of LAF are conducted by way of repurchase agreements with RBI being the counter-party to all the transactions. The interest rate in LAF is fixed by the RBI from time to time. LAF is an important tool of monetary policy.

Regulations Relating to Investments

Exposure Limits

Credit exposure limits specified by the RBI in respect of a bank's lending to individual borrowers and borrower groups apply in respect of non-convertible debt instruments. Within the overall capital market exposure ceiling, a bank's direct investments in equity securities, convertible bonds and debentures and units of equity-oriented mutual funds should not exceed 20% of its net worth as of March 31 of the previous year. A bank's aggregate investment in subordinated bonds eligible for Tier II capital status issued by other banks or financial institutions is restricted to up to 10% of the investing bank's capital funds (Tier I plus Tier II capital). Investments in the instruments issued by banks or financial institutions that are eligible for capital status are either risk weighted or deducted from the investee bank's capital, for capital adequacy purposes, depending upon the extent of investment as prescribed by RBI under the Basel III capital regulations.

In order to contain the risks arising out of investment by banks in non-statutory liquidity ratio ("**non-SLR**") securities, and in particular the risks arising out of investment in bonds through private placement, the RBI has issued detailed guidelines on investment by banks in non-SLR securities. Banks have been advised to restrict their new investments in unlisted securities to 10% of their total non-SLR investments as of March 31 of the previous year. Banks are permitted to invest in unlisted non-SLR securities within this limit, provided that such securities comply with disclosure requirements for listed companies as prescribed by the SEBI. Banks' investments in unlisted non-SLR securities may exceed the limit of 10% by an additional 10%, provided the investment is on account of investments in securitization papers issued for infrastructure projects and bonds/debentures issued by Securitization Companies ("**SC**")/Reconstruction Companies ("**RCs**") set up under SARFAESI and registered with RBI. Investments in security receipts issued by SCs/RCs registered with RBI, investments in asset-backed securities and mortgage-backed securities, which are rated at or above the minimum investment grade and investments in unlisted convertible debentures will not be treated as unlisted non-SLR securities for computing compliance with the prudential limits. The guidelines relating to listing and rating requirements of non-SLR securities do not apply to investments in VCFs, commercial paper, certificates of deposit and mutual fund schemes where any part of the corpus can be invested in equity.

Banks are not permitted to invest in unrated non-SLR securities except in the case of unrated bonds of companies engaged in infrastructure activities, within the overall ceiling of 10% for unlisted non-SLR securities. The total investment by banks in liquid/short-term debt schemes (by whatever name called) of mutual funds with a weighted average maturity of the portfolio of not more than one year, will be subject to a prudential cap of 10% of their net worth as on March 31 of the previous year. The weighted average maturity would be calculated as average of the remaining period of maturity of securities weighted by the sums invested.

Non-Performing Investments

The RBI has defined non-performing investments as those where principal or interest is unpaid for more than 90 days including preference shares where a fixed dividend is not paid or declared. The non-availability of the latest balance sheet of a company in whose equity securities a bank has invested will also render those equity shares non-performing investments. If any credit facility availed of by the issuer is an NPA in the books of the bank, investment in any of the securities issued by the same issuer would also be treated as a Non-Performing Investment ("**NPI**") and vice versa. However, if only preference shares have been classified as an NPI, the investment in any of the other performing securities issued by the same issuer may not be classified as NPI and any performing credit given to that borrower need not be treated as an NPA.

Restrictions on Investments in a Single Company

In terms of Section 19(2) of the Banking Regulation Act, no banking company may hold shares in any company except as provided in sub-section (1) of that Act, whether as pledgee, mortgagee or absolute owner of an amount exceeding 30% of the paid-up share capital of that company or 30% of its own paid-up share capital and reserves, whichever is lower. Further, in terms of Section 19(3) of the Banking Regulation Act, banks must not hold shares, whether as pledgee, mortgagee or absolute owner, in any company in the management of which the managing director, any other director or manager of the bank is in any manner concerned or interested.

Further, under clause 2(1)(iii)(g) of the RBI New Banking Guidelines, investment in equity outside the promoter group is subject to a limit of 10% of the investee company's equity paid-up capital.

Limit on Transactions through Individual Brokers

Guidelines issued by the RBI require banks to empanel brokers for transactions in securities. These guidelines also require that a disproportionate part of the bank's business should not be transacted only through one broker or a few brokers. The RBI specifies that not more than 5% of the total transactions through empaneled brokers can be transacted through one broker. If for any reason this limit is breached, the RBI has stipulated that the board of directors of the bank concerned should be informed on a half-year basis of such occurrences. These guidelines are not applicable to banks' dealings through Primary Dealers.

Valuation of Investments

The RBI has issued guidelines for the categorization and valuation of banks' investments. The salient features of the guidelines are given below.

- Banks are required to classify their entire portfolio of approved securities under three categories: "held for trading," "available for sale" and "held to maturity." Banks must decide the category of investment at the time of acquisition.

- Held to maturity ("**HTM**") investments compulsorily include recapitalization bonds received from the Government, investments in subsidiaries and joint ventures and investments in investments in preference shares in the nature of advance, non-project related redeemable shares and the investments in units of close ended schemes of mutual funds only if such units are listed on the stock exchanges. The minimum residual maturity of these bonds must be of seven years at the time of investment in these bonds. Once invested, banks may continue to classify these investments under the HTM category even if the residual maturity falls below seven years subsequently. Held to maturity investments also include any other investments identified for inclusion in this category subject to the condition that such investments cannot exceed 25% of total investments. Banks are permitted to exceed the limit of 25% of investments for the held to maturity category provided the excess is comprised only of investments eligible for statutory liquidity ratio and the aggregate of such investments in the held to maturity category does not exceed a specified percentage of the prescribed demand and time liabilities.

- Profit on the sale of investments in the HTM category is appropriated to the capital reserve account after being taken in the income statement. Loss on any sale is recognized in the Profit & Loss Account.

- Investments under the held for trading category must be sold within 90 days; in the event of an inability to sell due to adverse factors including tight liquidity, extreme volatility or a unidirectional movement in the market, the unsold securities must be shifted, to the available for sale category.

- Available for sale and held for trading securities are required to be valued at market or fair value at prescribed intervals. The market price of the security available from the stock exchange, the price of securities in subsidiary general ledger transactions, the RBI price list or prices declared by the Primary Dealers Association of India jointly with the Fixed Income Money Market and Derivatives Association of India serves as the "market value" for investments in available for sale and held for trading securities.

- Profit or loss on the sale of investments in both the held for trading and available for sale categories is recorded in the income statement.

- Shifting of investments from or to held to maturity is generally not allowed. However, it will be permitted only under exceptional circumstances with the approval of the board of directors once a year, normally at the beginning of the accounting year; shifting of investments from available for sale to held for trading may be done, subject to depreciation, if any, applicable on the date of transfer, with the approval of the board of directors, the asset liability management committee or the investment committee; shifting from held for trading to available for sale is generally not permitted, save for under exceptional circumstances where banks are not able to sell the security within 90 days due to tight liquidity conditions, or extreme volatility, or the market becoming unidirectional, in which case transfer is permitted only with the approval of the board of directors, the asset liability management committee or the investment committee.

Held to maturity securities are not marked to market and are carried at acquisition cost. Any premium on acquisition of held to maturity securities is amortized.

Depreciation or appreciation for each basket within the available for sale and held for trading categories is aggregated. While net depreciation is provided for, net appreciation in each basket, if any, is not recognized except to the extent of depreciation already provided.

Investments in security receipts or pass through certificates issued by asset reconstruction companies or trusts set up by asset reconstruction companies are valued at the lower of redemption value of the security receipts or the net book value of the underlying financial asset.

Prohibition on Short-Selling and Short-selling of Government securities

As per the "Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks" dated July 1, 2015, banks and primary dealers are not permitted to short sell securities except undertake short sale of government dated securities, subject to the short position being covered within a maximum period of three months, including the day of trade. This permission is only available to scheduled commercial banks. Further, such short positions shall be covered only by outright purchase of an equivalent amount of the same security or through a long position in the 'when issued market' or allotment in primary auction.

Regulations Relating to Deposits

The RBI has permitted banks to independently determine rates of interest offered on fixed deposits. However, banks are not permitted to pay interest on current account deposits.

From April 1, 2010, payment of interest on a savings account deposit is calculated on a daily product basis against the previous practice of interest being payable on the minimum balance held in the account during the period from the tenth day to the last calendar day of the month. With effect from October 25, 2011, the RBI permitted banks to offer varying rates of interest on savings deposits of resident Indians subject to the following conditions:

- each bank will have to offer a uniform interest rate on savings bank deposits up to Rs. 0.1 million, irrespective of the amount in the account within this limit. While calculating interest on such deposits, banks are required to apply the uniform rate set by them on end-of-day balance up to Rupees one lakh; and

- for any end-of-day savings bank deposits over Rs. 0.1 million a bank may provide differential rates of interest, if it so chooses, by ensuring that it does not discriminate in interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

Regulations relating to interest rates on Rupee deposits held in domestic, Ordinary Non-Resident ("NRO") and Non-Resident (External) ("NRE") accounts

With effect from December 16, 2011, the RBI also permitted banks the flexibility to offer varying rates of interest on NRE and NRO deposit accounts. Previously, banks were required to pay interest of 4% per annum on domestic savings deposits, rupee denominated NRE Accounts Scheme and NRO Scheme savings deposits. In respect of savings and time deposits accepted from employees, banks are permitted to pay an additional interest of 1% over the interest payable on deposits from the public. The RBI has prescribed minimum and maximum maturity thresholds for certain types of deposits.

As per the master circular on *"Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts"*, dated July 1, 2015, the RBI has permitted banks to independently determine their interest rates on savings and term deposits (minimum period of 7 days) under domestic/NRO accounts. Banks are also free to determine interest rates for savings deposits and term deposits of maturity of one year and above under NRE deposit accounts. However, interest rates offered by banks on NRO and NRE deposits cannot be higher than those offered by them on comparable domestic rupee deposits.

The RBI has permitted banks the flexibility to offer varying rates of interest on domestic time deposits of the same maturity based on the size of these deposits, subject to the following conditions:

- time deposits are of Rs.10.0 million (increased from Rs.1.5 million with effect from April 1, 2013) and above; and

- interest on deposits is paid in accordance with the schedule of interest rates disclosed in advance by the bank and not pursuant to negotiation between the depositor and the bank.

To achieve greater financial inclusion, banks have been advised by the RBI to offer a basic savings bank deposit account without any requirement of minimum balance and without carrying a charge for the stipulated basic minimum services that would make such accounts available as a normal banking service to all.

Foreign Currency Non-Resident (Bank) Accounts

As an accelerated measure to increase foreign currency flows into the country, the RBI had, in the second half of fiscal year 2014, permitted banks in India to raise foreign currency non-resident (bank) ("**FCNR(B)**") deposits within a specified time period and in-turn swap them into rupees with the RBI at concessional rates. These FCNR(B) deposits could be funded by (i) inward remittances received from outside of India through the normal banking channels; (ii) debiting non-resident bank accounts maintained with an authorized dealer in India; (iii) transferring funds from existing non-resident external accounts; or (iv) any other funds which were repatriable under the extant RBI regulations. The RBI permitted FCNR(B) deposit holders to avail credit facilities (both offshore and onshore) and offer their FCNR(B) deposits as collateral for such facilities.

On January 31, 2014, the RBI exempted the FCNR (B)/ NRE deposits raised by banks during a specified period from the legal reserve requirements. The RBI also permitted exclusion of loans made in India against these FCNR (B) /NRE deposits from the ANBC computation for priority sector lending targets.

Deposit insurance

Demand and time deposits of up to Rs.100,000 accepted by Indian banks (other than primary co-operative societies) have to be mandatorily insured with the Deposit Insurance and Credit Guarantee Corporation, a wholly-owned subsidiary of the RBI. Banks are required to pay the insurance premium for the eligible amount to the Deposit Insurance and Credit Guarantee Corporation on a half yearly basis. The cost of the insurance premium cannot be passed on to the customer.

Regulations relating to KYC and anti-money laundering

The RBI has issued several guidelines on customer identification and monitoring of transactions and banks have been advised to put in place systems and procedures to control financial frauds, identify money laundering and suspicious activities, and monitor high value cash transactions. The RBI has also issued guidelines from time to time advising banks to be vigilant while opening accounts for new customers to prevent misuse of the banking system for perpetration of frauds.

The RBI issued a master circular on July 1, 2015 consolidating the guidelines for KYC and anti-money laundering procedures. With effect from April 1, 2012, banks are not permitted to make payment of cheques/drafts/pay orders/banker's cheques bearing that date or any subsequent date, if they are presented beyond the period of three months from the date of such instrument. Further, banks are required to frame their KYC policies incorporating (i) customer acceptance policy, (ii) customer identification procedures, (iii) monitoring of transactions and (iv) risk management.

RBI requires that a profile of the customers should be prepared based on risk categorization and banks have been advised to undertake enhanced due diligence for high-risk customers. The guidelines provide that banks should undertake customer identification procedures while establishing a banking relationship or carrying out a financial transaction or when the bank has a doubt about the authenticity or the adequacy of the previously obtained customer identification data.

RBI requires banks to obtain sufficient information necessary to establish the identity of each new customer and the purpose of the intended banking relationship. The guidelines also provide that banks should monitor transactions depending on the account's risk sensitivity.

The KYC procedures for opening accounts have also been simplified for 'small accounts' in order to ensure that the implementation of the KYC guidelines do not result in the denial of the banking services to those who are financially or socially disadvantaged. A 'small account' is defined as a savings account in a banking company where (i) the aggregate of all credits in a financial year does not exceed Rs. 0.1 million; (ii) the aggregate of all withdrawals and transfers in a month does not exceed Rs. 0.01 million; and (iii) the balance at any point of time does not exceed Rs. 0.05 million.

Prevention of Money Laundering Act, 2002

In order to prevent money laundering activities the Prevention of Money Laundering Act, 2002 ("**PMLA**") was enacted by the Government. The PMLA seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in money laundering, and for incidental matters connected therewith. Section 12 of the PMLA casts certain obligations on, *inter alia*, banking companies in relation to preservation and reporting of customer account information. The RBI has advised all banks to go through the provisions of the PMLA and the rules notified thereunder and to take all steps considered necessary to ensure compliance with the requirements of section 12 of the PMLA.

The prevention of Money Laundering Rules, 2005 require every banking company, and financial institution, as the case may be, to identify the beneficial owner and take all reasonable steps to verify his identity. The term "beneficial owner" has been defined as the natural person who ultimately owns or controls a client and/or the person on whose behalf the transaction is being conducted, including a person who exercises ultimate effective control over a juridical person. The procedure for identification of the beneficial owner has been specified by the Government of India in the Prevention of Money Laundering Rules, 2005.

Regulations relating to maintenance of statutory reserves

Cash Reserve Ratio

The amendments made to the Reserve Bank of India Act, 1934 and the Banking Regulation Act during fiscal 2007 enhanced the operational flexibility in monetary management of the RBI. The RBI (Amendment) Act, 2006 came into force on April 1, 2007. Section 3 of this Act removed the floor and the ceiling rates on Cash Reserve Ratio ("**CRR**") and no interest was payable on the CRR balances of banks with effect from March 31, 2007. Scheduled commercial banks are exempted from maintaining CRR on the following liabilities:

(a) liabilities to the banking system in India as computed under clause (d) of the explanation to section 42(1) of the Reserve Bank of India Act, 1934;

(b) credit balances in Asian Clearing Union (US $) Accounts; and

(c) demand and time liabilities in respect of the banks Offshore Banking Units.

A bank is required to maintain, on a daily basis, CRR, which is a specified percentage of its DTL, excluding interbank deposits, by way of a balance in a current account with the RBI. At present the required CRR is 4%. The RBI does not pay any interest on CRR balances. The CRR has to be maintained on an average basis for a fortnightly period and should not be below 95% of the required CRR on any day of the fortnight. The RBI may impose penal interest at the rate of 3% above the bank rate on the amount by which the reserve falls short of the CRR required to be maintained on a particular day. If the shortfall continues further the penal interest charged shall be increased to a rate of 5% above the bank rate in respect of each subsequent day during which the default continues.

In addition to the CRR, a bank is required to maintain SLR, a specified percentage of its NDTL by way of liquid assets like cash, gold or approved unencumbered securities. The percentage of this liquidity ratio is fixed by the RBI from time to time, pursuant to Section 24 of the Banking Regulation Act. At present, the RBI requires banks to maintain SLR of 21.5%. Further, the RBI has permitted banks to avail funds from the RBI on an overnight basis, under the marginal standing facility, against their excess SLR holdings. Additionally, they can also avail themselves of funds, on an overnight basis below the stipulated SLR, up to 2% of their respective NDTL outstanding at the end of the second preceding fortnight.

Statutory Liquidity coverage ratio

In order to maintain liquidity in the banking system, banks are required to maintain a specified percentage of its net demand and time liabilities by way of liquid assets such as cash, gold or approved securities, such as Government of India and State Government Securities. The percentage of this ratio is fixed by the RBI from time to time and was at 23% as of March 31, 2014. With effect from June 14, 2014, the RBI reduced the statutory liquidity ratio from 23% to 22.5% and with effect from August 9, 2014 this was further reduced to 22%. The RBI, vide its press release dated February 3, 2015 reduced the Statutory Liquidity Ratio to 21.5% effective fortnight beginning February 7, 2015. The RBI master circular on the Statutory Liquidity Ratio specifies certain liabilities which will not be included in the calculation of the Statutory Liquidity Ratio.

Regulations on Asset Liability Management

Since 1999, the RBI has issued several guidelines relating to Asset-Liability Management ("**ALM**") in banks in India. The RBI guidelines cover, inter alia, the interest rate risk and liquidity risk measurement and reporting framework, including establishing prudential limits. The guidelines require that gap statements for liquidity and interest rate risk are prepared by scheduling all assets and liabilities according to the stated and anticipated repricing date or maturity date. The RBI has advised banks to actively monitor the difference in the amount of assets and liabilities maturing or being re-priced in a particular period and place internal prudential limits on the gaps in each time period, as a risk control mechanism. Additionally, the RBI has advised banks to manage their asset-liability liquidity structure within negative gap limits for 1 day, 2-7 days, 8-14 days and 15-28 days set at 5%, 10%, 15% and 20% of the cumulative cash outflows in the respective time buckets in order to recognize the cumulative impact on liquidity. In respect of other time periods, the RBI has directed banks to lay down internal standards in respect of liquidity gaps. In order to recognize the cumulative impact on liquidity, banks are also advised to prepare the statement of structural liquidity on a daily basis and also undertake dynamic liquidity management. Banks are required to submit the liquidity statements periodically to RBI, as specified in these guidelines.

RBI's "Guidelines on Banks' Asset Liability Management Framework—Interest Rate Risk" issued in November 4, 2010, mandate banks in India to evaluate interest rate risk using both methods i.e. Traditional Gap Analysis ("**TGA**") and Duration Gap Analysis ("**DGA**"). Banks are required to submit the TGA and DGA results from time to time to the RBI as mentioned in the guidelines.

Further, RBI guidelines on Stress Testing issued in 2007 has reinforced stress testing as an integral part of a bank's risk management process, and the results are used to evaluate the potential vulnerability to some unlikely but plausible events or movements in financial variables that affect both interest rate risk and liquidity risk in the bank. In December 2, 2013, the RBI specified the minimum level of stress testing to be carried out by all banks. In November 7, 2012, the RBI issued enhanced guidelines on liquidity risk management by banks. These guidelines consolidate various instructions on liquidity risk management that the RBI had issued from time to time, and where appropriate, harmonize and enhance these instructions in line with the principles for sound liquidity risk management and supervision issued by BCBS.

The RBI's guidelines require banks to establish a sound process for identifying, measuring, monitoring and controlling liquidity risk, including a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate time horizon. The key items covered under these guidelines include: i) governance of liquidity risk management including liquidity risk management policy, strategies and practices and liquidity risk tolerance; ii) management of liquidity risk, including identification, measurement and monitoring of liquidity risk; iii) collateral position management; iv) intra-day liquidity position management; and v) stress testing.

On June 9, 2014, the RBI issued guidelines in relation to liquidity coverage ratio ("**LCR**"), liquidity risk monitoring tools and LCR disclosure standards pursuant to the publication of the 'Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools' in January 2013 and the 'Liquidity Coverage Ratio Disclosure Standards' in January 2014 by the BCBS.

The Basel III Framework on Liquidity Standards introduced two liquidity ratios i.e. Liquidity Coverage Ratio ("**LCR**") and Net Stable Funding Ratio as well as liquidity risk monitoring tools. In this regard, the RBI issued draft guidelines on February 21, 2012, which provided enhanced guidance on liquidity, risk governance, measurement, monitoring and reporting to the RBI on liquidity positions. The guidelines stipulate that banks are to ensure a LCR of 60% for the calendar year 2015 with effect from January 1, 2015 and will be expected to transition to a LCR of 100% in January 2019.

Regulations relating to authorised dealers for foreign exchange and cross-border business transactions

The foreign exchange and cross border transactions undertaken by banks are subject to the provisions of the Foreign Exchange Management Act. All branches should monitor all non-resident accounts to prevent money laundering.

The RBI master circular on "External Commercial Borrowings and Trade Credits", dated July 1, 2015, states that no financial intermediary, including banks, will be permitted to raise external commercial borrowings or provide guarantees in favour of overseas lenders for external commercial borrowings.

The RBI master circular on "Risk Management and Interbank Dealings", dated July 1, 2015, states that all categories of overseas foreign currency borrowings of banks, including existing external commercial borrowings and loans or overdrafts from their head office, overseas branches and correspondents and overdrafts in nostro accounts (not adjusted within five days), shall not exceed 100% of their unimpaired Tier I capital or USD $ 10 million (or its equivalent), whichever is higher. Overseas borrowings for the purpose of financing export credit, subordinated debt placed by head offices of foreign banks with their branches in

India as Tier II capital, capital funds raised/ augmented by the issue of innovative perpetual debt instruments and any other overseas borrowings with the specific approval of the RBI would continue to be outside the limit of 100%.

Capital and provisioning requirements for exposures to entities with unhedged foreign currency exposure

RBI issued a circular relating to "Capital and Provisioning Requirements for Exposures to entities with Unhedged Foreign Currency Exposure" on January 15, 2014. Pursuant to these guidelines, RBI has introduced incremental provisioning and capital requirements for bank exposures to entities with unhedged foreign currency exposures. The circular also lays down the method of calculating the incremental provisioning and capital requirements. The banks will be required to calculate the incremental provisioning and capital requirements at least on a quarterly basis. This framework became fully effective from April 1, 2014.

Banking Regulation Act - Special Provisions

Reserve Fund

RBI requires the banks to create a reserve fund to which it must transfer not less than 25% of the net profit before appropriations. If there is an appropriation from this account, the bank is required to report the same to the RBI within 21 days, explaining the circumstances leading to such appropriation.

Certain amendments also permit the RBI to establish a 'Depositor Education and Awareness Fund', which will take over the bank's deposit accounts that have not been claimed or operated for a period of 10 years or more.

Declaration of dividend by banks

The payment of dividends by banks is subject to restrictions under the Banking Regulation Act. Section 15(1) of the Banking Regulation Act states that no banking company may pay any dividend on its shares until all its capitalised expenses (including preliminary expenses, organisation expenses, share-selling commissions, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off. However, the Government may exempt banks from this provision by issuing a notification on the recommendation of the RBI. Further, on May 4, 2005, the RBI issued guidelines on "Declaration of Dividends by Banks", which prescribed certain conditions for declaration of dividends by banks.

Banks that comply with the following prudential requirements are eligible to declare dividends:

- capital adequacy ratio must be at least 9% for the preceding two completed years and the accounting year for which the bank proposes to declare a dividend;

- net non-performing assets must be less than 7% of advances. In the event a bank does not meet the above capital adequacy norm, but has capital adequacy of at least 9% for the fiscal year for which it proposes to declare a dividend it would be eligible to declare a dividend if its net non-performing asset ratio is less than 5%;

- the bank has complied with the provisions of Sections 15 and 17 of the Banking Regulation Act;

- the bank has complied with the prevailing regulations/guidelines issued by the RBI, including creating adequate provisions for the impairment of assets and staff retirement benefits and the transfer of profits to statutory reserves;

- dividends should be payable out of the current year's profits; and

- the RBI has not placed any explicit restrictions on the bank for declarations of dividends. Banks which comply with the above prudential requirements can pay dividends subject to compliance with the following conditions:

  - the dividend payout ratio (calculated as a percentage of "dividends payable in a year" (excluding dividend tax) to "net profit during the year") should not exceed 40%. The RBI has prescribed a matrix of criteria linked to the capital adequacy ratio and the net non-performing assets ratio in order to ascertain the maximum permissible range of the dividend payout ratio; and

  - if the financial statements for which the dividend is declared have any audit qualifications which have an adverse bearing on the profits, the same should be adjusted while calculating the dividend payout ratio.

In case the profit for the relevant periods includes any extra-ordinary profits/income, the payout ratio shall be computed after excluding such extra-ordinary items for compliance with the prudential payout ratio.

Restriction on Share Capital & Voting Rights

Banks were earlier permitted to issue only ordinary shares. Pursuant to the amendment of the Banking Regulation Act in 2013, private sector banks were permitted to, *inter alia,* issue perpetual, redeemable or non-redeemable preference shares in addition to ordinary equity shares, subject to guidelines framed by the RBI. The amended Banking Regulation Act does not permit a shareholder in a bank to exercise voting rights on poll in excess of 10% of total voting rights of all the shareholders of the bank. However, the RBI may increase this ceiling to 26% in a phased manner.

Restriction on Transfer of Shares

The Banking Regulation Act, as amended, requires any person to seek prior approval of the RBI, to acquire or agree to acquire, directly or indirectly, shares or voting rights of a bank, by himself or with persons acting in concert, wherein such acquisition (taken together with shares or voting rights held by him or his relative or associate enterprise or persons acting in concert with him) results in aggregate shareholding of such person to be 5% or more of the paid up capital of a bank or entitles him to exercise 5% or more of the voting rights in a bank.

Further, the RBI may, by passing an order, restrict any person holding more than 5% of the total voting rights of all the shareholders of the banking company from exercising voting rights on poll in excess of the said 5%, if such person is deemed to be not fit and proper by the RBI.

Regulatory reporting and examination procedures

The RBI is empowered under the Banking Regulation Act to inspect a bank. The RBI monitors prudential parameters at regular intervals. To this end and to enable off-site monitoring and surveillance by the RBI, banks are required to report to the RBI on various aspects. The RBI conducts periodical on-site inspections on matters relating to the bank's portfolio, risk management systems, internal controls, credit allocation and regulatory compliance, at regular intervals. Further, the RBI also conducts on-site supervision of selected branches with respect to their general operations and foreign exchange related transactions.

Maintenance of records

The Banking Regulation Act specifically requires banks to maintain books and records in a particular manner and file the same with the Registrar of Companies on a periodic basis. The provisions for production of documents and availability of records for inspection by shareholders as stipulated under the Companies Act and the rules thereunder would apply to our Bank as in the case of any company. The master circular on "Know Your Customer ("**KYC**") norms/ Anti-Money Laundering ("**AML**") Standards/ Combating of Financing of Terrorism ("**CFT**")/ Obligation of banks under PMLA, 2002" issued by the RBI on July 1, 2015 also provides for transactional and identification records to be maintained for a minimum period of ten years from date of transaction and ten years from the cessation of relationship with the client respectively.

Secrecy obligations

A bank's obligations relating to maintaining secrecy arise out of common law principles governing its relationship with its customers. Subject to certain exceptions, a bank cannot disclose any information to third parties. Further, the RBI may, in the interest of the public, publish the information obtained from the bank.

Subsidiaries and Other Investments

Certain activities with subsidiaries such as lending funds, dealing in securities at rates other than market rates, giving special consideration for securities transactions, overindulgence in supporting or financing subsidiaries and financing its clients through them when it itself is not able or not permitted to do so are prohibited by the RBI.

A bank's investment in its subsidiaries, financial services companies or financial institutions should not exceed 10% of its paid-up capital and reserves. Investments by banks in companies which are not its subsidiaries and are not financial services companies would be subject to a limit of 10% of the investee company's paid up share capital or 10% of the bank's paid up share capital and reserves, whichever is less. Any investment above this limit will be subject to the RBI approval except as provided otherwise.

Equity investments in any non-financial services company held by (a) a bank; (b) bank's subsidiaries, associates or joint ventures or entities directly or indirectly controlled by the bank; and (c) mutual funds managed by Asset Management Companies ("**AMCs**") controlled by the bank should in the aggregate not exceed 20% of the investee company's paid up share capital. Further, a bank's equity investments in subsidiaries and other entities that are engaged in financial services activities together with equity investments in entities engaged in non-financial services activities should not exceed 20% of the bank's paid-up share capital and reserves.

Guidelines for merger and amalgamation of private sector banks

The RBI issued the "Guidelines on Mergers and Amalgamation of Private Sector Banks" on May 11, 2005. The guidelines relate to: (i) an amalgamation of two banking companies; and (ii) an amalgamation of a NBFC with a banking company. In the case of an amalgamation of two banking companies, the draft scheme of amalgamation must be approved by the board and majority of the shareholders of each of the banking companies. Additionally, such approved draft scheme must also be submitted to the RBI for sanction.

Where a NBFC is proposed to be amalgamated into a banking company, the banking company should obtain the approval of the board and the RBI before it is submitted to the relevant high court for approval.

Regulations Relating to appointment and remuneration of Chairman, the Managing Director and Other Directors

The appointment, re-appointment, or termination of the appointment of a chairman, managing director or whole-time director, chief executive officer of a bank shall have effect only if it made with the previous approval of the RBI. Further, no amendment in relation to the remuneration of the chairman, managing director, whole-time director or any other director, chief executive officer shall have effect unless approved by the RBI. RBI is also empowered to remove a chairman, managing director and whole-time directors from office on the grounds of public interest, interest of depositors, securing the proper management. Moreover, RBI may order meetings of the board of directors to discuss any matter in relation to the bank, appoint observers to such meetings, make such changes to the management as it may deem necessary, and may also order the convening of a general meeting of the bank's shareholders to elect new directors.

The amendments of the Banking Regulation Act confer power on the RBI (in consultation with the central government) to supersede the board of directors of a banking company for a period not exceeding a total period of 12 months, in public interest or for preventing the affairs of the bank from being conducted in a manner detrimental to the interest of the depositors or any banking company or for securing the proper management of any banking company.

On January13, 2012, the RBI issued revised guidelines relating to salary and other remuneration payable to whole time directors, chief executive officers and other risk takers of new private sector banks. Banks are required to formulate and adopt a comprehensive compensation policy in line with the guidelines covering all their employees and conduct an annual review thereof. The policy should also cover all aspects of the compensation structure including fixed pay, perquisites, bonus, variable pay deferrals, guaranteed pay, severance package, stock, pension plan and gratuity. The guidelines which became effective from the fiscal year 2012-13, also require private sector banks to obtain RBI's approval for grant of remuneration to whole time directors/chief executive officers in terms of Section 35B of the Banking Regulation Act, on a case-to-case basis.

Foreign ownership restrictions

The total foreign ownership in an Indian private sector bank cannot exceed 74% (49% under the automatic route and beyond 49% and up to 74% under the approval route) of the paid-up capital subject to guidelines for setting up branches or subsidiaries of foreign banks issued by the RBI. Shares held by FIIs/ FPIs cannot exceed 24% of the paid-up capital of a bank unless approved by the board of directors as well as the bank's shareholders by way of a special resolution. However, FIIs/ FPIs cannot hold more than 49% of the paid-up capital of a bank for the first five years from the date of licensing of the bank. Similarly, the aggregate shareholding of NRIs cannot exceed 10% of the paid-up capital of a bank unless approved by the board of directors and by a special resolution of the shareholders. IDFC Bank is governed by the foreign shareholding provisions laid down in the RBI New Banking Guidelines.

The aggregate non-resident shareholding from FDI, NRIs and FIIs in the new private sector bank shall not exceed 49 per cent of the paid-up voting equity capital for first 5 years from the date of licensing of the bank. No non-resident shareholder, directly or indirectly, individually or in groups, or through subsidiary, associate or joint venture will be permitted to hold 5 per cent or more of the paid-up voting equity capital of the bank for a period of 5 years from the date of commencement of business of the bank.

Investments in Indian companies can be made both by non-resident and resident Indian entities. While investment by a non-resident entity in an Indian company is considered a foreign investment, investment by resident Indian entities could also comprise a non-resident investment. If the Indian investing company is 'owned' or 'controlled' by non-resident entities, investments made by such an investing company into an Indian company may also be considered as a foreign investment.

Moratorium, reconstruction and amalgamation of banks

A high court may, upon the application by a banking company which is temporarily unable to meet its obligations, make an order staying the commencement or continuance of all actions and proceedings against a bank for a fixed period of time on such terms and conditions as it shall think fit and proper, and may from time to time extend it for a total moratorium period not exceeding six months. The said application is required to be accompanied by a report by the RBI that, in its opinion, the said banking company will be able to pay its debts if the application is granted. Further, the RBI may also make an application to the central government for an order of moratorium. During the said moratorium, the RBI may prepare a scheme for the reconstruction of a banking company or for the amalgamation of the banking company with any other banking institution if it is satisfied that it is necessary: a) in public interest, b) in interests of depositors, c) to secure the proper management of the banking company, d) in interests of the banking system of the country as a whole. The RBI may make modifications to the draft scheme pursuant to receipt of suggestions and objections from the banking company, the transferee bank or any other banking company concerned in the amalgamation, and from any members, depositors or other creditors of each of the banks concerned. The central government may sanction the scheme with or without such modifications.

The Recovery of Debts Due to Banks and Financial Institutions Act, 1993 ("RDDBFI Act")

The RDDBFI Act was enacted for adjudication of disputes pertaining to debts due to banks and financial institutions exceeding Rs.10 million. The RDDBFI Act provides for the constitution of debt recovery tribunals, before which banks and financial institutions may file applications for recovery of debts. Further, no court or other authority, except the Supreme Court or a High Court exercising jurisdiction under Articles 226 and 227 of the Constitution of India, shall have, or is entitled to exercise, any jurisdiction, powers or authority in relation to the aforementioned matter. The tribunals may pass orders for directions including *inter- alia* recovery of such dues by the bank as may be deemed fit along with a recovery certificate to such effect from the presiding officer of the respective tribunal; attachment of the secured properties towards the dues to the bank: injunctive orders restraining the debtors from alienating, transferring or disposing of such secured properties; appointment of receivers and/or local commissioners with respect to such secured properties and distribution of proceeds from sale of such secured properties towards dues. Pursuant to the recovery certificate being issued, the recovery officer of the respective debt recovery tribunal shall effectuate the final orders of the debt recovery tribunal in the application. Unless such final orders of the debt recovery tribunal have been passed with the consent of the parties to an application, an appeal may be filed against such final orders of the debt recovery tribunal before the debt recovery appellate tribunal, which is the appellate authority constituted under the RDDBFI Act.

Classification and Reporting of Fraud Cases

The RBI issued a master circular on July 1, 2015 in relation to the classification and reporting of fraud cases. The circular classifies fraud cases into: (i) misappropriation and criminal breach of trust; (ii) fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property; (iii) unauthorized credit facilities extended for reward or for illegal gratification; (iv) negligence and cash shortages; (v) cheating and forgery; (vi) irregularities in foreign exchange transactions and; (vii) any other type of fraud not coming under the specific heads as above.

Information relating to frauds for the quarters ending June, September and December may be placed before the audit committee of the board of directors during the month following the quarter to which it pertains, irrespective of whether or not these are required to be placed before the board/management committee in terms of the calendar of reviews prescribed by the RBI. Banks are also required to conduct an annual review of the frauds and place a note before the board of directors for information. The reviews for the year-ended March may be put up to the Board before the end of the next quarter i.e. for the quarter ended June 30 and such reviews need not be sent to RBI. These may be preserved for verification by the Reserve Bank's inspecting officers. Further, the circular requires all banks to constitute a special committee for monitoring and follow up of cases of frauds involving amounts of Rs.10 million and above exclusively, while the audit committee may continue to monitor all cases of fraud in general. The special committee is required to review such fraud cases as and when they come to light. The special committee in case of private sector banks should consist of two members of the audit committee of the board and two members from the Board excluding the RBI nominee.

Collateralised Borrowing and Lending Obligation

Collateralised Borrowing and Lending Obligation ("**CBLO**") is a money market instrument operated by the Clearing Corporation of India Limited ("**CCIL**"), for entities that either have no access to inter-bank call money market or have restricted access due to ceilings on call borrowing and lending transactions. By participating in the CBLO market, CCIL members can borrow or lend funds against the collateral of eligible securities. Eligible securities include central government securities including treasury bills, and such other securities as specified by CCIL from time to time. Borrowers under CBLO have to deposit the required amount of eligible securities with the CCIL based on which CCIL fixes the borrowing limits. CCIL matches the borrowing and lending orders submitted by the members and notifies them. While the securities held as collateral are in custody of the CCIL, the beneficial interest of the lender on the securities is recognized through proper documentation.

The Banking Ombudsman Scheme, 2006

The Banking Ombudsman Scheme, 2006 provides the extent and scope of the authority and functions of the Banking Ombudsman for redressal of grievances against deficiency in banking services, concerning loans and advances and other specified matters. On February 3, 2009, the said scheme was amended to provide for revised procedures for redressal of grievances by a complainant under the scheme.

Submission of credit information

According to the Credit Information (Companies) Regulation Act, 2005 ("**CICRA**"), a "credit institution" means a banking company and every credit institution shall become a member of at least one credit information company, which, may, by notice in writing, require its members to furnish such credit information as it may deem necessary. Further, RBI, through its notification dated January 15, 2015, has directed that: a) all credit institutions shall become members of all credit information companies and submit data, including historical data, to them, b) credit institutions shall keep the credit information collected/ maintained by them, updated regularly on a monthly basis or at such shorter intervals as may be mutually agreed upon between the credit institution and the credit information company under the CICRA. Other credit institutions, credit information companies and such other persons as the RBI specifies may access such disclosed credit information. Presently, four CICs, viz. Credit Information Bureau (India) Limited, Equifax Credit Information Services Private Limited, Experian Credit Information Company of India Private Limited and CRIF High Mark Credit Information Services Private Limited have been granted certificate of registration by the RBI.

HISTORY AND CERTAIN CORPORATE MATTERS

History

Our Bank was incorporated as a wholly owned subsidiary of IDFC on October 21, 2014 under the Companies Act, 2013 having its registered office at KRM Tower, 8th Floor, No.1 Harrington Road, Chetpet, Chennai - 600 031, after in-principle approval to set up a new bank in the private sector was granted to IDFC by the RBI on April 9, 2014. Subsequently, pursuant to the Scheme of Demerger we have issued equity shares and currently our Bank is a subsidiary of IDFC FHCL which holds 53% of our Banks' equity share capital.

Principal activities

Our Bank has been established as a public limited company to carry out the business of banking. We have started our banking operations from October 1, 2015 after receipt of final banking license from the RBI. Our Bank has three business verticals namely Commercial and Wholesale banking, Rural banking, Personal and Business banking. The majority of the branches will be in rural India and the quality of customer service and digital banking will be the primary focus of our Bank.

Our main objects

Our Bank is authorised to transact the business of banking under the Banking Regulation Act, 1949 and the RBI New Banking Guidelines, subject to the satisfaction of certain conditions prescribed by the RBI pursuant to the grant of in-principle approval and the obtaining of the final approval of the RBI for undertaking banking operations.

The main objects as set out in the Memorandum of Association of our Bank include, among others, to carry on the business of banking that is to say accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise and to establish and carry on the business of banking in any part of India or outside India.

Since our incorporation, there has been no change in our Memorandum of Association. For more information on our business and operations, see chapter "***Our Business***" and "***Financial Statements***" on page 98 and 209, respectively.

Holding, subsidiary, joint venture and associate companies:

On December 26, 2014, the entire equity stake of our Bank, held by IDFC, was transferred to IDFC FHCL, thereby making our Bank, a wholly owned subsidiary of IDFC FHCL. However, pursuant to the Scheme of Demerger, our Bank issued and allotted 1,594,020,668 shares to shareholders of IDFC, thereby reducing the shareholding of IDFC FHCL from 100% to 53.00%. As a result our Bank has ceased to be a wholly owned subsidiary of IDFC FHCL.

Change in the authorised share capital

Our Bank was incorporated with an authorised share capital of Rs. 50,000,000,000 (Rupees Five Thousand crore only) divided into 5,000,000,000 equity shares of Rs. 10 each.

For more information on our capital structure, see "***Capital Structure***" on page 50.

Shareholders agreement

There exists no separate agreement executed between any shareholder and our Bank.

Strategic/financial partners and other material contracts

Our Bank does not have any strategic/financial partners or has not entered any material contracts other than in ordinary course of business.

OUR MANAGEMENT

Management

The overall management is vested in the Board of Directors, comprised of qualified and experienced persons and the day-to-day business operations are managed by the managing director under the general superintendence and control of the Board of Directors.

Board of Directors as on date of this Information Memorandum.

As per the Articles of Association of our Bank, there should not be less than 3 directors and not more than 15 directors. The following table sets out the details regarding our Board of Directors as on October 1, 2015:

Name, age, designation, occupation, fathers name, address, Tenure, Nationality	Date of appointment	Other directorships
Mr. Anil Baijal(1) **Age:** 69 years **Designation:** Non-Executive Chairman **Occupation:** Retired **Fathers name:** Mr. Hukam Chand Baijal **Address:** E-524, 2nd Floor, Greater Kailash-II, New Delhi – 110048 **Tenure:** 2 years from December 9, 2014 **Nationality:** Indian	December 9, 2014	1. DHFL Pramerica Life Insurance Company Limited 2. IDFC Foundation 3. International Travel House Limited 4. ITC Limited 5. Terra Firma Designs Private Limited
Dr. Rajiv B. Lall(1) **Age:**58 years **Designation:** Managing Director and Chief Executive Officer **Occupation:** Service **Fathers name:** Mr. Kishen Behari Lall **Address:** Sanghi House, 94 Nepean Sea Road Mumbai – 400 006. **Tenure:** 3 years from October 1, 2015 **Nationality:** Indian	October 21, 2014	1. IDFC Foundation 2. Lok Social Services

Name, age, designation, occupation, fathers name, address, Tenure, Nationality	Date of appointment	Other directorships
Mr. Vinod Rai(1) **Age:** 67 years **Designation:** Nominee Director **Occupation:** Retired **Fathers name:** Mr. Bhola Nath Rai **Address:** 3, Palam Marg, 3rd Floor , Vasant Vihar, New Delhi – 110057 **Nationality:** Indian		1. IDFC Limited 2. IDFC Financial Holding Company Limited 3. Grassroot Trading Network for Women
Mr. Vikram Limaye(2) **Age:** 49 years **Designation:** Nominee Director **Occupation:** Service **Fathers name:** Mr. Mukund Shankar Limaye **Address:** 18, Shreenivas, Flat No. 501, 5th Floor, Shivaji Park, D.V. Deshpande Marg, Dadar (West), Mumbai - 400028, Maharashtra **Nationality:** Indian	October 21, 2014	1. IDFC Alternatives Limited 2. IDFC Asset Management Company Limited 3. IDFC Capital Singapore Pte Limited 4. IDFC Foundation 5. IDFC Infra Debt Fund Limited 6. IDFC Limited 7. IDFC Securities Limited 8. Eclerx Services Limited 9. Philips India Limited
Dr. Ashok Gulati(1) **Age:** 61 years **Designation:** Independent Director **Occupation:** Service **Fathers name:** Mr. Krishan Lal Gulati **Address:** I-14, Indraprastha Apartments, 114 I.P Extension, Patpar Ganj, New Delhi – 110092 **Tenure:** 3 years from July 27, 2015 **Nationality:** Indian	July 27, 2015	1. National Commodity and Derivatives Exchange Limited 2. IDFC Foundation

Name, age, designation, occupation, fathers name, address, Tenure, Nationality	Date of appointment	Other directorships
Mr. Abhijit Sen[(2)] **Age:** 64 years **Designation:** Independent Director **Occupation:** Service **Fathers name:** Mr. Mihir Sen **Address:** A 92, Grand Paradi, 572 Dady Seth Hill, August Kranti Marg, Mumbai – 400036 **Tenure:** 3 years from July 27, 2015 **Nationality:** Indian	July 27, 2015	1. Cashpor Micro Credit 2. Rabo India Finance Limited 3. Radaur Holdings Private Limited 4. Trent Limited 5. Ujjivan Financial Services Private Limited
Ms. Veena Mankar[(2)] **Age:** 62 years **Designation:** Independent Director **Occupation:** Retired **Fathers name:** Mr. Lajpatrai Gosain **Address:** 801, Park Heights,10th Road, Plot – E/656, Khar (West), Near Madhu Park, Mumbai - 400 052, Maharashtra, India **Tenure:** 3 years from July 27, 2015 **Nationality:** Indian	July 27, 2015	1. Liberty Videocon General Insurance Company Limited 2. R. A. Net (India) Private Limited 3. Swadhaar FinServe Private Limited 4. Swadhaar Information &Management Services Private Limited
Mr. Ajay Sondhi[(2)] **Age:** 55 years **Designation:** Independent Director **Occupation:** Service **Fathers name:** Mr. Vijay Sondhi **Address:** 8 Cuscaden Walk, # 24-02, Singapore - 249692 **Tenure:** 3 years from July 27, 2015 **Nationality:** Indian	July 27, 2015	1. Meeba Holdings Pte Ltd, Singapore 2. Sentinel Advisors Pte. Limited, Singapore 3. Maxx Medical Pte. Limited, Singapore 4. IDFC Securities Limited

[(1)] *Approval for appointment received vide RBI's letter dated September 24, 2015.*

[(2)] *Appointment subject to approval by RBI.*

Changes in directors since inception

During the period under review, Mr. Mahendra N. Shah (DIN - 00124629) resigned from the Board w.e.f. December 9, 2014.

The Board of Directors at its meeting held on December 9, 2014 appointed Mr. Mahendra N. Shah as Company Secretary and KMP of the Bank with effect from December 9, 2014.

Board meetings

During the period under review, 10 board meetings were held.

Brief profile of the directors

1. **Mr. Anil Baijal**

   Mr. Anil Baijal is the Non-Executive Chairman of our Bank. Mr. Anil Baijal joined the Indian Administrative Service in 1969. He retired from the service in October, 2006 as Secretary, Ministry of Urban Development, Government of India. While in that Ministry, he anchored the designing and roll-out of the flagship programme of Jawahar Lal Nehru National Urban Renewal Mission (JNNURM) with federal grant equivalent of about Rs. 60,000 crore, for improvement of infrastructure and provision of basic services in urban areas of India. In his long service career spanning over 38 years, Mr. Baijal held various important assignments like that of the Union Home Secretary, Chairman & Managing Director , Indian Airlines, Chief Executive Officer, Prasar Bharti Corporation (Broadcasting Corporation of India), Vice-Chairman, Delhi Development Authority, Development Commissioner, Goa and Counselor in-charge of Indian Aid Programme in Nepal.

2. **Dr. Rajiv B. Lall**

   Dr. Rajiv B. Lall is the Managing Director and Chief Executive Officer of our Bank. Dr. Rajiv B. Lall was the Executive Chairman of IDFC Limited until September 2015. He has about three decades of experience with leading global investment banks, multilateral agencies and in academia. His areas of expertise include project finance, private equity/venture capital, international capital markets, trade, infrastructure and macroeconomic policy issues with a focus on emerging markets including India and China in particular. He currently chairs the National Committee on Infrastructure Financing of CII (Confederation of Indian Industry) a leading business chamber in the country. He is a member of the Managing Committee of ASSOCHAM; the CII National Council on Financial Sector Development and the CII National Committee on Banking. Internationally, he is a member of the Advisory Board of Columbia Global Centers, South Asia, set up by the Columbia University, New York. He is also on the International Advisory Board of the Centre for the Advanced Study of India (CASI) at the University of Pennsylvania; and a member of the City of London's Advisory Council on India. He was the President of Bombay Chamber of Commerce and Industry and has chaired the Global Agenda Council on Infrastructure of the World Economic Forum. Dr. Lall was India's representative to the G20 Workgroup on Infrastructure and was also a member of the Planning Commission's Steering Committee on Urban Development Management; the Prime Minister's Committees on Infrastructure Finance and Transport Sector Development; Expert Group on Modernization of Indian Railways of Ministry of Railways Government of India; and the Reserve Bank of India's Committee on NBFCs. Dr. Lall has served on several other Government Committees including those focused on Urban Infrastructure, Bond Market Development and Financial Sector Reform.

Prior to joining IDFC, Dr. Lall was variously, a Partner with Warburg Pincus in New York; Head of Asian Economic Research with Morgan Stanley in Hong Kong; a senior staff member of the World Bank in Washington, D.C. and of the Asian Development Bank in Manila respectively; and faculty member of the Florida Atlantic University Department of Economics. He has a BA in Politics, Philosophy and Economics from Oxford University and a Ph.D. in Economics from Columbia University.

3. Mr. Vinod Rai

Mr. Vinod Rai is a Nominee Director of IDFC FHCL on our Bank. Mr. Vinod Rai is currently an Independent Director of IDFC Limited. He was the former Comptroller and Auditor General of India. Mr. Rai has wide experience of working in various capacities at both, the Central and State Governments. His previous position was as Secretary in the Ministry of Finance - GoI, where he was responsible for managing the Financial Services sector, including banks and insurance companies. He had been a Director on several Boards including the State Bank of India, ICICI Bank, IDBI Bank, Life Insurance Corporation of India etc. Mr. Rai was instrumental in setting up the India Infrastructure Finance Company Limited and was also on the Board of this company. Mr. Rai has also been the Principal Secretary (Finance) in the State Government of Kerala, apart from holding senior positions in the Ministries of Commerce and Defence, GoI. Mr. Vinod Rai has a Masters Degree in Economics from Delhi School of Economics, University of Delhi. He has a Masters Degree in Public Administration from Harvard University, USA.

4. Mr. Vikram Limaye

Mr. Vikram Limaye is a Nominee Director of IDFC Limited on our Bank. He completed his schooling from Bombay Scottish School in Mumbai, Bachelors in Commerce from HR College of Commerce & Economics, Chartered Accountancy and a MBA in Finance and Multinational Management from the Wharton School of the University of Pennsylvania, USA. Mr. Vikram Limaye is the Managing Director & CEO of IDFC Limited and has been instrumental in transforming the organization from a project finance and government advisory firm to a premier diversified financial services organization. He started his professional career with Arthur Andersen in Mumbai in 1987 while pursuing his Chartered Accountancy and worked in the audit and business advisory services groups of Arthur Andersen, Ernst & Young and the consumer banking group of Citibank. He has also worked with Credit Suisse First Boston in a variety of roles in investment banking, capital markets, structured finance and credit portfolio management before returning to Mumbai, India in 2004. He has contributed to various committees of government and industry associations on a range of topics surrounding infrastructure, economic policy, markets, trade, minority affairs etc. He has been a speaker at various domestic and international conferences and been part of international government delegations for infrastructure and foreign direct investments into India. He has been a speaker at business school conferences held by IIMs, ISB, Wharton, Harvard and Michigan. He is part of the Young Presidents Organization (YPO) and was awarded the Banking and Financial Services Industry Leader award by the Institute of Public Enterprises (IPE).

5. Dr. Ashok Gulati

Dr. Ashok Gulati is an Independent Director of our Bank. Dr. Ashok Gulati is currently Infosys Chair Professor for Agriculture at the Indian Council for Research on International Economic Relations (ICRIER), which he joined in March, 2014. During March 2011 – February 2014, he was Chairman of the Commission for Agricultural Costs and Prices (CACP), a body responsible for recommending Minimum Support Prices (MSPs) of 23 important agri-commodities to Government of India. Prior to this, Dr. Gulati was Director at the International Food Policy Research Institute (IFPRI) for more than 10 years. Before joining IFPRI, he also served as NABARD Chair Professor at the Institute of Economic Growth, and Chief Economist at the National Council of Applied Economic Research in India. He has his M.A. and Ph.D in Economics from the Delhi School of Economics (India). Dr. Gulati has been involved in agri-policy analysis and advice in India. He has been a member of the Prime Minister's Economic Advisory Council; a member of the State Planning Board of Karnataka; and a member of the Economic Advisory Committee of the Chief Minister of Andhra Pradesh; and a member of several expert Committees from time to time. He has been recently awarded Padma Shri by the Government.

6. Mr. Abhijit Sen

Mr. Abhijit Sen is an Independent Director of our Bank. Mr. Abhijit Sen recently retired from Citi India after serving as the Chief Financial Officer - India Subcontinent for over 18 years. In this role he was responsible for the Finance function in India, Bangladesh and Sri Lanka for the entire Citi franchise including Controllership, Corporate Treasury, Financial Planning, Product Control and Tax. He was also, responsible for interface with external rating agencies, banks and investors to broad-base funding of non-bank vehicles. In addition to his role as the chief financial officer, Mr. Sen was Chairman of Citicorp Services India Limited which provides a variety of services in the analytics, financial modeling and planning, processing and technology space engaging over 3000 professionals serving a variety of Citi businesses overseas. As Chairman of the Board, he was responsible for providing governance oversight and ensuring performance of service delivery, while protecting regulatory standards. Mr. Sen holds an Honours degree in Engineering from IIT, Kharagpur and an MBA from IIM-Calcutta.

7. Ms. Veena Mankar

Ms. Veena Mankar is an Independent Director of our Bank. Ms. Veena Mankar is a banking and financial services professional with expertise in trade and structured finance, financing for MSMEs and microfinance. She has over 35 years of experience in financial services with banks and financial institutions and as a strategic consultant. She is the founder of three entities under the Swadhaar brand, set up with the objective of promoting financial inclusion, including a non-profit that provides financial literacy training. She started her career in 1975 with ICICI, the development finance institution in India, and precursor of the present day ICICI Bank, which was followed by commercial banking experience in Dubai. She set up and headed the Indian Representative Office of West LB, a German state-owned bank and thereafter was the founding MD of a Factoring Non-Banking Financial Company, a joint venture of the same Bank with two other financial institutions (including IFC, Washington). She later advised FIM Bank, Malta on their global factoring strategy and assisted in setting up specialized joint ventures in Dubai and Egypt, where she also served as FIM Bank's nominee Director on the Boards of these joint ventures companies. In the past, she has been on the Governing Board of Sa-Dhan, the Association of Microfinance & Community Development Institutions in India. She has a B.A. (Hons.) in Economics from Lady Shree Ram College, Delhi and a post-graduation in Business Administration from the Indian Institute of Management, Ahmedabad.

8. Mr. Ajay Sondhi

Mr. Ajay Sondhi is an Independent Director of our Bank. He is based in Singapore and is the Founder and CEO of Sentinel Advisors Pte Ltd, a boutique business and strategy advisory services firm focusing on India, ASEAN and North Asia markets, with particular sector focus on Financial Services, Health Sciences and Real Estate. Mr. Sondhi has had an over 33-year career in wholesale, investment and private banking in India and overseas.

Mr. Sondhi was the Regional Head for Private Wealth Management at Goldman Sachs Singapore from 2008 till taking early retirement in mid-2014. Prior to that he was head of Global India markets for Citi Private Bank based in Singapore from 2005 to 2008. Mr. Sondhi has previously been Vice Chairman and MD of Kotak Mahindra Capital Company and a Board member of Kotak Mahindra Bank, India; MD and Country Head for UBS AG, India; Group CEO for Barclays Bank/BZW, India; and Director & Head – South Asia for Salomon Brothers, Hong Kong. Mr. Sondhi started his career with Citibank in India, and held various positions in corporate banking culminating in becoming Country Corporate Bank and Corporate Finance Head before he left in 1993.

Mr. Sondhi is a member of the Board of Advisors of Tufts University School of Medicine, Boston, USA; a Board Committee member of SPD, a voluntary welfare organisation serving the disabled in Singapore; and a Director of Maxx Medical Pte, a medical devices company headquartered in Singapore. Mr. Sondhi holds a Master in Management Studies degree from Jamnalal Bajaj Institute of Management Studies, Mumbai, and is a graduate of St. Stephens College, Delhi University.

Any relationship between directors

None of the Directors are related to each other.

Shareholding of directors as on October 9, 2015 (date of allotment of shares)

(a) Dr. Rajiv B. Lall - 11,98,984 equity shares
(b) Mr. Vikram Limaye – 2,043,728 equity shares

Key managerial personnel

Name of the Person	Position of the KMP
Dr. Rajiv B. Lall	Managing Director and Chief Executive Officer
Mr. Sunil Kakar	Chief Financial Officer
Mr. Mahendra N. Shah	Company Secretary & Chief Compliance Officer
Mr. Avtar Monga	Chief Operating Officer
Mr. Ajay Mahajan	Head – Commercial & Wholesale Banking
Mr. Animesh Kumar	Head – HR, Brand & Foundation
Mr. Naval Bir Kumar	Head – Personal & Business Banking
Mr. Pavan Kaushal	Chief Risk Officer
Dr. Rajeev Uberoi	General Counsel and Head – Audit and Controls
Mr. Ravi Shankar	Head – Bharat Banking

1. Mr. Sunil Kakar

Mr. Sunil Kakar is the Chief Financial Officer of IDFC Bank Limited. He was the Group Chief Financial Officer at IDFC and was named in this position in 2011. In this role, he is responsible for Finance & Accounts, Business Planning and Budgeting, Investor Relations, Resource Raising and IT. Prior to joining IDFC, Mr. Kakar worked with Max New York Life Insurance Company since 2001, as CFO. He led numerous initiatives including Planning, Investments / Treasury, Finance and Accounting, Budgeting and MIS, Regulatory Reporting and Taxation. As part of the start-up team in Max New York Life, Mr. Kakar was part of the core group responsible for the successful development of the insurance business. In his previous assignment, he worked with Bank of America for 18 years in various roles, covering Business Planning & Financial Control, Branch Administration and Operations, Market Risk

Management, Project Management and Internal Controls. As a CFO from 1996 to 2001, Mr. Kakar spearheaded the Finance function at Bank of America. Mr. Kakar holds an MBA in Finance from XLRI and a degree in engineering from IIT Kanpur.

2. Mr. Avtar Monga

Mr. Avtar Monga is the Chief Operating Officer of IDFC Bank Limited. He has over 32 years of experience in working with Banking and Financial Industry. Prior to joining IDFC, Mr. Monga served with Bank of America as Managing Director Global Delivery Centers of Expertise (GDCE) globally. He was responsible for providing services across Operations, Technology, Data Centre Management, Finance and Accounting, Analytics, Operational Risk and HR across multiple lines of businesses and geographies. He established Bank's Captives known as BA Continuum across India and led the expansion into Costa Rica, Mexico and the Philippines as well as managed Six Sigma learning organisation for Bank of America. In addition to leading a large employee base across locations, he was also responsible for managing strategic partner relationships on behalf of the bank for delivery of Technology and Operations. Prior to re-joining Bank of America in 2003, he worked with GE Capital for 5 years. Mr. Monga was part of management team to establish their credit card joint venture with State Bank which went on to become the fastest growing Visa business across Asia. He later also served as Chief Executive Officer for GE Capital Business Process Management Ltd. He also served as Chief Executive Officer of GE Capital Transport Financial services and was responsible for its turnaround.

3. Mr. Ajay Mahajan

Mr. Ajay Mahajan is the Head of Commercial & Wholesale Banking. He has over 25 years of experience in the banking industry and has now been with IDFC for two years Mr. Mahajan started his career with Bank of America in 1990, where he last served as Managing Director & Country Treasurer responsible for all financial markets, balance sheet management and capital markets businesses. After 14 years with Bank of America, he joined the founding team of YES BANK, a greenfield bank, serving as Group President of Financial Markets, Institutions and Investment Management. This was a very entrepreneurial role as it involved setting up various functions in the Bank from scratch. In 2008, Mr. Mahajan joined UBS to build their banking franchise in India when they got licensed by RBI to commence banking operations in India. This was an equally entrepreneurial role building a foreign bank’s capabilities, processes and clients business in the country and leading the team as the Managing Director.

Thereafter, Mr. Mahajan stepped away from formal employment to set up his entrepreneurial ventures. He was Managing Partner and Co-Founder of R-Square Advisors, an investment management and market risk advisory firm, where he provided quant-oriented risk management, fixed income and credit modelling solutions to clients. Earlier he also founded FICC Capital, with the objective of building a structured credit business. Mr. Mahajan has served as a Director on the Board of Fixed Income, Money Markets and Derivatives Association of India (FIMMDA), promoted by banks and financial institutions to facilitate the development of securities and derivatives markets in India. He has a Masters from Faculty of Management Studies and has B.E. (Hons) in Electrical and Electronics Engineering from BITS Pilani and CFA from the CFA institute, USA.

4. Mr. Animesh Kumar

Mr. Animesh Kumar leads the Human Resources, Brand and the Community Engagement agenda for Bank. He is also the CEO - IDFC Foundation.

As the HR Head for the bank, Animesh leads the effort of building an organization that is predicated on its purpose and DNA of serving the nation and driving all aspects of internal service delivery, reinforcing IDFC's position as an employer of repute and stability. Animesh's key focus is to create and nourish a culture that is not only aligned with the organization's core values but is also able to create an enabling environment that brings to life the philosophy of "un-bank". As the Head of Brand, Animesh drives the organization's Marketing, Communication and Public Relations agenda. He is responsible for building the reputation of IDFC Bank across all channels including social media across the varied stakeholder groups. As the CEO of IDFC Foundation, Animesh is responsible for facilitating the Foundation's evolution into a community engagement focused "think and do tank" that works specifically in the areas of Health and Education. His keen interest in the areas of urbanization and social infrastructure serve to further fuel the Foundation's engagements with civil society organizations, academia and government, driving the Foundation's mandate of catalyzing change in local communities.

Animesh has over two decades of experience in leadership roles in Human Resources across Banking and FMCG sectors. Prior to joining IDFC, Animesh was a part of the HR leadership team at ABN AMRO / Royal Bank of Scotland Group. Previously, he has also held positions with Marico Industries, Thomas Cook, Standard Chartered Bank and YES Bank. Animesh holds a Post Graduate Diploma in Human Resources from XLRI, Jamshedpur, India and is an Economics graduate from Shri Ram College of Commerce, Delhi.

5. Mr. Naval Bir Kumar

Mr. Naval Bir Kumar is Head – Personal and Business Banking. He is in addition the Vice Chairman of IDFC Asset Management Company Limited. He was responsible for establishing the Mutual Fund business for ANZ Grindlays in India and has led the company since its inception. The Company was subsequently acquired by Standard Chartered in July 2000 and by IDFC in May 2008. Mr. Kumar joined ANZ Grindlays Bank in August, 1990 and held a number of senior positions in the Merchant Banking Department and in the ANZ Investment Bank. He was Head of the West India Merchant Banking Division and later designated as Director and Head - Capital Markets in ANZ Investment Bank.

Prior to joining ANZ Grindlays Bank, he worked as a Brand Manager with Colgate Palmolive for a year and a half. Mr. Kumar holds a Management degree from IIM Calcutta and is a Mathematics graduate from Bombay University.

6. Mr. Pavan Kaushal

Mr. Pavan Pal Kaushal is the Chief Risk Officer of IDFC Bank Limited. He is a career banker with about three decades of experience with leading global banks and in consulting. His areas of expertise include Corporate, Retail and Commercial Credit Risk management, Operations Risk, Market Risk and Treasury. Mr. Kaushal has extensive experience across emerging markets and developed markets having worked in multiple markets covering, Australia, Central and Eastern Europe, United Kingdom, Russia, Asia and India.

Prior to joining IDFC, Mr. Kaushal was variously, a Partner with Ernst & Young in India responsible for leading the Financial Services Risk Management Practice; Chief Risk Officer at ANZ Bank in India; Head of Commercial Credit Risk Asia Pacific with ANZ Bank in Hong Kong, Senior Credit Officer – EMEA Global Consumer Bank with Citibank in London; Head of Commercial Risk - Citibank in Poland and India; and worked in several senior leadership roles both in the Global Corporate & Investment Bank & Global Consumer Bank at Citibank. Mr. Kaushal holds a Masters in Finance from Jamnalal Bajaj Institute of Management Studies & is A.C.A. from the Indian Institute of Chartered Accountants.

7. Dr. Rajeev Uberoi

Dr. Rajeev Uberoi is the General Counsel and Head – Audit and Controls of IDFC Bank Limited. He joined IDFC as General Counsel and Group Head-Legal and Compliance in 2009. Prior to joining IDFC Limited, Dr. Uberoi worked with Standard Chartered Bank where he was Regional Head - Operational Risk & Assurance, South Asia. In his previous experiences, he has worked with several domestic and multinational banks such as Union Bank of India, State Bank of India, Reserve Bank of India as Asst. General Manager, Dept. of Banking Supervision, Citibank as Vice President & Regulatory Head; ANZ Grindlays Bank as Head - Risk Management & Compliance - India. Given his rich banking experience spanning more than 30 years, he has been a witness to the evolution and liberalization of the banking and finance sector in India, which has equipped him with a deep understanding of the various facets of the dynamic sector. Dr. Uberoi is a lawyer and a Canadian Commonwealth Scholar with a Masters from McMaster University and a Ph.D. in Economics. He also possesses an MBA degree from MDI, Gurgaon.

8. Mr. Ravi Shankar

Mr. Ravi Shankar is the Head of Rural (Bharat) Banking of IDFC Bank Limited. He has over 25 years of experience across sectors including retail finance, business consulting, advertising, automotive, aviation etc. Prior to joining IDFC, Ravi was Head of Business & Marketing at Fullerton India Credit Co. Ltd. In this role, he was responsible for both urban and rural businesses along with Marketing, Corporate Communications and CSR. At Fullerton India, he helped build a profitable and robust rural finance network of over 200 branches across India, called "Gramshakti". He was also responsible for conceptualizing and implementing the marketing and communication initiatives for the company.

Prior to Fullerton, he worked with TNS India Pvt. Ltd. as Senior Vice President & Head - Stakeholder Management Research and Strategic Consulting for clients across B2B, automotive, finance & technology sectors. Prior to joining TNS India, Ravi worked with organizations like Publicis India Communications Pvt. Ltd., ModiLuft Ltd., Maadhyam Advertising Pvt. Ltd. and the Eicher Group. He began his corporate career with Living Media India Ltd. Mr. Shankar holds a Bachelor’s degree in Economics & a Post Graduate Diploma in Management.

Shareholding of key managerial personnel

Sr. No	Name of key managerial personnel	Number of shares held	% age of shareholding
1.	Dr. Rajiv B. Lall	11,98,984	0.035
2.	Mr. Sunil Kakar	-	-
3.	Mr. Mahendra N. Shah	210,000	0.01

OUR PROMOTERS, PROMOTER GROUP AND GROUP COMPANIES

IDFC was granted an in-principle approval by the RBI on April 9, 2014 to set up a new bank in the private sector under Section 22 of the Banking Regulation Act, 1949. Accordingly, a new company namely IDFC Bank, with a paid up capital of Rs 5 lakh, was incorporated on October 21, 2014 at Chennai, Tamil Nadu under the Companies Act, 2013 to carry out the business of banking. As per the terms and conditions contained in the in-principle approval and the RBI New Banking Guidelines, IDFC was required to transfer Financing Undertaking to IDFC Bank. Accordingly, the Board of Directors of IDFC at its meeting held on October 30, 2014 approved a proposal to demerge its Financing Undertaking into its wholly owned step down subsidiary - IDFC Bank under a Demerger Scheme. On December 26, 2014, the entire equity stake of our Bank held by IDFC was transferred to IDFC FHCL, thereby making IDFC Bank, a wholly owned subsidiary of IDFC FHCL, which in turn, is a wholly owned subsidiary of IDFC.

The Demerger Scheme is in accordance with the conditions required under RBI New Banking Guidelines, which mandate that a non-operative financial holding company, for a period of five years, need to hold a minimum of 40% of the shareholding of the bank. Upon the Demerger Scheme becoming effective from the Record Date, 53.00% of our Bank's equity share capital is held by IDFC FHCL, and 47.00% by public shareholders (as on the Record Date).

Our Promoters

1. IDFC FHCL

IDFC FHCL has been incorporated by IDFC with the conditions set out in RBI New Banking Guidelines, which mandate that a non-operative financial holding company will, for a period of five years, need to hold a minimum of 40% of the shareholding of the bank, i.e. IDFC Bank. The RBI New Banking Guidelines specifically mandate that all new banks are to be set up through a non-operative financial holding company and will need to be categorically structured such that all businesses which a bank is permitted to carry out, will necessarily vest in the new bank and all other regulated financial services entities (regulated by the RBI or other financial sector regulators) will need to be held by such non-operative financial holding company. Accordingly, IDFC FHCL will hold for a period of five years a minimum of 40% of the shareholding of IDFC Bank, as well as exposure in the form of debentures, loans, advances and shares of the other regulated financial services entities being IDFC FHCL Subsidiaries, which acquisition of shares will occur on or prior to the Effective Date.

IDFC Financial Holding Company Limited

Financial statements

	Fiscal 2015
	(Rs. In million)
Equity Capital	0.05
Reserves and surplus	(25.27)
Total Income	-
Profit / (Loss) after tax	(25.27)
Earnings per share (Rs) (Basic)	(1,272.49)
Earnings per share (Rs) (Diluted)	(1,272.49)
Net asset value per share	(495.50)

Note: Incorporated on November 7, 2014.

2. IDFC Limited

IDFC Limited is a company incorporated under the Companies Act, 1956 having its registered office at KRM Tower, 8th Floor, No.1 Harrington Road, Chetpet, Chennai 600 031. It is regulated by the RBI as an 'Infrastructure Finance Company – Non Banking Financial Company' and is a systemically important non-deposit taking non-banking finance company, primarily engaged in the business of providing end-to-end project financing and other financial services. Its businesses consists of the lending and financing business undertaking, including project finance (fund based and non-fund based), fixed income and treasury, along with various other activities such as institutional broking, investment banking, asset management and an infrastructure debt fund, which are undertaken through a number of subsidiaries. In addition, it holds windmill operations, investments in non-regulated business entities as well as certain strategic investments. The equity shares of IDFC listed on BSE and NSE.

Our Promoters are interested in our Bank to the extent of their shareholding and directorship in our Bank and the dividend declared, if any, by our Company. For further details see "***Capital Structure***" and "***Financial Statements***" on page 50 and 209 respectively.

Our Promoter Group

The following individuals and entities constitute the Promoter Group of our Company in terms of Regulation 2(1)(zb) of the SEBI ICDR Regulations.

a) Natural persons who are part of our Promoter Group

Nil

b) Entities forming part of the Promoter Group

1. IDFC Limited;
2. IDFC Financial Holding Company Limited;
3. IDFC Alternatives Limited;
4. IDFC Trustee Company Limited;
5. IDFC Securities Limited;
6. IDFC Asset Management Company Limited;
7. IDFC AMC Trustee Company Limited;
8. IDFC Finance Limited;
9. IDFC Projects Limited;
10. IDFC Infra Debt Fund Limited;
11. IDFC Foundation;
12. IDFC Securities Singapore PTE. Limited;
13. IDFC Capital (Singapore) PTE. Limited;
14. IDFC Capital (USA) Inc.; and
15. IDFC Investment Managers (Mauritius) Limited.

c) Details of our Promoter Group

1. IDFC Alternatives Limited

IDFC Alternatives Limited is a public limited company, registered on November 7, 2002 and having CIN U67190MH2002PLC137798. The company operates as a multi-asset class fund manager.

IDFC Alternatives Limited

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(Rs. In million)			
Equity Capital	2.19	0.50	0.50	0.50
Reserves and surplus	2,953.65	588.32	476.71	535.25
Total Income	1,286.33	659.02	666.23	640.49
Profit / (Loss) after tax	227.20	188.32	271.77	216.31
Earnings per share (Rs) (Basic)	1,567.67	3,766.38	5,435.31	4,326.25
Earnings per share (Rs) (Diluted)	1,567.67	3,766.38	5,435.31	4,326.25
Net asset value per share	13,444.83	11,776.58	9,544.19	10,714.94

Shareholding Pattern

S. No.	Name of the Shareholders	No of Shares
1	IDFC Financial Holding Company Limited	219,250
2	IDFC Financial Holding Company Limited jointly with Rajiv B.Lall	100
3	IDFC Financial Holding Company Limited jointly with Vikram Limaye	100
4	IDFC Financial Holding Company Limited jointly with Sadashiv Rao	100
5	IDFC Financial Holding Company Limited jointly with Mahendra N.Shah	100
6	IDFC Financial Holding Company Limited jointly with Bipin Gemani	100
7	IDFC Financial Holding Company Limited jointly with Ketan Kulkarni	100
	TOTAL	**219,850**

2. IDFC Trustee Company Limited

IDFC Trustee Company Limited is a public limited company, registered on October 11, 2002 and having CIN U65990MH2002PLC137533. The company operates as a trustee company for the various investment funds of the Group's asset management business.

IDFC Trustee Company Limited

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(Rs. In million)			
Equity Capital	0.50	0.50	0.50	0.50
Reserves and surplus	32.80	27.79	22.20	17.94
Total Income	7.50	7.81	6.53	6.39
Profit / (Loss) after tax	5.01	5.59	4.26	4.02
Earnings per share (Rs) (Basic)	100.11	111.85	85.28	80.39
Earnings per share (Rs) (Diluted)	100.11	111.85	85.28	80.39
Net asset value per share	666.01	565.90	454.05	368.77

Shareholding Pattern

S. No.	Name of the Shareholders	No of Shares
1	IDFC Financial Holding Company Limited	49,400
2	IDFC Financial Holding Company Limited jointly with Rajiv B.Lall	100
3	IDFC Financial Holding Company Limited jointly with Sadashiv Rao	100
4	IDFC Financial Holding Company Limited jointly with Mahendra N.Shah	100
5	IDFC Financial Holding Company Limited jointly with Amol Ranade	100
6	IDFC Financial Holding Company Limited jointly with Bipin Gemani	100
7	IDFC Financial Holding Company Limited jointly with Ketan Kulkarni	100
	TOTAL	**50,000**

3. IDFC Securities Limited

IDFC Securities Limited is a public limited company, registered on May 7, 1993 and having CIN U99999MH1993PLC071865. The company is engaged in the business of institutional broking and investment banking.

IDFC Securities Limited

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(Rs. In million)			
Equity Capital	141.37	141.37	141.37	141.37
Reserves and surplus	1,056.80	2,424.61	996.15	995.62
Total Income	1,293.00	781.85	421.09	484.16
Profit / (Loss) after tax	418.79	219.37	0.53	9.35
Earnings per share (Rs) (Basic)	29.62	15.52	0.04	0.66
Earnings per share (Rs) (Diluted)	29.62	12.24	0.03	0.66
Net asset value per share	84.75	181.51	80.46	80.43

Shareholding Pattern

S. No.	Name of the Shareholders	No of Shares
1	IDFC Financial Holding Company Limited	14,137,194
2	Rajiv B. Lall*	1
3	Vikram Limaye*	1
4	Santosh Parab*	1
5	Mahendra N Shah*	1
6	Bipin Gemani*	1
7	Mayuri Chhichhiya*	1
	TOTAL	**14,137,200**

* *beneficial interest of the equity share is in the name of IDFC Financial Holding Company Limited*

4. IDFC Asset Management Company Limited

IDFC Asset Management Company Limited is a public limited company, registered on December 20, 1999 and having CIN U65993MH1999PLC123191. The company is engaged in the business of asset management.

IDFC Asset Management Company Limited

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(Rs. In million)			
Equity Capital	26.79	26.79	26.79	26.79
Reserves and surplus	855.27	780.28	644.57	613.26
Total Income	2,784.87	2,700.17	1,637.12	1,121.24
Profit / (Loss) after tax	703.76	910.80	266.39	103.68
Earnings per share (Rs) (Basic)	262.69	339.97	99.43	38.75
Earnings per share (Rs) (Diluted)	262.69	339.97	99.43	38.75
Net asset value per share	329.24	301.25	250.60	238.91

Shareholding Pattern

S. No.	Name of Shareholder	No. of equity shares of Rs. 10/- each
1.	IDFC Financial Holding Company Limited	2,009,277
2.	Natixis Global Asset Management Asia Pte Ltd	669,762
3.	Vikram Limaye jointly with IDFC Financial Holding Company Limited*	1
4.	Sunil Kakar jointly with IDFC Financial Holding Company Limited*	1
5.	Rajeev Uberoi jointly with IDFC Financial Holding Company Limited*	1
6.	Sadashiv Rao jointly with IDFC Financial Holding Company Limited*	1
7.	Bipin Gemani jointly with IDFC Financial Holding Company Limited*	1
8.	Mahendra Shah jointly with IDFC Financial Holding Company Limited*	1
	TOTAL	**2,679,045**

* *beneficial interest of the equity share is in the name of IDFC Financial Holding Company Limited*

5. IDFC AMC Trustee Company Limited

IDFC AMC Trustee Company Limited is a public limited company, registered on December 20, 1999 and having CIN U69990MH1999PLC123190. The company operates as a trustee for the Group's mutual funds.

IDFC AMC Trustee Company Limited

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(Rs. In million)			
Equity Capital	0.50	0.50	0.50	0.50
Reserves and surplus	0.45	0.42	0.24	0.71
Total Income	0.84	0.86	0.84	0.60
Profit / (Loss) after tax	0.04	0.18	0.02	(0.16)
Earnings per share (Rs) (Basic)	0.72	3.60	0.47	(3.29)
Earnings per share (Rs) (Diluted)	0.72	3.60	0.47	(3.29)
Net asset value per share	19.08	0.92	14.75	14.28

Shareholding Pattern

S. No.	Name of Shareholder	No. of equity shares of Rs. 10/- each
1.	IDFC Financial Holding Company Limited	37,493
2.	Natixis Global Asset Management Asia Pte Ltd	12,501
3.	Vikram Limaye jointly with IDFC Financial Holding Company Limited*	1
4.	Sunil Kakar jointly with IDFC Financial Holding Company Limited*	1
5.	Rajeev Uberoi jointly with IDFC Financial Holding Company Limited*	1
6.	Sadashiv Rao jointly with IDFC Financial Holding Company Limited*	1
7.	Bipin Gemani jointly with IDFC Financial Holding Company Limited*	1
8.	Mahendra Shah jointly with IDFC Financial Holding Company Limited*	1
	Total	**50,000**

**beneficial interest of the equity share is in the name of IDFC Financial Holding Company Limited*

6. IDFC Finance Limited

IDFC Finance Limited is a public limited company, registered on April 18, 2000 and having CIN U45201DL2000PLC105292. The company operates as a non-banking finance company.

IDFC Finance Limited

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(Rs. In million)			
Equity Capital	210.00	210.00	210.00	210.00
Reserves and surplus	145.13	130.48	107.73	93.62
Total Income	19.55	24.07	17.08	26.24
Profit / (Loss) after tax	14.66	22.74	14.11	24.06
Earnings per share (Rs) (Basic)	0.70	1.08	0.67	1.15
Earnings per share (Rs) (Diluted)	0.70	1.08	0.67	1.15
Net asset value per share	16.91	16.22	15.13	14.46

Shareholding Pattern

S. No.	Name of the Shareholders	No of Shares
1	IDFC Limited	21,000,140
2	Sadashiv Rao*	10
3	Ketan Kulkarni*	10
4	Amol Ranade*	10
5	Mahendra N Shah*	10
6	Bipin Gemani*	10
7	Mayuri Chhichhiya*	10
	TOTAL	**21,000,200**

**beneficial interest of the equity share is in the name of IDFC Limited*

7. IDFC Projects Limited

IDFC Projects Limited is a public limited company, registered on December 11, 2007 and having CIN U45203MH2007PLC176640. The company is engaged in the business of designing, developing, engineering, financing, construction, operating and maintaining infrastructure projects.

IDFC Projects Limited

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(Rs. In million)			
Equity Capital	340.50	340.50	340.50	340.50
Reserves and surplus	(530.69)	(529.62)	(527.48)	(301.33)
Total Income	-	0.21	0.66	18.77
Profit / (Loss) after tax	(1.07)	(2.14)	(226.15)	(50.44)
Earnings per share (Rs) (Basic)	(0.03)	(0.06)	(6.64)	(1.48)
Earnings per share (Rs) (Diluted)	(0.03)	(0.06)	(6.64)	(1.48)
Net asset value per share	(5.59)	(5.55)	(5.49)	1.15

Shareholding Pattern

S. No.	Name of Shareholder	No. of equity shares of Rs. 10 each
1	IDFC Limited	34,049,400
2	IDFC Limited jointly with Rajiv Lall	100
3	IDFC Limited jointly with Vikram Limaye	100
4	IDFC Limited jointly with Mahendra N.Shah	100
5	IDFC Limited jointly with A.K.T.Chari	100
6	IDFC Limited jointly with Ketan Kulkarni	100
7	IDFC Limited jointly with Bipin Gemani	100
	TOTAL	**34,050,000**

8. IDFC Infra Debt Fund Limited

IDFC Infra Debt Fund Limited is a public limited company, registered on March 7, 2014 and having CIN U67190MH2014PLC253944. The company provides finance to infra debt projects.

IDFC Infra Debt Fund Limited

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(Rs. In million)			
Equity Capital	3,100.00	120.00	-	-
Reserves and surplus	44.26	(0.92)	-	-
Total Income	88.82	0.29	-	-
Profit / (Loss) after tax	45.19	(0.92)	-	-
Earnings per share (Rs) (Basic)	0.22	(0.17)	-	-
Earnings per share (Rs) (Diluted)	0.22	(0.17)	-	-
Net asset value per share	10.14	9.92	-	-

Shareholding Pattern

S. No	Category	Total Shares
1	IDFC Financial Holding Company Limited	439,999,994
2	IDFC Financial Holding Company Limited jointly with Sadashiv Rao	1
3	IDFC Financial Holding Company Limited jointly with Sunil Kakar	1
4	IDFC Financial Holding Company Limited jointly with Rajeev Uberoi	1
5	IDFC Financial Holding Company Limited jointly with Bipin Gemani	1
6	IDFC Financial Holding Company Limited jointly with Mahendra N.Shah	1
7	IDFC Financial Holding Company Limited jointly with Ketan Kulkarni	1
	TOTAL	**440,000,000**

9. IDFC Foundation

IDFC Foundation is a not for profit company within the meaning of section 8 of the Companies Act, 2013, registered on March 4, 2011 and having CIN U93000DL2011NPL215231. The primary focus of the company is to contribute to the development of infrastructure through engagement in policy research and advocacy, programme support (for economic benefits to society) and in developing social infrastructure (education, healthcare and livelihood creation).

IDFC Foundation

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(Rs. In million)			
Equity Capital	130.00	130.00	130.00	80.50
Reserves and surplus	34.18	30.97	23.22	22.09
Total Income	116.64	151.89	101.28	46.18
Profit / (Loss) after tax	0.32	0.78	0.11	22.31
Earnings per share (Rs) (Basic)	0.25	0.60	0.14	238.03
Earnings per share (Rs) (Diluted)	0.25	0.60	0.14	238.03
Net asset value per share	12.63	12.38	11.79	12.74

Shareholding Pattern

S. No.	Name of Shareholder	No. of equity shares of Rs. 10 each
1	IDFC Limited	12,999,994
2	IDFC Limited jointly with Mr. Vikram Limaye*	1
3	IDFC Limited jointly with Mr. Sunil Kakar*	1
4	IDFC Limited jointly with Dr. Rajeev Uberoi*	1
5	IDFC Limited jointly with Mr. Mahendra N Shah *	1
6	IDFC Limited jointly with Mr. Bipin N Gemani*	1
7	IDFC Limited jointly with Mr. Ketan S. Kulkarni*	1
	TOTAL	**13,000,000**

* *beneficial interest of the equity share is in the name of IDFC Limited*

10. IDFC Securities Singapore Pte. Limited

IDFC Securities Singapore Pte. Limited (Registration No. 201228582N) was incorporated in Singapore with its registered office and principal place of business at Singapore. The principal activity of the company is the provision of corporate finance advisory services.

IDFC Securities Singapore PTE Limited

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(USD. In million)			
Equity Capital	1.92	0.64	0.25	-
Reserves and surplus	(1.22)	(0.53)	(0.11)	-
Total Income	0.53	1.53	0.08	-
Profit / (Loss) after tax	(0.69)	(0.42)	(0.11)	-
Net asset value per share	0.29	0.14	0.46	-

Shareholding Pattern

S. No.	Name of Shareholder	No. of equity shares (SGD 1 per share)
1	IDFC Securities Limited	2,400,001
	TOTAL	**2,400,001**

11. IDFC Capital (Singapore) PTE. Limited

IDFC Capital (Singapore) Pte. Limited (Registration No. 200800200R) was incorporated in Singapore with its registered office and principal place of business at Singapore. The principal activity of the company is to establish funds, act as advisor and manager of funds, and to provide advise in relation to the setting up of funds.

IDFC Capital (Singapore) PTE Limited

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(USD. In million)			
Equity Capital	42.51	13.18	11.56	8.43
Reserves and surplus	(11.58)	(11.94)	(10.12)	(7.98)
Total Income	1.84	0.29	0.01	1.49
Profit / (Loss) after tax	0.36	(0.58)	(2.87)	(1.54)
Net asset value per share	0.56	0.07	0.09	0.04

Shareholding Pattern

S. No.	Name of Shareholder	No. of equity shares (SGD 1 per share)
1	IDFC Alternatives Limited	55,475,000
	TOTAL	**55,475,000**

12. IDFC Capital (USA) Inc.

IDFC Capital (USA) Inc. was incorporated in the State of New York on August 9, 2009. The company operates as a broker-dealer registered with the Securities and Exchange Commission and is a member of the Financial Industry Regulatory Authority. The principal business of the company is distributing research and market commentary and brokering transactions in Indian equities for U.S. institutional clients.

IDFC Capital USA Inc.

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(USD. In million)			
Equity Capital	1.00	1.00	1.00	1.00
Reserves and surplus	(0.10)	(0.09)	(0.14)	(0.22)
Total Income	0.55	0.74	0.88	0.58
Profit / (Loss) after tax	0.09	(0.01)	0.05	(0.07)
Net asset value per share	0.01	0.01	0.01	0.08

Shareholding Pattern

S. No.	Name of Shareholder	No. of equity shares (USD 1 per share)
1	IDFC Securities Limited	100,000,000
	TOTAL	**100,000,000**

13. IDFC Investment Managers (Mauritius) Limited

IDFC Investment Managers (Mauritius) Limited was incorporated on September 13, 2010 as a private limited company and holds a Category 1 Global Business Licence Company issued by the Financial Services Commission. The company was formerly providing investment management services to India Infrastructure Opportunities Fund Ltd. and the India Hybrid Infrastructure Fund Limited (incorporated in Mauritius). However, the funds have entered into voluntary liquidation and the company is currently not providing any investment management services.

IDFC Investment Managers (Mauritius) limited

Financial statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
	(USD. In million)			
Equity Capital	0.16	0.06	0.06	0.06
Reserves and surplus	(0.11)	(0.07)	0.06	0.12
Total Income	-	-	0.04	0.42
Profit / (Loss) after tax	(0.04)	0.13	(0.05)	0.12
Net asset value per share	0.31	(0.14)	2.07	3.02

Shareholding Pattern

S. No.	Name of Shareholder	No. of equity shares (USD 1 per share)
1	IDFC Asset Management Company Limited	157,290
	TOTAL	**157,290**

RELATED PARTY TRANSACTIONS

For details of related party transactions for the period ended March 31, 2015, unaudited limited review for the related party transactions undertaken between April 1, 2015 to June 30, 2015 and audited condensed interim financial statements for the period ended September 30, 2015, as per the requirements of Accounting Standard 18 "*Related Party Disclosures*" issued by the Institute of Chartered Accountants of India on a standalone basis, see "***Financial Statements***" on page 209.

DIVIDEND POLICY

The Bank has not paid any dividends since its incorporation less than a year ago (i.e. October 21, 2014). The declaration and payment of dividends will be recommended by the Board of Directors and approved by the Shareholders, at their discretion, subject to the provisions of the Articles of Association and applicable law, including the Companies Act. Further, the payment of dividends by the Bank is also subject to restrictions under the Banking Regulation Act and the guidelines issued by RBI guidelines on "Declaration of Dividends by Banks", prescribing certain conditions for declaration of dividends by banks.

The dividend will generally be declared at the end of a fiscal year and paid in the following fiscal year to which they relate. The dividend, if any, will depend on a number of factors, including but not limited to the earnings, capital requirements, contractual obligations, applicable legal restrictions and overall financial position of our Bank. Presently, our Bank has no formal dividend policy.

In addition, our ability to pay dividends may be impacted by a number of factors, including any provisions pertaining to our indebtedness. Future dividends will depend on our revenues, cash flows, financial condition (including capital position) of and other factors. Accordingly, we cannot provide any assurance that the target payout ratio will be realized. For further details, see "***Key Regulations and Policies***" on page 110 and "***Financial Indebtedness***" on page 169.

SECTION V – FINANCIAL INFORMATION

FINANCIAL INDEBTEDNESS

As on October 8, 2015 our Bank has unsecured fund-based borrowings, including money market, borrowings in the form of privately placed debentures and infrastructure bonds issued under section 80CCF, External Commercial Borrowings and other domestic term borrowings amounting to ₹ 6,00,440.43 million. Set forth below is a brief summary of our outstanding financial arrangements as on October 8, 2015.

A. Money market borrowings of our Bank

As on October 8, 2015, our Bank has outstanding borrowings on the money market aggregating to ₹ 49,801.13 million. Set out hereunder is a breakdown of our money market borrowings as on October 8, 2015:

Sl. No.	Nature of borrowing	Dates of maturity	Amount outstanding as on October 8, 2015 (in ₹ million)	Security
1.	Collateralized borrowing and lending obligations	October 9, 2015	19,996.30	Central Government securities and treasury bills are encumbered
2.	Repo	October 9, 2015	29,804.83	Central Government securities and treasury bills are encumbered

B. Borrowings from Banks / Other Lenders

Our Bank had obtained lending equivalent to ₹ 5,50,639.30 million from other banks and institutions as on October 8, 2015, of which the foreign currency borrowings stood at ₹ 92,758.84 million, other unsecured domestic term borrowings at ₹ 19,256.49 million, borrowings in the form of privately placed debentures at ₹ 4,10,231.80 million and ₹ 28,392.17 million outstanding towards infrastructure bonds issued under section 80CCF.

Set forth below are the details of the foreign currency and other borrowings as on October 8, 2015:

Sl. No.	Lender	Currency	Maturity Date	Amount outstanding as on October 8, 2015 (in ₹ million)*
1	Asian Development Bank	USD	April 17, 2017	939.14
2	Australia and New Zealand Bank	AUD	January 18, 2018	2,306.00
3	Bank of Tokyo Mitsubishi UFJ Ltd	USD	November 23, 2016	6,574.00
4	Bank of America (Club Facility)	USD	March 7, 2018	6,574.00
5	DBS Bank Ltd - Singapore	USD	September 27, 2016	3,287.00
6	Department for International Development	GBP	May 15, 2023	1,393.42
7	DEG - Deutsche Investitions	USD	February 15, 2017	1,056.54
8	DEG - Deutsche Investitions	USD	February 15, 2022	1,759.51
9	Japan Bank for International Cooperation	USD	March 27, 2026	1,814.42
10	Overseas Private Investment Corporation	USD	October 15, 2027	16,435.00
11	Standard Chartered Bank UK	USD	March 14, 2018	6,574.00
12	Standard Chartered Bank UK	USD	March 30, 2016	13,148.00
13	State Bank of India Hong Kong	USD	Novmber 8, 2018	3,287.00
14	State Bank of India Hong Kong	USD	September 13, 2018	3,287.00
15	State Bank of India Hong Kong	USD	March 19, 2019	3,287.00
16	State Bank of India Hong Kong	USD	June 3, 2019	6,574.00
17	State Bank of India Hong Kong	USD	May 15, 2019	3,287.00
18	State Bank of India Hong Kong	USD	November 22, 2018	3,287.00
19	State Bank of India Hong Kong	USD	May 27, 2019	6,574.00
20	The Bank of Nova Scotia Asia Ltd	USD	Match 26, 2016	1,314.80

* *The foreign currency loans are converted to INR at Exchange rates prevailing as September 30, 2015.*

Sl. No.	Lender	Currency	Maturity Date	Amount outstanding as on October 8, 2015 (in ₹ million)
1	Allahabad Bank	INR	Match 25, 2016	1,000.00
2	Axis Bank	INR	January 24, 2016	2,557.44
3	Bank of Baroda	INR	November 1, 2016	1,000.00
4	Bank of India	INR	May 13, 2016	2,750.00
5	Bank of Maharashtra	INR	December 31, 2017	1,000.00
6	Corporation Bank	INR	June 27, 2016	1,000.00
7	Dena Bank	INR	October 28, 2016	500.00
8	Federal Bank Limited	INR	March 25, 2016	250.00
9	IFC Washington	INR	January 16, 2023	3,468.00
10	India Infra Finance Co Ltd.	INR	March 28, 2019	2,500.00
11	Indian Bank	INR	February 6, 2017	500.00
12	Indian Overseas Bank	INR	February 5, 2016	500.00
13	IREDA	INR	March 31, 2025	481.05
14	J & K Bank	INR	March 27, 2017	500.00
15	Oriental Bank of Commerce	INR	December 30, 2015	250.00
16	Punjab & Sind Bank	INR	June 27, 2017	500.00
17	Vijaya Bank	INR	December 31, 2015	500.00

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion of our financial condition and results of operations together with our audited consolidated financial statements for fiscal 2015, including the notes thereto and the report thereon, which appear elsewhere in this Information Memorandum. You should also read the section titled "**Risk Factors**" on page 10 of this Information Memorandum, which discusses a number of factors and contingencies that could impact our financial condition and results of operations. The following discussion relates to the audited financial statements of the Bank.*

*These financial statements have been prepared in accordance with Indian GAAP (as applicable to banks) and the Companies Act, 2013 as described in the report of our Auditors dated March 31, 2015, which is included on page 209 of this Information Memorandum under the section titled "**Financial Statements**". Our fiscal year ends on March 31 of each year; therefore, all references to a particular fiscal are to the twelve-month period ended March 31 of that year. See also the section titled "**Certain Conventions, Presentation and Use of Financial and Market Data**" on page 8 of this Information Memorandum.*

*This discussion contains forward-looking statement and reflects our current plans and expectations, Actual results may differ materially from those anticipated in these forward-looking statements. By their nature certain market risk disclosures are only estimates and could be materially different from those that have been estimated. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the sections titles "**Risk Factors**", "**Forward Looking Statements**" and "**Our Business**" on pages 10, 9 and 98 respectively.*

Overview

IDFC Bank Limited is a professionally managed private sector bank in India, promoted by IDFC Limited. IDFC, which we believe to be one of the leading integrated financial services companies in India, offers, including through its subsidiaries (the "**IDFC Group**") a wide range of customer-centric financing solutions and conducts complementary businesses under the well-recognized brand, "IDFC".

IDFC was incorporated in 1997 on the recommendations of the Expert Group on Commercialization of Infrastructure Projects, under the Chairmanship of Dr. Rakesh Mohan. IDFC was set up as a private sector enterprise by a consortium of public and private investors, with a focus on catalyzing the flow of private capital into the development of India's infrastructure sector. IDFC is a public financial institution under the Companies Act, 2013, registered with the RBI as an IFC-NBFC and as an NBFC-ND-SI. The equity shares of IDFC have been listed on the Indian stock exchanges since 2005.

With our considerable domain knowledge in infrastructure financing and extensive portfolio of financial products and services, we believe that the IDFC Group has differentiated itself from other financiers in India and played a key role in advancing infrastructure development in India. Guided and managed by a strong core of qualified and experienced professionals and with a diversified shareholder base, we believe that we have built a track record of good governance as well as strong, multimodal institutional relationships with Government agencies as well as in the private sector in India.

Given our collective focus on long-term growth, sustainability and institutional excellence, we, as a group seek to continue to diversify our assets and liabilities and investor bases, manage and mitigate our funding risk, reduce our cost of borrowing and other operational costs, and enhance our responsiveness to market trends, customer needs and sensitivities and regulatory and policy developments. Accordingly, we had approached RBI, through an application filed on July 1, 2013, with a vision to build a 'new age' bank which would serve the banking needs of the 'banked' as well as 'unbanked' population of the country.

After a rigorous screening process, during which only two of the original 25 applicants were granted permission by RBI to proceed, IDFC received RBI in-principle approval on April 9, 2014, to set up a new private sector bank. Pursuant to a Scheme of Arrangement (the "**Scheme of Demerge**r") sanctioned by the Madras High Court by its order dated June 25, 2015, after the approval of IDFC's shareholders and creditors, IDFC Bank was incorporated as a public limited company on October 21, 2014. Pursuant to the Demerger Scheme, approximately 53.00% of the share capital of IDFC Bank is currently held by IDFC Financial Holding Company Limited (IDFC FHCL, registered with RBI as an NBFC on June 18, 2015), while the remaining 47.00% is held by shareholders of IDFC as on the specified Record Date. IDFC received final RBI approval on July 23, 2015, to set up a new private sector bank.

Our overall business strategy would be to replicate IDFC's success in NBFC the sector, through a differentiated and calibrated foray into the banking sector, with focus on wholesale, rural and consumer banking.

Accordingly, our banking business is envisaged to include three distinct strategic business verticals, further discussed later in this section:

- Commercial and Wholesale banking – will cater to large corporates, mid-markets & SME clients (commercial banking), government business, financial institutions, treasury, cash management, transaction banking and investment banking.

- Rural banking – will cater to the semi-urban and rural areas.

- Personal and Business banking – will cater to the urban retail consumers.

IDFC had Net Interest Income of ₹ 627 crores, Non-Interest Income of ₹ 80 crores, Operating Income of ₹ 711 crores, Net Profit of ₹ 254 crores, Gross Loan Book of ₹ 46,381 crores and Gross Loan Disbursals of ₹ 3,104 crores, as reported on a consolidated basis for the quarter ended June 30, 2015, with 42% of its outstanding loan disbursals being directed towards the energy sector. 1% of its loan book was comprised of Net Non-Performing Loans, and a total of 1.5% being comprised of Gross Non Performing Loans.

Accordingly, IDFC Bank has begun its operations with effect from October 1, 2015, pursuant to the demerger of all assets and liabilities of the Financing Undertaking into IDFC Bank.

For details, see *"**Our Business**"* on page 98 of this Information Memorandum.

Certain Factors Affecting Our Results of Operations

Macroeconomic Factors

Our financial condition and results of operations are affected by general economic conditions prevailing in India. While India's estimated GDP growth rate at constant prices was 7.5% for the quarter ended March 31, 2015 *(Source: Central Statistics Office)*, the cumulative FDI inflows from April 2000 to May 2015 were approximately U.S.$377,310 million with Mauritius, Singapore and U.K. featuring as the top 3 investing countries with invested amounts of approximately 35%, 14% and 9%, respectively, of the total percentage of FDI inflows during April 2000 to May 2015. *(Source: Department of Industrial Policy and Promotion, Ministry of Commerce & Industry, Government of India – Fact Sheet on FDI from April 2000 to May 2015.)*

The global economic activity has recovered modestly in the first quarter of 2015 with the US economy rebounding on stronger consumption growth and steadily improving labour market conditions. The European nations has grown at a moderate pace through the first half of 2015, supported by consumer spending, easing financing conditions and a modest downturn in still-high unemployment.

Domestic consumption continued to remain weak, but manufacturing activity picked up in July and strengthening exports and corporate profitability could stimulate capital spending. In the emerging market economies, activity decelerated due to weak external demand, tightening external financing conditions, deteriorating structural bottlenecks and spill overs from unsettled conditions in financial markets. *(Source: RBI Bulletin available at http://www.rbi.org.in.)* The RBI provided various incentives to commercial banks to raise foreign currency non-resident (FCNR) deposits and gradually removed emergency measures when the exchange rate showed some signs of stability in the second half of fiscal 2014. *(Source: RBI Annual Report 2013-14.)* However, both domestic and global cues were at play in buoying the Indian financial markets during 2014-2015 and equity markets reached all-time highs during the year. With ebbing inflationary pressures, receding risks to the inflation outlook and commitments to fiscal prudence, the RBI eased its monetary policy stance with a cumulative 75 bps cut in the policy repo rate during January-August 2015. *(Source: RBI Annual Report 2014-15.).* The RBI further reduced the repo rate by 50 bps from 7.25% to 6.75% on September 29, 2015.

Indications of an improvement in the overall domestic macroeconomic landscape have been visible over the fourth quarter of fiscal 2014 and the first quarter of fiscal 2015, which has helped to stabilize the Indian rupee. Inflationary pressures, both in terms of the CPI and the wholesale price index, have subsided as a result of a decline in food price inflation. The Indian economy's recovery is still work in progress and despite strong rainfall in June, July has been below par, the monsoon has been near normal. Shrinking exports in some industries, in part a result of weak global demand and global overcapacity in those industries and in part a result of the significant depreciation of currencies of some major trading partners against the rupee, also contributed to weak aggregate demand. Investment, as measured by new projects, continued to remain weak, primarily due to still-low capacity utilization. Power sector saw a recent step-up and the easing of bottlenecks in coal supply being partly negated by structural problems relating to clogging of transmission grids and the dire financial state of electricity distribution companies ("**DISCOMs**"). *(Source: RBI Bulletin available at http://www.rbi.org.in.)*

The government appears to be firmly committed to fiscal consolidation by reducing the fiscal deficit from 4.5% in fiscal 2014 to 4.1% in fiscal 2015. Further, there has been an improvement in the current account deficit which is expected to widen marginally to 2.2% of GDP in fiscal 2015. The current account deficit was 1.7% of GDP at the end of the first quarter of fiscal 2015. The median base lending rates of banks has fallen by around 30 basis points since January 2015.

Regulatory & Policy Developments

The banking industry in India is subject to extensive regulation by governmental and self-regulatory organizations, including the RBI. These regulations govern issues such as foreign investment, corporate governance and market conduct, customer protection, foreign exchange management, capital adequacy, margin requirements, anti-money laundering and provisioning for NPAs. The RBI also prescribes required levels of lending to "priority sectors" such as agriculture, which may expose us to higher levels of risk than we may otherwise face.

The primary legislation governing commercial banks in India is the Banking Regulation Act. The provisions of the Banking Regulation Act are in addition to and not, save as expressly provided in the Banking Regulation Act, in derogation of the Companies Act and any other law for the time being in force. Other important laws include the Reserve Bank of India Act, 1934, the Negotiable Instruments Act, 1881, the SARFAESI Act, 2002, the Prevention of Money Laundering Act, 2002, Recovery of Debts due to Banks and Financial Institutions Act, 1993, and the Banker's Books Evidence Act, 1891. Additionally, the RBI, from time to time, issues guidelines, regulations, policies, notifications, press releases and circulars to be followed by banks. RBI has laid down various norms and guidelines for banks including prudential guidelines, debt restricting guidelines, credit-exposure norms pertaining to measurement of risk and avoidance of concentration of credit risk, norms pertaining to capital market exposure, etc.

Banking companies are also subject to the purview of the Companies Act, to the extent applicable, and if such companies are listed on a stock exchange in India then various regulations of the SEBI would additionally apply to such companies, including the Listing Agreements. Compliance with applicable regulatory requirements is evaluated with respect to financial statements under Indian GAAP (as applicable to banks), as well as through periodic inspection and audit.

Technology and Infrastructure

Our business is contingent upon advanced technology and infrastructure to support our banking business. We have begun incurring non-operational expenditure for the period ended March 31, 2015 and such expenditure will increase in fiscal 2016 as we commence and scale up our banking operations. Technological innovation is expected to improve product and service offerings of banks and ensure further penetration in a cost-effective manner. Further, use of alternate channels such as ATMs, internet and mobile banking is expected to lend further support. Keeping in mind trends such as the accelerating urbanization and rising home ownership, expanding needs of the rural economy and small and medium sized businesses, rising household incomes, and increasing penetration of the internet and technology and technology-enabled services and platforms in India, we seek to establish our presence in the banking industry. In particular, we believe that the Indian banking sector has benefitted from permission to set-up ultra-small branches or use of services of business correspondents and mobile vans where setting up branches is not feasible, and white label norms for setting up ATMs). We, therefore, believe that in addition to the improving macro-economic conditions and supportive regulatory environment for the Indian banking industry, our advancement in banking-related technology and infrastructure will further facilitate our banking operations.

Lack of past operational history

The financing business comprising loans, liquidity and accrual book of treasury portfolio, current assets, borrowings, receivables, security interests, current liabilities and other assets and liabilities has been demerged into our Bank, pursuant to the Scheme of Demerger. However, we have no operating history in the banking business and our financial statements are for historic periods. Our historic financial statements are not representative or reliable indicators of our future performance and should not be considered indicative of our financial position for any future periods, subsequent to the commencement of our banking operations. Accordingly, it may be difficult to evaluate our business prospects as we have no banking operating history and IDFC’s past performance will not be indicative of the Bank’s future results of operations or financial condition.

Intense future competition

The banking sector in India is fiercely competitive. We will face competition from Indian and foreign commercial banks in the private sector, as well as public sector banks in India, and other financial services companies in India. In particular, public sector banks as well as existing private sector banks, have an extensive customer and depositor base, larger branch networks, and, in case of public sector banks, Government support for capital augmentation, due to which they may enjoy corresponding economies of scale and greater access to low-cost capital, and accordingly, we, as a new bank, may not be able to compete with them. Moreover, since we have just started our banking operations, we will be subject to more stringent regulatory framework than the foreign banks, including more stringent priority sector lending targets compared to the foreign banks. Some of our competitors operating in India may also have access to greater capital and experience in the banking industry as well as lower concentration and exposure risks than us. Further, as a result of regulatory requirements to maintain CRR and SLR at specified rates, we may be structurally more exposed to interest rate risks, as compared to banks which are also operating in other countries or with significant international operations.

Additionally, the RBI has issued Draft Guidelines for Licensing of Payments Banks and Small Banks and Draft Guidelines for Licensing of Small Banks on July 17, 2014. While 'Small Banks' are expected to provide a whole suite of basic banking products, such as, deposits and supply of credit, but in a limited area of operation, 'Payments Banks' are expected to provide a limited range of products, such as, acceptance of demand deposits and remittances of funds, but will have a widespread network of access points particularly to remote areas, either through their own branch network or through Business Correspondents or through networks provided by others. In addition, the RBI has, through a circular dated June 24, 2014, permitted NBFC-NDs to act as business correspondents of banks, so as to accelerate financial inclusion in India. While these regulatory developments are recent, it is possible that such proposed institutions in the banking industry may increase competitive pressures in the banking sector, or that our competitors may be more equipped or more successful than us in operationalizing their banking services, their business correspondent relationships and networks. Besides, the requirement to anticipate and appropriately react to such competitive pressures and related industry trends may strain our management and other resources. Such competitive pressures and their incidental effects on us may adversely affect our business and results of operations.

Our banking operations

We have received final approval of the RBI on July 23, 2015, to set up a new private sector bank. For details, see "***Our Business***" on page 98 of this Information Memorandum.

We are in the process of creating a branch network across India, including in unbanked rural areas, as well as technology infrastructure to support our banking operations. Our success in our banking operations depends, among other things, on our ability to attract and retain sufficient numbers of talented and experienced personnel for our banking operations, and to develop new product and service offerings. In the short term, we are focusing on developing and embedding key systems and processes, building our team and setting up the branch architecture, in a phased manner. While in longer term, we aim to achieve asset growth and scale-up operations, our overall results of operations and particularly our profitability may be materially affected during the initial phase of our banking operations.

The banking industry in India is subject to extensive regulation by governmental and self-regulatory organizations, including the RBI. These regulations govern issues such as foreign investment, corporate governance and market conduct, customer protection, foreign exchange management, capital adequacy, margin requirements, anti-money laundering and provisioning for NPAs. The RBI also prescribes required levels of lending to "priority sectors" such as agriculture, which may expose us to higher levels of risk than we may otherwise face.

Under the RBI New Banks Licensing Guidelines, we will be required to maintain a minimum CRAR of 13% on an ongoing basis for first three years. Subsequent to that, under the Basel III framework, which the RBI has notified for implementation in a phased manner, we will be required to maintain a minimum CRAR of 9% on an ongoing basis, including a Tier I CRAR of 7%, with higher target as well as disclosure requirements for capital adequacy and risk coverage coming into effect from March 31, 2018, and full implementation by March 31, 2019. Further, under the Basel III framework, we will be required to maintain an additional 2.5% as capital conservation buffer on the Tier I CRAR, which would on an aggregate require the Bank to maintain a minimum CRAR of 11.5% on an ongoing basis post March 31, 2019.

Additionally, we are also be required to maintain a minimum CRR of 4% of our net demand and time liabilities in a current account with the RBI. We will not earn interest income on the CRR. We are also be required to maintain an SLR equivalent to 21.5% of our net demand and time liabilities, to be invested in cash and government or other RBI-approved securities. Further, the credit exposure norms would be different for us since we are a private bank. In accordance with RBI guidelines, the exposure ceiling limits would be 15% of capital funds in case of a single borrower and 40% of capital funds in case of a borrower group for a bank.

Significant Accounting Policies

We have set forth below some of our significant accounting policies under Indian GAAP (as applicable to banks) and in accordance with the accounting standards specified under section 133 of the Companies Act, 2013, read with rule 7 of the Companies (Accounts) Rules, 2014 and relevant provisions of the Companies Act, 1956, as applicable. Our financial statements have been prepared on accrual basis under the historical cost convention.

The preparation of the financial statements in conformity with Indian GAAP requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities (including contingent liabilities) and the reported income and expenses during the relevant period. The notes to the financial statements contain a summary of our significant accounting policies. Certain of these policies are critical to the portrayal of our financial condition, since they require management to make subjective judgments, some of which may related to matters that are inherently uncertain.

We believe that the estimates used in preparation of the financial statements are prudent and reasonable and future results could differ due to these estimates and the differences between the actual results and the estimates are recognised in the periods in which the results are known / materialise. As a result of changes in applicable statutory requirements, regulatory guidelines and accounting practices in India, our accounting policies may have undergone changes during the periods covered by this discussion. Accordingly, this discussion should be read in conjunction with our financial statements and notes as applicable during the respective fiscal year. Set forth below are some of our critical accounting policies under Indian GAAP (as applicable to banks) for fiscal 2015.

Investments

Investments classified under the HTM category are carried at the acquisition cost and not marked to market. Investments classified under AFS and HFT categories are marked to market as per RBI guidelines. Any diminution other than temporary value of investment in HTM category is provided for.

Impairment of Assets

The carrying amount of the assets at each balance sheet date is reviewed for impairment. If any indication of impairment based on internal/external factors exists, the recoverable amount of such assets is estimated and impairment is recognized wherever the carrying amount of an asset exceeds the recoverable amount.

Transactions Involving Foreign Exchange

As on March 31, 2015, the Bank does not have any earnings or expenditure in foreign currency.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. In addition, the interest income (accounted on accrual basis) except in the case of non-performing assets (NPA) where it is recognized upon realisation; dividend (accounted on accrual basis when the right to receive is established); profit/loss on sale of investments under HTM, AFS & HFT categories are recognized in the profit and loss account recognized on value date basis except equity shares which are on trade date basis) and profit /loss is determined based on first in first out ("**FIFO**") cost for all categories of investments.

Taxes on Income

Income tax expense comprises of current income tax and deferred tax. Current tax is the amount payable on the taxable income for the year as determined in accordance with the applicable tax rates and the provisions of the Income Tax Act, 1961 and other applicable tax laws. The accounting treatment for income-tax in respect of the Bank's income is based on Accounting Standard 22 on 'Accounting for Taxes on Income' as specified under section 133 of Companies Act, 2013 read with Rule 7 of Companies Rules, 2014. The provision made for income-tax in the accounts comprises both, the current tax and the deferred tax. The deferred tax assets and liabilities for the year arising on account of timing differences are recognised in the Statement of Profit and Loss and the cumulative effect thereof is reflected in the Balance Sheet.

Deferred tax is recognised on timing differences, being the differences between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax is measured using the tax rates and the tax laws enacted or substantively enacted as at the reporting date. Deferred tax liabilities are recognised for all timing differences. Deferred tax assets are recognized for timing differences of items other than unabsorbed depreciation and carry forward losses only to the extent that reasonable certainty exists that sufficient future taxable income will be available against which these can be realised. However, if there are unabsorbed depreciation and carry forward of losses and items relating to capital losses, deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that there will be sufficient future taxable income available to realise the assets. Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Bank has a legally enforceable right for such set off. Deferred tax assets are reviewed at each balance sheet date for their realisability.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, balances with RBI, balances with other banks and money at call and short notice.

Earnings Per Share

Basic earnings per share is computed by dividing the profit / (loss) after tax by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed by dividing the profit / (loss) after tax as adjusted for expense or income relating to the dilutive potential equity shares, by the weighted average number of equity shares considered for deriving basic earnings per share and the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares.

Provisions and Contingencies

A provision is recognised when the Bank has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made.

Provisions are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Contingent liabilities if any, are disclosed in the notes. Contingent assets are not recognised in the financial statements.

As on the date of this Information Memorandum:

a. There are no litigation claims made by the Bank or pending against the Bank.

a. Provisions for onerous contracts are recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable costs of meeting the future obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

Segment Information

Since the Bank is yet to commence its commercial operations. Accordingly, there are no separate reportable segments as per Accounting Standard 17 on 'Segment Reporting' as specified u/s 133 of Companies Act, 2013 read with rule 7 of the Companies (Accounts) Rules, 2014.

Operating Cycle

Based on the nature of products / activities of the Bank and the normal time between acquisition of assets and their realisation in cash or cash equivalents, the Bank has determined its operating cycle as 12 months for the purpose of classification of its assets and liabilities as current and non-current.

Preliminary Expenses

Preliminary expenses incurred before the commencement of the business are expenses in the year in which they are incurred.

Summary of Changes to Significant Accounting Policies

There has been no change in our significant accounting policies. Further, since the Bank was incorporated on October 21, 2014, this being its first accounting period, there are no comparative figures.

Summary of Changes to Classification

There has been no change in classification of any accounting measures including operating expenses, income, operating income, depreciation, etc. since incorporation of the Bank.

Operating Expenses

Since the Bank has not yet commenced operations, all the expenses incurred by it may be classified as pre-operating expense.

Net Loss

The Bank has incurred a pre-tax net loss of Rs.25,857,502, in the six month period ended March 31, 2015. Since the Bank has not started operations as of the quarter ended March 31, 2015, and the limited review period ended June 30, 2015, it does not have any income from operations. The net worth of the Bank has been fully eroded and the Bank has incurred a net loss since its current liabilities have exceeded its current assets as at March 31, 2015 and the limited review period ended June 30, 2015.

Related Party Transactions

We enter into transactions with related parties in the normal course of business and on an arm's length basis. The principal related parties are our Promoters IDFC and IDFC FHCL. We may also enter into transactions with our Group Companies and their affiliates and key managerial personnel.

For more information see "***Related Party Transactions***" on page 167 of this Information Memorandum.

Liquidity and Capital Resources

Since we have not yet begun operations we have no cash flows from operating activities. The following table sets forth our cash flows from operating, investing and financing activities as on March 31, 2015:

Cash Flow Statement		**FOR THE PERIOD FROM OCTOBER 21, 2014 (DATE OF INCORPORATION) TO MARCH 31, 2015**	
			October 21, 2014 to March 31, 2015 ₹
A. CASH FLOW FROM OPERATING ACTIVITIES			
LOSS BEFORE TA X FOR THE PERIOD			(25,857,502)
Adjustment for changes in working capital:			
Adjustments for increase in operating liabilities:			
Trade payables			51,180
Current liabilities			25,806,097

Cash Flow Statement			FOR THE PERIOD FROM OCTOBER 21, 2014 (DATE OF INCORPORATION) TO MARCH 31, 2015
			October 21, 2014 to March 31, 2015 ₹
NET CASH USED IN OPERATING ACTIVITIES	(A)		**(225)**
B. CASH FLOW FROM INVESTING ACTIVITIES			-
NET CASH FROM INVESTING ACTIVITIES	(B)		**-**
C. CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from Issue of Share Capital			500,000
NET CASH FROM FINANCING ACTIVITIES	(C)		**500,000**
Net increase/(decrease) in cash and cash equivalents	**(A) + (B) + (C)**		499,775
Cash and cash equivalents as at the beginning of the period			-
Cash and cash equivalents as at the end of the period			**499,775**

Financial Condition

The following table sets forth the principal components of our assets as at June 30, 2015:

Assets		**AS AT JUNE 30, 2015**
	As at June 30, 2015 ₹	**As at June 30, 2015 ₹**
ASSETS		
NON-CURRENT ASSETS		
(a) Deferred tax asset		8,700
CURRENT ASSETS		
(a) Cash and bank balances		499,551
TOTAL		**508,251**

Liabilities and Shareholder's Equity

The following table sets forth the principal components of our liabilities and shareholder's equity as on June 30, 2015:

Balance Sheet		**AS AT JUNE 30, 2015**
	As at June 30, 2015 ₹	**As at June 30, 2015 ₹**
EQUITY AND LIABILITIES		
SHAREHOLDERS' FUNDS		
(a) Share capital	500,000	
(b) Reserves and surplus	(25,969,767)	(25,469,767)
CURRENT LIABILITIES		
(a) Trade payables		114,000
(b) Other current liabilities		375,864,018
TOTAL		**350,508,251**

Capital

We are a banking company within the meaning of the Indian Banking Regulation Act. We are registered with and subject to supervision by the RBI. Failure to meet minimum capital requirements could lead to regulatory actions by the RBI, which if undertaken, could have a material effect on our financial position.

In accordance with the RBI Basel III capital regulations, we will be required to maintain a minimum Common Equity Tier I ration of 5%, a minimum total Tier I capital ratio of 6.5% and a minimum total capital ratio of 9% as of March 31, 2016 (pursuant to commencement of business operations).

Capital Expenditure

Our capital expenditure will consist principally of expenditure relating to branch network expansion, and investment in technology and communication infrastructure. We believe that expenditure towards expanding our robust technology will be pivotal to the success of our banking operations. For instance, we would utilize our existing software-based ALM system, with upgrades and enhancements going forward, to allow comprehensive and regular analysis of interest rate, liquidity, currency and equity price risks. Leveraging the IDFC Group's existing commitment towards technology-enabled processes and systems, we believe that we commence banking operations with a strong digital spine. Even as we commence our foray into the banking sector, we are capable of catering to a wide spectrum of clients who have differentiated needs and expectations to whom we can cater to more effectively by offering a diversified suite of customer-centric products and services which are customized to the relevant banking vertical and also by extending our reach far beyond our current physical network.

Cross Border Exposures

The RBI requires banks in India to implement RBI prescribed guidelines on country risk management in respect of those countries where a bank has net funded exposure in excess of a prescribed percentage of its total assets. In the normal course of business, we will have both direct and indirect exposure to risks related to counter parties and entities in foreign countries. We propose to monitor such cross-border exposures on an ongoing basis. We currently do not have any country risk exposure or net funded exposure to any country as we have not commenced business operations.

Going Concern

As per the financial statements of the Bank, its net worth has been fully eroded and the Bank has incurred a net loss since its current liabilities have exceeded its current assets as at March 31, 2015. However, the accounts of the Bank have been prepared on a going concern basis, since the parent company IDFC has committed to infusion of funds and other support as is necessary in accordance with the corporate restructuring plan for the IDFC Group, approved by its board of directors in their meeting held on October 30, 2014. This demonstrates the ability and intention of the Bank to continue as a going concern.
IDFC had net interest income of ₹ 627 crores, non-interest income of ₹ 80 crores, operating income of ₹ 711 crores, net profit of ₹ 254 crores, gross loan book of ₹ 46,381 crores and gross loan disbursals of ₹ 3,104 crores, as reported on a consolidated basis for the quarter ended June 30, 2015, with 42% of its outstanding loan disbursals being directed towards the energy sector. 1% of its loan book was comprised of net non-performing loans, and a total of 1.5% being comprised of gross non-performing loans.

IDFC Bank has begun its operations with effect from October 1, 2015, with gross loan book of ₹ 46,381 crores.

Recent Developments

The Board has approved audited condensed interim financial statements for the period ended September 30, 2015 vide resolution dated October 26, 2015.

SECTION VI – LEGAL AND OTHER INFORMATION

OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS

Our Bank, Holding Company and our Group Companies are, from time to time, involved in various legal proceedings in the ordinary course of business, which involve matters pertaining to, amongst others, tax, criminal, recovery and other disputes. The section below describes the legal proceedings, which singly or in aggregate, could have a material adverse effect on our Bank or the relevant Subsidiary.

Pursuant to the Scheme, all outstanding litigation including any/all pending suits and/or appeals, pertaining to taxation and other legal proceedings relating to the Financing Undertaking were transferred to transferee company i.e. IDFC Bank, as per the provisions of clause 3.1.2 (vii) of the Scheme.

Litigation Involving our Bank

Criminal Proceedings

There are three criminal complaints pertaining to IDFC, details of which are given below:

1. A criminal complaint was filed on December 1, 2014, by IDFC, at the Court of Munsif Magistrate at Perambalur, against one Dhanalakshmi Srinivasan Charitable Education Trust under section 138 of the Negotiable Instruments Act, 1881 in connection with the dishonour of certain cheques provided by the trust aggregating to Rs.2 crore, having been returned unpaid due to insufficient funds in the trust's accounts. On June 14, 2015, two of the accused appeared before the Munsif Magistrate and submitted that they would settle the matter before the next date of hearing. The matter is to be heard on October 16, 2015. The matter is however adjourned to October 16, 2015

2. A criminal complaint was filed by IDFC against DSC Limited under Section 138 of the Negotiable Instruments Act, 1881, in connection with the dishonour of a cheque provided by DSC Limited of Rs.10 crore due to insufficient funds. The matter is currently pending.

3. Photon Infotech Private Limited ("**PIPL**") filed a criminal complaint (No. 610 of 2012), before the Court of the XI Metropolitan Magistrate, Chennai, against IDFC, its Executive Chairman and Managing Director and CEO and others for alleged conspiracy and suppression of facts in inducing PIPL to purchase commercial paper issued by DCHL, amounting to Rs.5 crore, causing wrongful loss to PIPL. A first information report ("**FIR**") was also filed before the sub-inspector of police, Central Crime Branch, Chennai on December 11, 2012. The Executive Chairman, Managing Director and CEO of IDFC and another, filed a petition (CRL. O.P. No. 3909 of 2013) before the Madras High Court challenging the complaint and the FIR and calling for the records of the FIR. Madras High Court by its order dated February 15, 2013, granted stay on any further action by the police and issued a notice of stay against PIPL.

   PIPL and another also filed a suit (No. 192 of 2012), before the Court of the Additional Chief Judge, City Civil Court, Secunderabad, against DCHL and IDFC, for recovery of Rs.5 crore, jointly and severally from DCHL and IDFC, along with interest at the rate of 18% per annum thereon. The recovery of money was in respect of commercial paper issued by DCHL to IDFC, which IDFC had sold to a third party and such third party had down sold such commercial paper to PIPL. PIPL filed an interim application (No. 2735 of 2012) seeking a direction to IDFC for depositing the amount equivalent to the claim with the City Civil Court. The matter is due to be heard on September 25, 2015. For further details with respect to recovery proceedings initiated against DCHL, see, "***Recovery Cases***" on page 185, below.

Civil proceedings

IDFC is a secured creditor of DAIL, which is currently under liquidation. For details on proceedings initiated by PIPL, see, "***Criminal Proceedings***", on page 184, above. Further, for details on proceedings connected with recovery proceedings, see "***Recovery Cases***", below.

I. Litigation by IDFC Limited

Recovery Cases

1. In fiscal 2004, IDFC sanctioned and disbursed a loan of Rs.30 crore to Data Access India Limited ("**DAIL**") for use in connection with its Internet service provider business. As a result of a promoter dispute, a winding up petition (Co. Pet. No. 292 of 2004) was filed, before the Delhi High Court, by one of DAIL's promoters. Subsequently, the counsel for the Income Tax Department ("**IT Department**") informed the Hon'ble Delhi High Court that an Affidavit on behalf of the IT Department had been filed with regard to Rs.25 crore lying with the IT Department. The counsel further submitted that the dues payable to the DAIL's secured creditors would have priority over the statutory dues of the IT Department. On July 15, 2015, counsel for Canara Bank submitted that the money which had been diverted out of DAIL's accounts had not been brought back despite directions given by the Court. Counsel for Canara Bank also submitted that the IT Department had failed adhere to its affidavit to transfer amounts due to Canara Bank, and further submitted that the IT Department should be restrained from creating any third party rights in respect of the said amounts. The Court allowed the prayers made by the counsel and passed a restraining order against the IT Department. The Hon'ble High Court further directed that a responsible officer from the IT Department would remain present in the Court on the next date of hearing scheduled to be held on September 21, 2015. The said petition for winding up of DAIL is pending disposal. On September 21, 2015, the Hon'ble High Court adjourned the matter to October 15, 2015, January 25, 2016 and March 22, 2016 for hearing various pending applications, contempt petitions and the main proceedings. The matter is currently pending.

2. IDFC filed an application (O.A. No. 57 of 2005) before the Debt Recovery Tribunal, New Delhi against Siddhartha Ray and SPA Enterprises Limited, the guarantors of the loan given to DAIL, for recovery of an amount aggregating to Rs.31.41 crore together with interest since 2005. The matter was heard on February 27, 2015 by the Presiding Officer, DRT - 1, New Delhi who approved IDFC's application regarding change of name and dismissed the defendants' prayers to direct IDFC to disclose and produce application documents and take on record documents and submissions filed by the defendants in the original application. The matter is is currently pending .

3. IDFC also filed a recovery application (No. 9 of 2008), before the Debt Recovery Tribunal, New Delhi, against DAIL and another, seeking a certificate of recovery of approximately Rs.46.54 crore, along with penal interest, liquidated damages and future interest at the rate of 18% per annum, in respect of rupee term loans advanced to DAIL, where Canara Bank has also been impleaded as a defendant. On February 25, 2012, the DRT-1 held that since all recoveries and release of funds by the official liquidator of DAIL was going to have to be approved by the company court, in Delhi, the change in name of IDFC as a secured creditor would have to be brought to the attention of the concerned company court. The matter is currently pending.

4. IDFC filed an application (O.A. Nos. 612 of 2012) before the Debt Recovery Tribunal, Hyderabad, Andhra Pradesh, against DCHL, seeking a certificate of recovery for approximately Rs.106.98 crore, arising out of two commercial papers issued to IDFC by DCHL, along with costs and future interest until repayment of the amounts due on the commercial papers. Further, IDFC also filed interim applications in the recovery application (O.A. No. 612 of 2012), seeking an order restraining DCHL from alienating any interest in its asset, including Deccan Chargers, and from encumbering or disposing of assets hypothecated to IDFC. By a docket order dated September 26, 2012, the DRT, Hyderabad granted an ad-interim injunction, restraining DCHL from alienating the assets hypothecated to IDFC, until final disposal of the application (O.A. No. 612 of 2012). Meanwhile, DCHL filed an application dated April 26, 2013, before the DRT, Hyderabad seeking a stay on the proceedings in the application (O.A. No. 612 of 2012) until disposal of applications filed by DCHL for sanctioning a scheme of demerger and arrangement before the High Court of Andhra Pradesh. IDFC filed a counter dated May 1, 2013 to such application. DCHL has filed a written statement challenging the application (O.A. No. 612 of 2012) filed by IDFC on technical grounds. The matter is currently pending.

IDFC also filed an application (No. 493 of 2012) before the DRT, Andhra Pradesh at Hyderabad, against Mr. T. Venkatram Reddy and others, the guarantors for the commercial papers issued by DCHL, seeking a joint and several decree and certificate recovery for approximately Rs.120.21 crore, along with costs and future interest until repayment of the amounts due on the commercial papers. IDFC filed an interim application (No. 957 of 2012), seeking an order directing T. Venkatram Reddy and others to furnish a list of assets forming part of the guarantee, and for restraining them from encumbering or alienating any interest in Deccan Chargers. The DRT, Andhra Pradesh, by an order dated August 7, 2012, directed Mr. T. Venkatram Reddy and others to submit the current status of their shares pledged and furnish details of their assets, as per the guarantee provided in respect of the commercial papers and to maintain status quo in respect of such shares until the next hearing in the matter. Subsequently, IDFC filed a contempt petition (No. 2199 of 2012) before the High Court of Andhra Pradesh, against the guarantors for non-compliance with the order dated August 7, 2012, and they filed their counter affidavits. Subsequently, IDFC filed a rejoinder application before the concerned High Court and also filed a formal application for an early hearing of the contempt petition. The Bank presently awaits the date of the hearing.

Mr. T. Venkatram Reddy and others filed an interlocutory application (I.A. No. 1433 of 2013) before the DRT, Hyderabad for staying all proceedings pending before it until disposal of the company applications filed by DCHL for reorganization of its assets and liabilities under Sections 391 to 394 of the Companies Act 1956. The matter is currently pending.

IDFC filed an application (321 of 2014) before the DRT, Hyderabad, Andhra Pradesh, against DCHL and its directors (being the guarantors of IDFC), seeking a certificate of recovery for approximately Rs.22.35 crore, arising out of a commercial paper issued to IDFC by DCHL, along with costs and future interest until repayment of the amounts due on the commercial papers Mr. P.K. Iyer, one of the promoters of DCHL, filed a company petition (No. 5 of 2013), before the Company Law Board, Chennai Bench, for restraining IDFC and others from continuing with any civil proceedings against DCHL and its officers and further, to restrain IDFC and others from alienating assets of DCHL, pending disposal of the company petition filed by DCHL for sanctioning a scheme of demerger and arrangement. By an order dated July 4, 2013, the Company Law Board, Chennai Bench, granted the interim relief to Mr. P.K. Iyer. By an order dated July 29, 2013 the Company Law Board, Chennai Bench vacated the stay granted by it, restraining IDFC and others from continuing civil proceedings against DCHL, while upholding the stay on the restraining IDFC and others from alienating assets of DCHL.

Subsequently, DCHL filed a reference case (No. 66 of 2013) before the Board for Industrial and Financial Reconstruction, New Delhi, for registration of DCHL as a sick company. IDFC filed its written submissions on April 15, 2014. The Chairman, BIFR set aside the reference case challenging the same on technical grounds. Subsequently, the Delhi High Court, by an order dated February 3, 2014, remanded the case to BIFR after setting aside the orders of the Chairman of BIFR with further directions to consider the validity of registration of DCHL as a sick company. DCHL filed an appeal with the BIFR, which was admitted by the BIFR. The Chairman, BIFR, on July 6, 2015, released the matter from his bench and transferred it to the Division Bench of the BIFR. The matter was heard on October 1, 2015 before the Appellate Authority for Industrial and Financial Reconstruction ("**AAIFR**") where, the counsel for the appellant completed his rejoinder against the submissions of the respondents. The court has presently reserved the matter for orders and directed the parties to file their written submissions, if any, within a period of three weeks.

IDFC filed an application (O.A. No. 2 of 2013), before the DRT-I, New Delhi, against Tulip Telecom Limited and others seeking a certificate of recovery for approximately Rs.94.99 crore, along with interest and charges at contractual rates, until repayment of the amount due in respect of the loan given to TTL. Additionally, IDFC sought for an interim order restraining TTL from encumbering or disposing of their moveable or immovable assets and hypothecated stocks, attachment of certain immovable properties, shares it held in Tulip Data Centre Services Limited and the credit balance in an account maintained by it with DBS Bank and Axis Bank. By orders dated January 18, 2013, and January 21, 2013, the DRT-I, New Delhi, directed TTL to maintain status quo of the properties and stocks as per the inventory prepared by IDFC until further orders. Thereafter, by an additional affidavit dated March 7, 2013, IDFC amended its claim to approximately Rs.92.12 crore, pursuant to liquidation of fixed deposits of TTL with Axis Bank, amounting to Rs.3.20 crore. By an interim order dated June 21, 2013, the DRT-I, New Delhi granted an interim injunction, directing TTL to furnish security of Rs.94.99 crore (for both applications filed by IDFC (Nos. 1 of 2013 and 2 of 2013)). TTL filed an appeal (No. 262 of 2013) before the Debts Recovery Appellate Tribunal, New Delhi, against IDFC and others, for quashing the interim order dated June 21, 2013 and further sought for an interim stay on the operation of the order dated June 21, 2013 until final disposal of the proceedings. IDFC filed a reply to the appeal on July 11, 2014. TTL filed its written statement on December 22, 2014. On March 18, 2015, the matter was listed before Registrar DRT -,I, Delhi for filing a rejoinder and evidence by way of an affidavit. IDFC has filed its evidence and the matters were listed before the Ld. Registrar DRT-I on August 19, 2015, for filing evidence by the defendant and exhibition of documents submitted by IDFC. The matter is currently pending.

IDFC also filed an application (No. 1 of 2013), before the DRT-I, New Delhi, against Mr. Hardeep Singh Bedi, the chairman and managing director of TTL, and guarantor to the loan provided by IDFC to TTL, seeking a certificate of recovery for approximately ₹ 8.95 crore, along with interest and charges at contractual rates. IDFC also sought for an interim order for restraining Mr. Hardeep Singh Bedi from encumbering or disposing of any part of his properties and further, to declare and furnish details of his personal movable and immovable properties. By an order dated January 21, 2013, the DRT-I, New Delhi, directed Hardeep Singh Bedi to maintain status quo of the movable and immovable properties owned by him until the next hearing. Thereafter, IDFC filed an interim application (No. 40 of 2013) for amending the original application, changing the original amount claimed against Mr. Hardeep Singh Bedi, to ₹ 94.99 crore. By an order dated June 21, 2013, the DRT-I, New Delhi allowed the interim application for amending the application (O.A. No. 1 of 2013) and directed Mr. Hardeep Singh Bedi to furnish security of ₹ 94.98 crore and further, restrained him from moving away from India. Mr. Hardeep Singh Bedi filed an appeal (No. 261 of 2013) before the DRAT, New Delhi, for quashing the order dated June 21, 2013 and summoning the records of our application filed against TTL (O.A. 2 of 2013). Further, Mr. Hardeep Singh Bedi sought an interim stay on the operation of the order dated June 21, 2013 until final disposal of the appeal. IDFC filed a reply dated July 11, 2014 to the appeal. Mr. Hardeep Singh Bedi filed a written statement on March 18, 2015. IDFC filed its evidence and application for impleadment of the official liquidator on August 11, 2015. IDFC has filed its evidence and the matters were listed before the Ld. Registrar DRT-I on August 19, 2015, for filing evidence by the defendant and exhibition of documents submitted by IDFC. The matter is currently pending

On April 24, 2015, the DRAT, New Delhi disposed of the appeals filed by TTL and Mr. Hardeep Singh Bedi while directing TTL to create security (with the equivalent value of the property for which the security had not been created in favour of IDFC due to having been mortgaged to other banks) within one month from the date of the DRAT's order; and Mr. Hardeep Singh Bedi to inform the DRT before undertaking any travel abroad including providing the DRT with a copy of the schedule of his journey.

5. IDFC filed an application (O.A. No. 4 of 2013), before the DRT-I, New Delhi, against TDCSL and others seeking a certificate of recovery for approximately Rs.93.46 crore, along with interest and charges at contractual rates until repayment of the loan granted by IDFC to TDCSL. IDFC also sought for an interim order for restraining TDCSL from alienating or disposing of any properties, for attachment of the shares of its subsidiary, held by it and for appointing a local commissioner for preparation of an inventory of stock in trade and movable property at the property of TDCSL. By an order dated January 29, 2013, the DRT-I, New Delhi directed TDCSL to maintain status quo of the stocks as per the inventory prepared by IDFC and further, restrained it from transferring, alienating, disposing of or creating any third part rights in respect of its properties. TDCSL filed its written statement and evidence on January 2, 2014. TDCSL and others subsequently filed an application for filing recasted statements of accounts and another for cross examining IDFC's witness.

6. IDFC filed an application (O.A. No. 17 of 2014) before the DRT, Hyderabad, against Coastal Projects Limited and its promoters, seeking a certificate of recovery for approximately Rs.112.71 crore, along with interest and charges at contractual rates, in respect of compulsorily convertible debentures issued by Coastal Projects Limited to IDFC. The dispute arose out of put option exercisable by IDFC in regard of the compulsorily convertible debentures, pursuant to which Costal Projects Limited was required to buy-back such debentures. Further, IDFC sought for interim orders restraining Coastal Projects Limited and its promoters from encumbering or disposing of their properties, require them to disclose their assets, pending disposal of the application and for attaching the bank accounts of Coastal Projects Limited and its promoters. The DRT, Hyderabad, by docket orders dated June 30, 2014, directed Coastal Projects Limited and its guarantors to disclose their movable and immovable assets by way of an affidavit and to furnish security towards the claim of IDFC and further, directed the guarantors of Coastal Projects Limited to deposit their passport with the registry of the DRT, Hyderabad. A counter claim was subsequently filed by Coastal Projects Limited against IDFC wherein Coastal Projects Limited claimed an amount of Rs.38.67 crores. IDFC filed a rejoinder to the said claim. On October 17, 2014, Coastal Projects Limited and its promoters filed a memo stating that they had filed an appeal before the DRAT. The DRAT has disposed of the matter and has directed the applications to be filed before the DRT. The matter is due to be heard on December 28, 2015 before the concerned registrar. DRAT has disposed off the matter and has directed the applications to be filed in the DRT. The above matter was listed on September 30, 2015 before the DRT, Hyderabad for filing of rejoinder by the Applicant. However, since the new Presiding Officer is not yet appointed, the matter is currently pending.

Coastal Projects Limited and its promoters filed an appeal dated July 26, 2014 before the DRAT, Southern Region, Kolkata for suspending the docket orders dated June 30, 2014 passed by the DRT, Hyderabad. Affidavit in opposition on behalf of IDFC was filed on November 13, 2014. Coastal Projects Limited on filed an appeal February 16, 2015. The DRAT, Kolkota passed an interim order, directing Coastal Projects Limited to obtain a letter from the State Bank of India (lead lender for the corporate debt restructure package) agreeing to cede its *pari passu* charge in favour of IDFC in respect of all the assets of Coastal Projects Limited. Pursuant to numerous adjournments, the DRAT disposed of the matter on May 14, 2015, while observing that the orders passed by the DRT, Hyderabad for furnishing security and to disclose the assets were valid and liberty was to be given to Coastal Projects Limited to file an application to vacate the DRT's order by disclosing their assets in DRT again; and that IDFC was to decide whether it wanted to join the corporate debt restructuring package.

7. IDFC filed an application (O.A. No. 266 of 2015) on April 17, 2015 before the DRT, Chennai against Dhanalakshmi Srinivasan Charitable Education Trust and its trustees for recovery of approximately Rs.11.46 crore. The matter was heard on May 25, 2015, wherein the Hon'ble Tribunal directed IDFC to file a petition impleading the legal heirs of the one of the deceased due to the defendant's death. The matter was adjourned to August 11, 2015, for the reply statement to be filed by the defendants and to make the legal representatives of the deceased defendant party to the application. The matter is currently pending.

8. ICICI Bank Limited filed an application (O.A. No. 113 of 2015) before the DRT-II, Delhi, against Tulip Telecom Limited and others for recovery of approximately Rs.680.60 crore. IDFC was named as a proforma party along with other lenders of Tulip Telecom Limited ("**TTL**"). On June 16, 2015, the Presiding Officer DRT-II, Delhi directed the defendants to file a reply to the application (O.A. No. 113 of 2015) and written statement given by ICICI Bank Limited. On July 10, 2015, the matter was listed before the Presiding Officer DRT-II, Delhi for arguments on the application filed by ICICI Bank Limited for attachment of certain properties of TTL and for restraining the defendants from travelling abroad. The DRT-II, Delhi, granted an injunction upon some properties and directed defendants including IDFC, to file an affidavit disclosing all the movable and immovable assets held by them. The matter is currently pending.

9. Tulip Data Centre filed appeal (S.A. No. 53 of 2015) before the DRAT, Chennai against an order passed by the DRT, Bangalore, in connection with the action taken by IDFC against Tulip Data Centre under the provisions of the SARFAESI Act. Subsequently, ICICI Bank Limited has also filed an appeal (M.A. (S.A) No.53/2015) before the DRAT, Chennai, against the order of the DRT, Bangalore. The matter is due for hearing on November 3, 2015, for arguments by IDFC.

10. Dheeru Power Limited

IDFC has filed a petition against (a) HDFC Bank Ltd ("**HDFC**"); (b) Power Grid Corporation of India Limited ("**PGCIL**"); (c) Dheeru Powergen Limited ("**DPL**") (CS.OS.2899/2014). IDFC had, in order to secure the performance of obligations of DPL under the Bulk Power Transmission Agreement ("**BPTA**"), an agreement towards setting up of the transmission system for direct-evacuation of power from the generating unit of the 1050 MW coal based power project at Korba, Chhattisgarh ("**Project**"), arranged for a bank guarantee from HDFC Bank ("**HDFC BG**") issued on behalf of DPL in favour of PGCIL and valid until September 30, 2014. The HDFC BG was further secured by a Counter Corporate Guarantee issued by IDFC in favour of HDFC ("**Corporate Guarantee**").

South Eastern Coalfields Limited ("**SECL**"), a subsidiary of Coal India Limited, had issued Letter of Assurance ("**LOA**") to DPL which besides assuring an earmarked supply of coal also required DPL to meet certain milestones one of which was to obtain an environmental clearance ("**EC**") from the Ministry of Environment and Forests ("**MoEF**"). The EC granted by the MoEF for the Project under the BPTA, was cancelled by the National Green Tribunal ("**NGT**") by an order in April 2013. As a direct consequence of cancellation of the EC by the NGT, SECL cancelled the LOA and issued notices for encashment of BGs given in favour of SECL. Further, the Standing Linkage Committee, Ministry of Coal while reviewing the status of existing coal linkage/ LoAs with respect to the Project also noted that EC cancellation was beyond the control of DPL and rendered the Project unviable.

In apprehension of PGCIL invoking the HDFC BG on account of DPL not meeting its obligations under the BPTA (which, in turn, was a direct fall out of EC cancellation & LOA revocation), IDFC filed an injunction suit before the Delhi High Court pleading primarily the occurrence of Force Majeure and seeking:

(i) an injunction against on PGCIL as well as HDFC on invoking the HDFC BG and Corporate Guarantee, respectively; and

(ii) discharge of IDFC of its obligations under the Corporate Guarantee.

The Delhi High Court, after admitting the suit, directed issuance of notices to the defendants. The High Court further ordered an interim stay on the invocation of HDFC BG and Corporate Guarantee subject to IDFC depositing a fixed deposit of the equivalent amount. In compliance of the order dated October 9, 2014, IDFC has submitted a fixed deposit of Rs.22.5 crores in the name of "Registrar General, High Court of Delhi" before the Delhi High Court. The Delhi High Court has directed other parties to file their replies and the matter is due to be heard on December 16, 2015.

Pursuant to the directions of the Delhi High Court, DPL file a writ petition before the High Court of West Bengal, seeking *inter alia,* an injunction against SECL from acting in terms of notice of invocation of the bank guarantees and receiving any money thereof.

The High Court of West Bengal by an order dated February 27, 2014, restrained SECL from invoking the HDFC BG and held that the EC cancellation was beyond the control of DPL. The High Court further directed SECL to keep the amount already received from the encashment of the bank guarantees in a separate fixed deposit account with a Nationalized Bank. The matter is due to be heard on October 30.

II. Litigation involving our Directors

Criminal Proceedings

Photon Infotech Private Limited has filed a complaint before the Magistrate Court, Chennai. Consequently, an FIR was lodged against IDFC impleading Mr. Rajiv Lall, Mr. Vikram Limaye and Mr. Prawin Devchall and IDFC. However, the High Court of Chennai granted a stay in the matter. IDFC awaits the date of the next hearing.

III. Litigation involving our Promoter Group Companies

Litigation involving IDFC Securities Limited

1. IDFC Securities Limited **("IDFC Securities")** received a summons to appear before the Court of the Sub-Judge-I at Jamshedpur on May 19, 2009, in connection with a suit filed by Mr. Sanjaykumar Singh, a retail client of Sharekhan Limited, against IDFC Securities which was a defendant alongwith Sharekhan Ltd. The plaintiff is yet to file his submissions in the matter. Plaintiff has also filed an interrogatory petition. The matter is currently pending.

2. **Supreme Court of India (IA No.4 of 2013) in Civil Appeal No.4493 of 2006**

IDFC Securities Limited had filed an appeal in the Securities Appellate Tribunal(SAT) against a SEBI Circular denying 'Fee Continuity Benefit' to trading members who had corporatized from membership in an Individual or Partnership firm capacity to that of a Corporate. Subsequently, IDFC

Securities had paid the SEBI turnover fees as directed through an interim SAT order. The SAT, by its order dated May 9, 2006, ruled in favour of IDFC Securities Limited and set aside the aforesaid SEBI circular. Subsequently, SEBI has filed an appeal against the SAT order in the Supreme Court. The matter is currently pending.

Litigation involving IDFC Asset Management Company Limited

1. Satyadarshan Yogashram is a charitable trust which is being operated by trustee who had executed a redemption transaction and paid the proceeds to existing bank mandate. Subsequently, an application for change in bank mandate and trustees was received. The existing trustees claimed that the redemption transaction was fraudulent and have filed a complaint with the District Consumer Forum, Raipur. The matter is currently pending.

2. MGD Electronics Pvt. Ltd ("**MGD**") through its owner, Mr. Rajesh Rathi, invested in the IDFC Arbitrage Fund (formerly known as Standard Chartered Arbitrage Fund) through its distributor Yes Bank Limited, Ahmedabad, Gujarat. On April 1, 2009 MGD submitted a redemption request pursuant to which a payout was released on April 4, 2009. MGD's bank mandate was Bank of Baroda, Gandhi Nagar branch, while CAMS released the redemption payout through a demand draft payable at Gandhi Nagar branch, without realizing that Gandhi Nagar is a part of Ahmedabad clearing and payout should have been released through a Payable at Par cheque. In order to speed up the redemption payout, a payout was released through RTGS on April 4, 2009. On Saturday April 5, 2009, CAMS dispatched a demand draft from Chennai to Gandhi Nagar, whereas the payout through RTGS had already happened a day prior. On Monday April 7, 2009 a stop-payment instruction was sent to the bank, however, by the time the bank could stop the payment, the demand draft had already been encashed, resulting in the redemption proceeds being paid twice to MGD. After rigorous follow-up, the IDFC AMC ultimately managed to recover the funds from Mr. Rajesh Rathi on May 24, 2009.

Subsequently, Mr. Rajesh Rathi informed IDFC AMC that he was filing a suit against Yes Bank Limited and its relationship manager, Ms. Shruti Panchal for mis-selling and conducting fraudulent activities in respect of his investments in IDFC MF and other funds. On November 14, 2009, IDFC AMC, Ahmedabad, received a letter from the local police station asking for the original transaction slip along with change of bank mandate instruction issued for another folio of Mr. Rajesh Rathi. Thereafter, the original instructions were handed over to the local police. On November 19, 2009, IDFC AMC, Ahmedabad received another letter from the local police station asking for the original transaction slip for two transactions of MGD which was also provided. Subsequently, IDFC AMC received a notice to appear before Court of 3rd Additional Senior Civil Judge, Gandhinagar, Gujarat, on November 15, 2011. IDFC AMC has now been named as a defendant along with Ms. Shruti Panchal and four other AMCs. The matter is pending hearing.

3. IDFC AMC, Delhi received a request for redemption on July 28, 2008. The investor, Ms. Urmil Agarwal, intended to redeem her investment, initially, but claimed to have changed her mind and opted for a change of bank mandate instead. In doing so, she struck off her signature on the redemption request assuming that the redemption would be ignored and the bank mandate would be changed. However, IDFC AMC's registrar, CAMS, processed the redemption despite the signature being struck off, along with the change of bank mandate on December 8, 2008. Subsequently, the redemption cheque was dispatched on January 5, 2009 and the instrument was received and banked by the investor.

In June 2009, the investor stated that she had not requested for redemption and was willing to return the redemption proceeds for reinstatement of units allotted to her. IDFC AMC refused to accept her claim as it was six months after the redemption. Ms. Urmil claimed to have noticed the error while finalizing her income tax returns. On October 31, 2011, IDFC AMC received an ex-parte order dated October 12, 2011 from the District Consumer Redressal Forum, Gautam Budh Nagar ordering it to pay a compensation of Rs. 134,000/- to the investor. The concerned consumer court has granted a stay on the execution application made by the investor who is yet to appeal against the said stay order.

4. IDFC Mutual Fund ("IDFC MF") received notice dated October 13, 2014, from the Income-tax Department, under section 226(3) of the Income-tax Act, 1961 ("the Income Tax Act"). The said notice was received by the IDFC AMC on behalf of IDFC MF on October 16, 2014. The said notice directed IDFC MF to redeem units of one Salgaonkar Mining Industries Private Limited ("the Assessee") and transfer the funds thereof to the account of the concerned Income Tax Department, failing which IDFC MF further proceedings would be taken against IDFC MF. IDFC MF by its reply dated October 28, 2014, to the Income Tax Departmemt, shared the investment details of the Assessee and further submitted that IDFC MF was not empowered to voluntarily redeem / liquidate the units without prior consent of the Assessee. IDFC MF further submitted that it had not received any notice / letter of consent from the Assessee for redemption / liquidation of units.

The Income-tax Department issued another notice to IDFC MF under section 226(3)(x) of the Income Tax Act on October 28, 2014 directing IDFC MF to show cause as to why IDFC MF should not be held as assessee in default. IDFC MF, in its reply to the said show cause notice, submitted that it had identified the records of the Assessee as one in which payment could not be made to the Assessee when it becomes due, but would be paid to the revenue or investor basis instructions received by IDFC MF from the income tax authorities at the time of such payment. On October 31, 2014, the Assistant Commissioner of Income Tax, issued a summons order to IDFC MF, directing IDFC MF to produce certain documents of Assessee, which documents were duly submitted by IDFC MF on November 7, 2014.

The Assistant Commissioner of Income Tax by a letter dated November 14, 2014 ordered IDFC MF to redeem the units of the Assessee and transfer the funds to the income tax authorities by November 17, 2014 failing which action would be initiated against IDFC MF. IDFC AMC (on behalf of IDFC MF) by a reply dated November 17, 2014, requested the Joint Commissioner to grant IDFC MF an opportunity for personal hearing. IDFC MF, has filed a writ petition before the High Court of Goawhich has moved the matter to a fast track team, comprising of one judge. IDFC AMC is awaiting confirmation on the new date of hearing.

IV. Amount owed to small scale undertakings/creditors

For details see "***Financial Statements***" on page 209 and **"*Financial Indebtedness***" on page 169 of this Information Memorandum.

V. Past cases where penalties were imposed

Nil

VI. Material Fraud Committed against IDFC/ our Bank

There have been no material frauds committed against IDFC Limited or our Bank in the last three years.

VII. Details of default

As on the date of this Information Memorandum, our Bank has not defaulted in the repayment of statutory dues, payment of interest or principal in respect of any debentures issued or deposits accepted and payment of interest or principal on any loan from any bank or financial institution.

VIII. Details of inquiries, inspection or investigation under the Companies Act 2013 or any previous companies law

There has been no inquiry, inspections or investigations initiated or conducted under the Companies Act, 2013 or any previous companies law as on the date of this Information Memorandum against our Bank or our Group Companies. Further, there have been no prosecutions filed, fines imposed or compounding of offences in the last three years immediately preceding the date of this Information Document involving our Bank or our Group Companies.

GOVERNMENT APPROVALS AND LICENSES

Our Bank (Corporate Identification Number U65110TN2014PLC097792) was incorporated as a public limited company on October 21, 2014, as "**IDFC Bank Limited**"**.** With effect from the Effective Date and upon the Scheme of Demerger becoming effective, all permits, quotas, licenses, approvals, bids, tenders, registrations and other licenses, letters of intent, expressions of interest, patents, copyrights, records, designs and all intellectual property rights in the aforesaid, municipal permissions, approvals, consents, subsidies and/or residential properties for the employees, privileges, income tax benefits and other exemptions under the Income Tax Act, 1961, (or any statutory modification or reenactment thereof for the time being in force), all other rights including sales tax deferrals and exemptions and other benefits, license, powers and benefits of every kind, nature and description whatsoever, contracts, arrangements and all other interests in relation to the Financing Undertaking stand transferred to and vested in the Bank as a going concern without any further act or deed and shall, as may be required, be appropriately mutated by the statutory or other authorities concerned therewith in favour of our Bank.

The benefit of all statutory and regulatory permissions, licenses, environmental approvals (if any), tax registrations, permits, permissions or approvals or consents required to carry on the business of banking pursuant to the Scheme of Demerger, shall vest in and become available to our Bank.

I. Business Licenses

Sr. No.	Particulars of license/ approval	Issuing Authority	License/Approval Number	Date of Issue/ Approval
1.	RBI Final Banking License	RBI	111	July 23, 2015
2.	Approval of Managing Director and CEO, Non-Executive Chairman, Dr. Ashok Gulati and Mr. Vinod Rai	RBI	DBR.Appt.No.4305/29.91.001/ 2015-16	September 24, 2015
3.	RTGS	RBI	DAD / RTGS / 98 / 24.02.001 / 2015-16	August 11, 2015
4.	AD Category 1 License	RBI	FED.MRO.FMD/1388/87.01.106(AD Cat-I No. 26/2015)/2015-16	August 3, 2015
5.	Membership to Centralised Payment Systems	RBI	DPSS.CO.OSD.No.2005/06.07.006/2014-15	April 24, 2015
6.	Approval for MD and CEO of the Bank	RBI	DBR.APPT.No.4305/29.91.001/2015-16	September 24, 2015
7.	SWIFT Network	SWIFT	Email	September 8, 2015
8.	Negotiated Dealing System (NDS) membership	RBI	NDS Call – FMRD.FMID.No.156/10.25.065/2015-2016	September 29, 2015

Sr. No.	Particulars of license/ approval	Issuing Authority	License/Approval Number	Date of Issue/ Approval
			NDS OM – FMRD.CO.FMID.No. 140/10.25.066/2015-16	September 22, 2015
9.	India Financial Network (INFINET) membership	RBI	Mum.ITC.No.H-6/02-10-004/2015-16	July 31, 2015
10.	National Electronic Fund Transfer (NEFT) membership	RBI	Over Email	October 5, 2015
11.	Northern Grid Bankers Clearing House Membership	RBI	ND.DPSS.No.191/01.05.016/2015-16	August 31, 2015
12.	Chennai Clearing House Membership	RBI	DPSS.No.Che/295/01.02.013/2015-16	September 9, 2015
13.	Western Grid Bankers Clearing House Membership	RBI	NCC.MRO.No.28/03.03.005/2015-16	August 4, 2015
14.	NPCI membership includes NACH, NFS, IMPS, CTS, AEPS, Rupay, Aadhaar payments bridge system, etc.	NPCI	-	September 23, 2015
15.	CCIL membership	CCIL	-	August 14, 2015
16.	Membership of 'Securities' & Forex Segment of Clearing Corporation of India Limited	CCIL	CCI/MEM/15/384	July 31, 2015
17.	Membership of 'Collateralised Borrowing and Lending Obligations Segment of CCIL	CCIL	CCI/MEM/15/409	September 11, 2015

Sr. No.	Particulars of license/ approval	Issuing Authority	License/Approval Number	Date of Issue/ Approval
18.	Membership of 'Forex' Forward Segment of CCIL	CCIL	CCI/MEM/15/409	September 29, 2015
19.	Forex Derivative Segment membership of Trade Reporting	CCIL	CCI/MEM/15/446	September 28, 2015
20.	Forex Dealing and Forex SWAP segment membership	ClearCorp	CDS/MEM/15/335	September 29, 2015
21.	Repo Dealing Segment Membership	ClearCorp	CDS/MEM/15/325	September 28, 2015
22.	FTRAC Membership	ClearCorp	CDS/MEM/15/297	September 14, 2015
23.	Mobile Banking Approval	RBI	DPSS.CO.AD.No. 561/02.23.003/2015-16	September 09, 2015
24.	Bank Code from DPSS	RBI	DPSS.CO.OSD.No.329/06.07.006/2015-16	August 11, 2015 July 28, 2015 (over email)
25.	IFSC Code	RBI	Over email	July 27, 2015
26.	Foreign Exchange Dealers' Association of India membership	FEDAI	631/IDFC/2015	August 7, 2015
27.	Bank & Branch code (BSR)	RBI	Over Email (BSR - 201)	August 7, 2015
28.	Membership to IIBF	IIBF	INST/MEM/2695/2015	April 15, 2015

SECTION VII – OTHER INFORMATION

MAIN PROVISIONS OF ARTICLES OF ASSOCIATION

Capitalised terms used in this section have the meaning that has been given to such terms in the Articles of Association of our Bank. Pursuant to Schedule I of the Companies Act, 2013 and the SEBI Regulations, the main provisions of the Articles of Association of our Bank are detailed below:

Share capital and variation of rights

Article 3 provides that "The Authorised Capital of the Company will be as stated in Clause V of the Memorandum of Association, with power to increase or reduce the said Capital and to issue any part of its Capital with or without any priority or special privilege to the restrictions, if any, in the Banking Regulation Act, 1949, the Companies Act, 2013, and these Articles."

Article 4 provides that "Subject to the provisions of the Act and these Articles, the shares in the capital of the Company shall be under the control of the Board who may issue, allot or otherwise dispose of the same or any of them to such persons, in such proportion and on such terms and conditions and either at a premium or at par and at such time as they may from time to time think fit."

Article 6 provides that "The Company may issue the following kinds of shares in accordance with these Articles, the Act, the Rules, Banking Regulation Act, 1949 and other applicable laws:

a) Equity share capital

    (i) with voting rights; and / or

    (ii) with differential rights as to dividend, voting or otherwise in accordance with the Rules and

b) Preference share capital."

Foreign shareholding in the Company

Article 16 provides that "The aggregate foreign shareholding including by way of Foreign Institutional Investors (FIIs) / SEBI approved sub-accounts of FIIs, Foreign Direct Investment (FDI), Foreign Nationals, Non-resident Indians (NRIs), Overseas Corporate Bodies (OCBs), Registered Foreign Portfolio Investors (FPI) in the Company shall not exceed 49 per cent of the paid-up voting equity capital of the Company for the first 5 years from the date of licensing of the Company. Also, the foreign shareholding in the Company shall be as per the directions of the Reserve Bank of India, from time to time, in respect of new banks set up under the Guidelines for Licensing of New Banks in the Private Sector issued on February 22, 2013."

Alteration of capital

Article 58 provides that "Subject to the provisions of the Act, the Company may, by ordinary resolution –

a) increase the share capital by such sum, to be divided into shares of such amount as it thinks expedient;

b) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

c) Provided that any consolidation and division which results in changes in the voting percentage of members shall require applicable approvals under the Act;

d) convert all or any of its fully paid-up shares into stock, and reconvert that stock into fully paid-up shares of any denomination;

e) sub-divide its existing shares or any of them into shares of smaller amount than is fixed by the memorandum;

f) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person."

Article 60 provides that "The Company may, by resolution as prescribed by the Act, reduce in any manner and in accordance with the provisions of the Act and the Rules –

(a) its share capital; and/or

(b) any capital redemption reserve account; and/or

(c) any securities premium account; and/or

(d) any other reserve in the nature of share capital."

Calls on shares

Article 23(1) provides that "The Board may, from time to time, make calls upon the members in respect of any monies unpaid on their shares (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times.

Article 23(2) provides that "Each member shall, subject to receiving at least fourteen days' notice specifying the time or times and place of payment, pay to the Company, at the time or times and place so specified, the amount called on his shares.

Article 23(3) provides that "A call may be revoked or postponed at the discretion of the Board."

Article 24 provides that "A call shall be deemed to have been made at the time when the resolution of the Board authorising the call was passed and may be required to be paid by instalments."

Article 25 provides that "The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof."

Article 26(1) provides that "If a sum called in respect of a share is not paid before or on the day appointed for payment thereof (the "due date"), the person from whom the sum is due shall pay interest thereon from the due date to the time of actual payment at such rate as may be fixed by the Board.

Article 26(2) provides that "The Board shall be at liberty to waive payment of any such interest wholly or in part."

Article 27(1) provides that "Any sum which by the terms of issue of a share becomes payable on allotment or at any fixed date, whether on account of the nominal value of the share or by way of premium, shall, for the purposes of these Articles, be deemed to be a call duly made and payable on the date on which by the terms of issue such sum becomes payable."

Article 27(2) provides that "In case of non-payment of such sum, all the relevant provisions of these Articles as to payment of interest and expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified."

Article 28 provides that "The Board –

a) may, if it thinks fit, receive from any member willing to advance the same, all or any part of the monies uncalled and unpaid upon any shares held by him; and

b) upon all or any of the monies so advanced, may (until the same would, but for such advance, become presently payable) pay interest at such rate as may be fixed by the Board."

Nothing contained in this clause shall confer on the member (a) any right to participate in profits or dividends or (b) any voting rights in respect of the moneys so paid by him until the same would, but for such payment, become presently payable by him."

Article 29 provides that "If by the conditions of allotment of any shares, the whole or part of the amount of issue price thereof shall be payable by instalments, then every such instalment shall, when due, be paid to the Company by the person who, for the time being and from time to time, is or shall be the registered holder of the share or the legal representative of a deceased registered holder."

Article 30 provides that "All calls shall be made on a uniform basis on all shares falling under the same class.

Explanation: Shares of the same nominal value on which different amounts have been paid-up shall not be deemed to fall under the same class."

Article 31 provides that "Neither a judgment nor a decree in favour of the Company for calls or other moneys due in respect of any shares nor any part payment or satisfaction thereof nor the receipt by the Company of a portion of any money which shall from time to time be due from any member in respect of any shares either by way of principal or interest nor any indulgence granted by the Company in respect of payment of any such money shall preclude the forfeiture of such shares as herein provided."

Article 32 provides that "The provisions of these Articles relating to calls shall mutatis mutandis apply to any other securities including debentures of the Company."

Forfeiture of shares

Article 44 provides that "If a member fails to pay any call, or instalment of a call or any money due in respect of any share, on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid or a judgment or decree in respect thereof remains unsatisfied in whole or in part, serve a notice on him requiring payment of so much of the call or instalment or other money as is unpaid, together with any interest which may have accrued and all expenses that may have been incurred by the Company by reason of non-payment."

Article 45 provides that "The notice aforesaid shall:

a) name a further day (not being earlier than the expiry of fourteen days from the date of service of the notice) on or before which the payment required by the notice is to be made; and

b) state that, in the event of non-payment on or before the day so named, the shares in respect of which the call was made shall be liable to be forfeited."

Article 46 provides that "If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may, at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect."

Article 47 provides that "Neither the receipt by the Company for a portion of any money which may from time to time be due from any member in respect of his shares, nor any indulgence that may be granted by the Company in respect of payment of any such money, shall preclude the Company from thereafter proceeding to enforce a forfeiture in respect of such shares as herein provided. Such forfeiture shall include all dividends declared or any other moneys payable in respect of the forfeited shares and not actually paid before the forfeiture."

Article 48 provides that "When any share shall have been so forfeited, notice of the forfeiture shall be given to the defaulting member and an entry of the forfeiture with the date thereof, shall forthwith be made in the register of members but no forfeiture shall be invalidated by any omission or neglect or any failure to give such notice or make such entry as aforesaid."

Article 48 provides that "The forfeiture of a share shall involve extinction at the time of forfeiture, of all interest in and all claims and demands against the Company, in respect of the share and all other rights incidental to the share."

Article 50(1) provides that "A forfeited share shall be deemed to be the property of the Company and may be sold or re-allotted or otherwise disposed of either to the person who was before such forfeiture the holder thereof or entitled thereto or to any other person on such terms and in such manner as the Board thinks fit."

Article 50(2) provides that "At any time before a sale, re-allotment or disposal as aforesaid, the Board may cancel the forfeiture on such terms as it thinks fit."

Article 51(1) provides that "A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding the forfeiture, remain liable to pay, and shall pay, to the Company all monies which, at the date of forfeiture, were presently payable by him to the Company in respect of the shares."

Article 51(2) provides that "All such monies payable shall be paid together with interest thereon at such rate as the Board may determine, from the time of forfeiture until payment or realisation. The Board may, if it thinks fit, but without being under any obligation to do so, enforce the payment of the whole or any portion of the monies due, without any allowance for the value of the shares at the time of forfeiture or waive payment in whole or in part."

Article 51(3) provides that "The liability of such person shall cease if and when the Company shall have received payment in full of all such monies in respect of the shares."

Article 53 provides that "Upon any sale after forfeiture or for enforcing a lien in exercise of the powers hereinabove given, the Board may, if necessary, appoint some person to execute an instrument for transfer of the shares sold and cause the purchaser's name to be entered in the register of members in respect of the shares sold and after his name has been entered in the register of members in respect of such shares the validity of the sale shall not be impeached by any person."

Article 54 provides that "Upon any sale, re-allotment or other disposal under the provisions of the preceding Articles, the certificate(s), if any, originally issued in respect of the relative shares shall (unless the same shall on demand by the Company has been previously surrendered to it by the defaulting member) stand cancelled and become null and void and be of no effect, and the Board shall be entitled to issue a duplicate certificate(s) in respect of the said shares to the person(s) entitled thereto."

Article 55 provides that "The Board may, subject to the provisions of the Act, accept a surrender of any share from or by any member desirous of surrendering them on such terms as they think fit."

Article 56 provides that "The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified."

Article 57 provides that "The provisions of these Articles relating to forfeiture of shares shall mutatis mutandis apply to any other securities including debentures of the Company."

Transmission of shares

Article 39(1) provides that "On the death of a member, the survivor or survivors where the member was a joint holder, and his nominee or nominees or legal representatives where he was a sole holder, shall be the only persons recognised by the Company as having any title to his interest in the shares."

Article 39(2) provides that "Nothing in clause (1) shall release the estate of a deceased joint holder from any liability in respect of any share which had been jointly held by him with other persons."

Article 40(1) provides that "Any person becoming entitled to a share in consequence of the death or insolvency of a member may, upon such evidence being produced as may from time to time properly be required by the Board and subject as hereinafter provided, elect, either –

a) to be registered himself as holder of the share; or

b) to make such transfer of the share as the deceased or insolvent member could have made."

Article 40(2) provides that "The Board shall, in either case, have the same right to decline or suspend registration as it would have had, if the deceased or insolvent member had transferred the share before his death or insolvency."

Article 40(3) provides that "The Company shall be fully indemnified by such person from all liability, if any, by actions taken by the Board to give effect to such registration or transfer."

Article 41(1) provides that "If the person so becoming entitled shall elect to be registered as holder of the share himself, he shall deliver or send to the Company a notice in writing signed by him stating that he so elects."

Article 41(2) provides that "If the person aforesaid shall elect to transfer the share, he shall testify his election by executing a transfer of the share."

Article 41(3) provides that "All the limitations, restrictions and provisions of these regulations relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as aforesaid as if the death or insolvency of the member had not occurred and the notice or transfer were a transfer signed by that member."

Article 42 provides that "A person becoming entitled to a share by reason of the death or insolvency of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company:

Provided that the Board may, at any time, give notice requiring any such person to elect either to be registered himself or to transfer the share, and if the notice is not complied with within ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the share, until the requirements of the notice have been complied with."

Article 43 provides that "The provisions of these Articles relating to transmission by operation of law shall mutatis mutandis apply to any other securities including debentures of the Company."

Borrowing Powers

Article 65 provides that "Subject to the relevant provisions of the Act and the Banking Act, the Board may from time to time, by a resolution passed at its meeting, borrow moneys and may generally raise and secure the payment of such sum or sums in such manner and upon such terms and conditions in all respects as it thinks fit and in particular by the issue of bonds, perpetual or redeemable debentures or debenture stock or any mortgage or charge or other Security on the undertaking or the whole or any part of the property of the Company (both present and future)."

Article 66 provides that "Any bonds, debenture stock or other securities issued or to be issued by the Company shall be under the control of the Board, who may issue them upon such terms, and conditions and in such manner and for such consideration as they shall consider to be for the benefit of the Company."

Article 68 provides that "The Board shall cause a proper register to be kept in accordance with the provisions of the Section 85 of the Act of all mortgages and charges specifically affecting the property of the Company and shall duly comply with the requirements of the Act in regard to registration of mortgages and charges and in regard to inspection to be given to creditors or Members of the Register of Charges and of copies of instruments creating charges. Such sum as may be prescribed by the Act shall be payable by any person other than creditor or Member of the Company for each inspection of the Register of Charges."

Conversion of Shares into stock

Article 59 provides that "Where shares are converted into stock:

a) the holders of stock may transfer the same or any part thereof in the same manner as, and subject to the same Articles under which, the shares from which the stock arose might before the conversion have been transferred, or as near thereto as circumstances admit.

b) Provided that the Board may, from time to time, fix the minimum amount of stock transferable, so, however, that such minimum shall not exceed the nominal amount of the shares from which the stock arose;

c) the holders of stock shall, according to the amount of stock held by them, have the same rights, privileges and advantages as regards dividends, voting at meetings of the Company, and other matters, as if they held the shares from which the stock arose; but no such privilege or advantage (except participation in the dividends and profits of the Company and in the assets on winding up) shall be conferred by an amount of stock which would not, if existing in shares, have conferred that privilege or advantage;

d) such of these Articles of the Company as are applicable to paid-up shares shall apply to stock and the words "share" and "shareholder"/"member" shall include "stock" and "stock-holder" respectively."

General Meetings

Article 69 provides that "All general meetings other than annual general meeting shall be called extraordinary general meeting."

Article 70 provides that "The Board may, whenever it thinks fit, call an extraordinary general meeting."

Voting rights

Article 80 provides that "Subject to any rights or restrictions for the time being attached to any class or classes of shares –

a) on a show of hands, every member present in person shall have one vote; and

b) on a poll, the voting rights of members shall be in proportion to his share in the paid-up equity share capital of the company. Provided however that the voting rights shall be subject to the restrictions imposed under section 12 (2) of Banking Regulation Act, 1949, as amended from time to time."

Article 81 provides that "A member may exercise his vote at a meeting by electronic means in accordance with the Act and shall vote only once."

Article 75 provides that "On any business at any general meeting, in case of an equality of votes, whether on a show of hands or electronically or on a poll, the Chairperson shall have a second or casting vote."

Proxy

Article 91 provides that "An instrument appointing a proxy shall be in the form as prescribed in the Rules."

Article 90(1) provides that "Any member entitled to attend and vote at a general meeting may do so either personally or through his constituted attorney or through another person as a proxy on his behalf, for that meeting."

Article 90(2) provides that "The instrument appointing a proxy and the power-of attorney or other authority, if any, under which it is signed or a notarised copy of that power or authority, shall be deposited at the registered office of the company not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, or, in the case of a poll, not less than

24 hours before the time appointed for the taking of the poll; and in default the instrument of proxy shall not be treated as valid."

Article 92 provides that "A vote given in accordance with the terms of an instrument of proxy shall be valid, notwithstanding the previous death or insanity of the principal or the revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given.

Provided that no intimation in writing of such death, insanity, revocation or transfer shall have been received by the Company at its office before the commencement of the meeting or adjourned meeting at which the proxy is used."

Board of Directors

Article 93 provides that "Unless otherwise determined by the Company in general meeting, the number of directors shall not be less than 3 (three) and shall not be more than 15 (fifteen). The Board Directors shall include persons with professional and other experience as required under the Banking Regulation Act, 1949."

Article 95 provides that "A Director shall not be required to hold any shares to qualify him to act as a Director of the Company."

Article 96 (1) provides that "The Board shall have the power to determine the directors whose period of office is or is not liable to determination by retirement of directors by rotation.

(2) The same individual may, at the same time, be appointed as the Chairperson of the Company as well as the Managing Director or Chief Executive Officer of the Company."

Article 97(1) provides that "The remuneration of the directors shall, in so far as it consists of a monthly payment, be deemed to accrue from day-to-day."

Article 97(2) provides that "The remuneration payable to the directors, including any managing or whole-time director or manager, if any, shall be determined in accordance with and subject to the provisions of the Act by an ordinary resolution passed by the Company in general meeting."

Article 97(3) provides that "In addition to the remuneration payable to them in pursuance of the Act, the directors may be paid all travelling, hotel and other expenses properly incurred by them-

a) in attending and returning from meetings of the Board of Directors or any committee thereof or general meetings of the Company; or

b) in connection with the business of the Company."

Chief Executive Officer, Manager, Company Secretary and Chief Financial Officer

Article 112 provides that

a) "The appointment or re-appointment or termination of appointment of the Chairman, Managing Director, Wholetime Director, Manager or the Chief Executive Officer by whatever name called, shall be made by the Board for such term, at such remuneration and upon such conditions as it may think fit, after obtaining prior approval of the Reserve Bank of India under Section 35B of the Banking Act.

b) (b) Subject to the prior approval of the Reserve Bank of India, the Board may appoint one or more chief executive officers for its multiple businesses.

c) Subject to the prior approval of the Reserve Bank of India, a director may be appointed as chief executive officer, manager, company secretary or chief financial officer."

Proceedings of the Board

Article 103(1) provides that "The Board of Directors may meet for the conduct of business, adjourn and otherwise regulate its meetings, as it thinks fit."

Article 103(2) provides that "A director may, and the manager or secretary on the requisition of a director shall, at any time, summon a meeting of the board."

Article 104(1) provides that "Save as otherwise expressly provided in the Act, questions arising at any meeting of the Board shall be decided by a majority of votes."

Article 104(2) provides that "In case of an equality of votes, the Chairperson of the Board, if any, shall have a second or casting vote."

Dividends and Reserve

Article 116 provides that "The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Board but the Company in general meeting may declare a lesser dividend. Provided that the Company shall create the reserve fund in accordance with section 17 of the Banking Regulation Act, 1949 before declaration of dividend."

Article 117 provides that "Subject to the provisions of the Act, the Board may from time to time pay to the members such interim dividends of such amount on such class of shares and at such times as it may think fit."

Capitalisation of profits

Article 62(1) provides that "The Company by ordinary resolution in general meeting may, upon the recommendation of the Board, resolve –

a) that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the Company's reserve accounts, or to the credit of the profit and loss account, or otherwise available for distribution; and

b) that such sum be accordingly set free for distribution in the manner specified in clause (2) below amongst the members who would have been entitled thereto, if distributed by way of dividend and in the same proportions."

Article 62(2) provides that "The sum aforesaid shall not be paid in cash but shall be applied, subject to the provision contained in clause (3) below, either in or towards:

a) paying up any amounts for the time being unpaid on any shares held by such members respectively;

b) paying up in full, unissued shares or other securities of the Company to be allotted and distributed, credited as fully paid-up, to and amongst such members in the proportions aforesaid;

c) partly in the way specified in sub-clause (a) and partly in that specified in sub-clause (b)."

Article 62(3) provides that "A securities premium account and a capital redemption reserve account or any other permissible reserve account may, for the purposes of this Article, be applied in the paying up of unissued shares to be issued to members of the Company as fully paid bonus shares."

Article 62(4) provides that "The Board shall give effect to the resolution passed by the Company in pursuance of this Article."

Winding up

Article 135 provides that "For winding up of the Company the provisions contained in the Banking Regulation Act, 1949, shall apply and those contained in the Companies Act, 2013, shall apply to the extent to which they are not inconsistent with the Banking Regulation Act, 1949."

Article 136 provides that "Subject to the applicable provisions of the Act, the Banking Act and the Rules made thereunder –

a) If the Company shall be wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Act, divide amongst the members, in specie or kind, the whole or any part of the assets of the Company, whether they shall consist of property of the same kind or not.

b) For the purpose aforesaid, the liquidator may set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members.

c) The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories if he considers necessary, but so that no member shall be compelled to accept any shares or other securities whereon there is any liability."

Indemnity and Insurance

Article 137 provides that

a) "Subject to the provisions of the Act, every director, managing director, whole-time director, manager, company secretary and other officer of the Company shall be indemnified by the Company out of the funds of the Company, to pay all costs, losses and expenses (including travelling expense) which such director, manager, company secretary and officer may incur or become liable for by reason of any contract entered into or act or deed done by him in his capacity as such director, manager, company secretary or officer or in any way in the discharge of his duties in such capacity including expenses.

b) Subject as aforesaid, every director, managing director, manager, company secretary or other officer of the Company shall be indemnified against any liability incurred by him in defending any proceedings, whether civil or criminal in which judgment is given in his favour or in which he is acquitted or discharged or in connection with any application under applicable provisions of the Act in which relief is given to him by the Court or Tribunal.

c) The Company may take and maintain any insurance as the Board may think fit on behalf of its present and/or former directors and key managerial personnel for indemnifying all or any of them against any liability for any acts in relation to the Company for which they may be liable but have acted honestly and reasonably."

MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

Copies of the following documents may be inspected at our Registered Office between 10 a.m. and 5 p.m. on working days from the date of submission up to the date of listing and trading of the Equity Shares of our Bank:

1. Certified copies of Memorandum and Articles of Association of our Bank.

2. Certificate of incorporation of our Bank, dated October 21, 2014.

3. In-principle approval from the RBI.

4. Certificate of registration of our Bank with RBI.

5. Latest annual report of our Bank

6. Financial statements of our Bank as on October 1, 2015.

7. Scheme of Arrangement sanctioned by the High Court of Madras by its order dated June 25, 2015.

8. Resolutions for the appointment of the Managing & CEO and other Executive Directors of our Bank.

9. Appointment Letters of Independent Directors of our Bank.

10. Confirmation of dematerialization of Shares of our Bank, from NSDL.

11. Tripartite agreement between IDFC Bank,NSDL and Karvy

12. Confirmation of dematerialization of Shares of our Bank, from CSDL.

13. Tripartite agreement between IDFC Bank, CDSL and Karvy

14. In-principle listing approval from NSE dated October 21, 2015.

15. In-principle listing approval from BSE dated October 27, 2015.

16. Application dated October 19, 2015 to SEBI, requesting SEBI to grant exemption from the applicability of Rule 19(2) (b) of the Securities Contract Regulation (Rules) 1975 for listing of Shares of our Bank.

17. SEBI letter dated October 28, 2015 granting relaxation from applicability of Rule 19(2) (b) of the Securities Contract Regulation (Rules) 1975 for listing of Shares of our Bank.

18. Any of the contracts or documents mentioned in this Information Memorandum may be amended or modified at any time if so required in the interests of our Bank or if required by the other parties, without reference to the Bank's shareholders subject to compliance with applicable law.

FINANCIAL STATEMENTS

S. No.	Financial Statements
1	Audited Financials as of March 31, 2015
2	Unaudited limited review results for the quarter ended June 30, 2015
3.	Independent Auditor’s Report on audited Condensed Interim Financial Statements for the period ended September 30, 2015

Deloitte Haskins & Sells

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF IDFC BANK LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of **IDFC BANK LIMITED** ("the Company"), which comprise the Balance Sheet as at 31st March, 2015, the Statement of Profit and Loss, the Cash Flow Statement for the period from October 21, 2014 (date of incorporation) to March 31, 2015, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our

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audit opinion on the financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 2015, and its loss and its cash flows for the period from October 21, 2014 (date of incorporation) to March 31, 2015.

Emphasis of Matter

We draw attention to the Note 15 to the financial statement which indicates that the its net worth has been fully eroded, the company has incurred a net loss during the current period and the Company's current liability exceeded its current assets as at balance sheet date. However, for the reasons indicated in the said note the accounts are prepared on a going concern basis.

Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2015 ("the Order") issued by the Central Government in terms of Section 143(11) of the Act, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order.

2. As required by Section 143 (3) of the Act, we report that:

(a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

(b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books

(c) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account

(d) In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

(e) On the basis of the written representations received from the directors as on 31st March,2015 taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2015 from being appointed as a director in terms of Section 164 (2) of the Act.

(f) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

i. The Company does not have any pending litigations which would impact its financial position.

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ii. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.

iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

For **DELOITTE HASKINS AND SELLS**
Chartered Accountants
(Firm's Registration No. 117365W)

Zubin Shekary
Partner
(Membership No. 48814)

MUMBAI, 29th April, 2015
ZS/JK/2014-15

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ANNEXURE TO THE INDEPENDENT AUDITOR'S REPORT

(Referred to in paragraph 1 under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)

(i) According to the information and explanations given to us, the Company does not have any fixed assets. Therefore, the provisions paragraph 3(i) of the Order are not applicable to the Company.

(ii) According to the information and explanations given to us, the nature of the Company's business is such that it is not required to hold any inventories. Therefore, the provisions of paragraph 3(ii) of the Order are not applicable to the Company.

(iii) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the Register maintained under Section 189 of the Companies Act, 2013.

(iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and for the sale of services and during the course of our audit we have not observed any continuing failure to correct major weaknesses in such internal control system. According to the information and explanations given to us, the Company does not hold inventories nor is it engaged in the sale of goods.

(v) According to the information and explanations given to us, the Company has not accepted any deposit from the public during the year and no order in this respect has been passed by the Company Law Board or National Company Law Tribunal or the Reserve Bank of India or any Court or any other Tribunals.

(vi) To the best of our knowledge and according to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under sub-section(1) of section 148 of the Companies Act, 2013, in respect of the services rendered by the Company.

(vii) According to the information and explanations given to us, in respect of statutory dues:

(a) The Company has been regular in depositing undisputed statutory dues, including income tax, service tax and other material statutory dues applicable to it with the appropriate authorities. According to the information and explanation given to us, there were no amounts payable on account of provident fund, employees' state insurance, sales tax, wealth tax, duty of customs, duty of excise, value added tax and cess during the year.

(b) There were no undisputed amounts payable in respect of provident fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, duty of customs, duty of excise, value added tax, cess and other material statutory dues in arrears as at March 31, 2015 for a period of more than six months from the date they became payable.

(c) There are no dues of Income-tax, Service Tax and Cess which have not been deposited as on March 31, 2015 on account of disputes.

(d) There are no amounts that are due to be transferred to the Investor Education and Protection Fund in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and Rules made thereunder.

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(viii) The Company is not registered for more than 5 years as on the Balance Sheet date. Therefore, the provisions of paragraph 3(viii) of the Order are not applicable to the Company.

(ix) According to information and explanations given to us, there were no dues payable by the Company to financial institutions or banks or debenture holders during the year. Therefore, the provisions of paragraph 3(ix) of the Order are not applicable to the Company.

(x) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions. Therefore, the provisions of paragraph 3(x) of the Order are not applicable to the Company.

(xi) According to the information and explanations given to us, during the year, the Company has not availed of any term loan from financial institutions. Therefore, the provisions of paragraph 3(xi) of the Order are not applicable to the Company.

(xii) To the best of our knowledge and according to the information and explanations given to us, no fraud by the Company and no material fraud on the Company has been noticed or reported during the year.

For **DELOITTE HASKINS AND SELLS**
Chartered Accountants
(Firm's Registration No. 117365W)

Zubin Shekary
Partner
(Membership No. 48814)

MUMBAI, 29th April, 2015
ZS/JK/2014-15

IDFC BANK LIMITED

BALANCE SHEET AS AT MARCH 31, 2015

	Notes	As at March 31, 2015	₹ As at March 31, 2015
Equity and liabilities			
Shareholders' funds			
(a) Share capital	3	500,000	
(b) Reserves and surplus	4	(25,848,802)	(25,348,802)
Current liabilities			
(a) Trade payables	5		51,180
(b) Other current liabilities	6		25,806,097
TOTAL			508,475
Assets			
Non-current assets			
(a) Deferred tax asset	7		8,700
Current assets			
(a) Cash and cash equivalents	8		499,775
TOTAL			508,475

See accompanying notes forming part of the financial statements.

In terms of our report attached.

For Deloitte Haskins and Sells
Chartered Accountants
(Registration No. 117365W)

Zubin Shekary
Partner
(Membership No. 48814)

Mumbai, April 29, 2015

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

Anil Baijal
Director

Rajiv Lall
Director

Mahendra N. Shah
Company Secretary

IDFC BANK LIMITED

STATEMENT OF PROFIT AND LOSS FOR THE PERIOD FROM OCTOBER 21, 2014 (DATE OF INCORPORATION) TO MARCH 31,2015.

	Notes	₹ October 21, 2014 to March 31, 2015
I **Income**		
Other income		-
Total income (I)		-
II **Expenses**		
Other expenses	9	25,857,502
Total expenses (II)		**25,857,502**
III **Loss before tax (I - II)**		**(25,857,502)**
IV **Tax expense**		
Current tax		-
Deferred tax		(8,700)
Total tax expenses (IV)		(8,700)
V **Loss for the period from continuing operations (III - IV)**		**(25,848,802)**
Earnings per equity share (not annualised) (nominal value of share ₹ 10 each)		
Basic (₹)	13	(1,164.79)
Diluted (₹)	13	(1,164.79)

See accompanying notes forming part of the financial statements.

In terms of our report attached.

For Deloitte Haskins and Sells
Chartered Accountants
(Registration No. 117365W)

Zubin Shekary
Partner
(Membership No. 48814)

Mumbai, April 29, 2015

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

Anil Baijal
Director

Rajiv Lall
Director

Mahendra N. Shah
Company Secretary

IDFC BANK LIMITED

CASH FLOW STATEMENT FOR THE PERIOD FROM OCTOBER 21, 2014 (DATE OF INCORPORATION) TO MARCH 31, 2015.

	Notes	₹ October 21, 2014 to March 31, 2015
A. Cash flow from operating activities		
Loss before tax for the period		(25,857,502)
Adjustment for changes in working capital:		
Adjustments for increase in operating liabilities:		
Trade payables		51,180
Current liabilities		25,806,097
NET CASH USED IN OPERATING ACTIVITIES (A)		(225)
B. Cash flow from investing activities		-
NET CASH FROM INVESTING ACTIVITIES (B)		-
C. Cash flow from financing activities		
Proceeds from Issue of Share Capital		500,000
NET CASH FROM FINANCING ACTIVITIES (C)		500,000
Net (decrease) / increase in cash and cash equivalents (A+B+C)		499,775
Cash and cash equivalents as at the beginning of the period.	8	-
Cash and cash equivalents as at the end of the period.	8	499,775

In terms of our report attached.

For Deloitte Haskins and Sells
Chartered Accountants
(Registration No. 117365W)

Zubin Shekary
Partner
(Membership No. 48814)

Mumbai, April 29, 2015

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

Anil Baijal
Director

Rajiv Lall
Director

Mahendra N. Shah
Company Secretary

IDFC BANK LIMITED

NOTES FORMING PART OF FINANCIAL STATEMENTS AS AT AND FOR THE PERIOD ENDED MARCH 31, 2015

1 Background

IDFC Bank Limited ('the Company') is a public company, incorporated in India on October 21, 2014. The Company is a wholly owned subsidary of IDFC Financial Holding Company Limited

2 Significant accounting policies

a Basis of preparation

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards specified under Section 133 of the Companies Act, 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014 and the relevant provisions of the Companies Act, 2013 ("the 2013 Act") / Companies Act, 1956 ("the 1956 Act"), as applicable. The financial statements have been prepared on accrual basis under the historical cost convention.

IDFC Limited has received in principle approval for Banking business in April 2014. IDFC Bank Limited is a company formed under the Companies Act, 2013 to carry out the banking operations. IDFC Bank Limited is currently not registered as a Bank under the Reserve Bank of India Act, 1934 (the "RBI Act") and hence compliance and disclosure requirements under the RBI Act for Banks has not been followed.

b Use of estimates

The preparation of the financial statements in conformity with Indian GAAP requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) and the reported income and expenses during the period. The Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Future results could differ due to these estimates and the differences between the actual results and the estimates are recognised in the periods in which the results are known / materialise.

c Investments

Long-term investments (excluding investment properties), are carried individually at cost less provision for diminution, other than temporary, in the value of such investments. Current investments are carried individually, at the lower of cost and fair value. Cost of investments include acquisition charges such as brokerage, fees and duties.

d Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. In addition, the following criteria must also be met before revenue is recognised:

• Interest Income is accounted on accrual basis.

• Dividend is accounted on accrual basis when the right to receive is established.

• Profit / loss earned on sale of investments is recognised on trade date basis. Profit / loss on sale of investments is determined based on the FIFO cost for current investments and weighted average cost for long term investments.

e Taxes on income

Income tax expense comprises of current income tax and deferred tax. Current tax is the amount payable on the taxable income for the year as determined in accordance with the applicable tax rates and the provisions of the Income Tax Act, 1961 and other applicable tax laws. The accounting treatment for income-tax in respect of the Company's income is based on Accounting Standard 22 on "Accounting for Taxes on Income" as specified under section 133 of Companies Act, 2013 read with Rule 7 of Companies Rules, 2014. The provision made for income-tax in the accounts comprises both, the current tax and the deferred tax. The deferred tax assets and liabilities for the year arising on account of timing differences are recognised in the Statement of Profit and Loss and the cumulative effect thereof is reflected in the Balance Sheet.

Deferred tax is recognised on timing differences, being the differences between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax is measured using the tax rates and the tax laws enacted or substantively enacted as at the reporting date. Deferred tax liabilities are recognised for all timing differences. Deferred tax assets are recognised for timing differences of items other than unabsorbed depreciation and carry forward losses only to the extent that reasonable certainty exists that sufficient future taxable income will be available against which these can be realised. However, if there are unabsorbed depreciation and carry forward of losses and items relating to capital losses, deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that there will be sufficient future taxable income available to realise the assets. Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set off. Deferred tax assets are reviewed at each balance sheet date for their realisability.

f Cash and cash equivalents (for purposes of Cash Flow Statement)

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short-term balances (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

g Cash flow statement

Cash flows are reported using the indirect method, whereby profit / (loss) before tax is adjusted for the effects of transactions of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from operating, investing and financing activities of the Company are segregated based on the available information.

h Earnings per share

Basic earnings per share is computed by dividing the profit / (loss) after tax by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed by dividing the profit / (loss) after tax as adjusted for expense or income relating to the dilutive potential equity shares, by the weighted average number of equity shares considered for deriving basic earnings per share and the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares.

i Provisions and contingencies

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Contingent liabilities if any, are disclosed in the notes. Contingent assets are not recognised in the financial statements.

j Operating cycle

Based on the nature of products / activities of the Company and the normal time between acquisition of assets and their realisation in cash or cash equivalents, the Company has determined its operating cycle as 12 months for the purpose of classification of its assets and liabilities as current and non-current.

k Preliminary Expenses

Preliminary expenses incurred before the commencement of the business are expensed in the year in which they are incurred.

IDFC BANK LIMITED

NOTES FORMING PART OF FINANCIAL STATEMENTS AS AT AND FOR THE PERIOD ENDED MARCH 31, 2015

3 Share capital

	As at March 31, 2015	
	Number	₹
Authorised shares		
Equity shares of ₹ 10 each	5,000,000,000	50,000,000,000
Issued, subscribed & fully paid-up shares		
Equity shares of ₹ 10 each	50,000	500,000
(All of above shares are held by IDFC Financial Holding Company Limited and its nominees)		
Total		500,000

(a) Reconciliation of the number of equity shares outstanding at the beginning and at the end of the period.

	As at March 31, 2015	
	Number	₹
Outstanding at the beginning of the period	-	-
Issued during the period	50,000	500,000
Outstanding at the end of the period	50,000	500,000

(b) Terms / rights attached to equity shares

- The Company has only one class of equity shares having a par value of ₹ 10 per share. Each holder of equity shares is entitled to one vote per share.
- In the event of liquidation of the Company, the holders of equity shares will be entitled to receive any of the remaining assets of the Company, after distribution of all preferential amounts. However, no such preferential amounts exists currently. The distribution will be in proportion to the number of equity shares held by the shareholders.

(c) Details of shareholders holding more than 5% of the shares in the Company

Equity shares

	As at March 31, 2015	
	Number	% of Holding
IDFC Financial Holding Company Limited and its nominees	50,000	100%

4 Reserves & surplus

	₹
	As at March 31, 2015
Deficit in the Statement of Profit and Loss	
Opening balance	-
Loss for the period	(25,848,802)
Closing balance	(25,848,802)

	₹
	As at March 31, 2015
5 Trade payables	
Provision for expenses	51,180
Total	51,180

IDFC BANK LIMITED

NOTES FORMING PART OF FINANCIAL STATEMENTS AS AT AND FOR THE PERIOD ENDED MARCH 31, 2015

	₹ As at March 31, 2015
6 Other current liabilities	
Statutory dues	5,000
Intercompany payables (see note 12)	25,801,097
Total	25,806,097

	₹ As at March 31, 2015
7 Deferred tax asset	
Deferred tax asset	8,700
Total	8,700

	₹ As at March 31, 2015
8 Cash and cash equivalents	
Balance with bank:	
In current account	499,775
Total	499,775

IDFC BANK LIMITED

NOTES FORMING PART OF FINANCIAL STATEMENTS AS AT AND FOR THE PERIOD ENDED MARCH 31, 2015

	₹ October 21, 2014 to March 31, 2015
9 Other expenses	
Preliminary expenses written off (see note 14)	25,710,669
Printing & Stationary	42,525
Professional Fees	17,977
Auditors' remuneration*	84,270
Miscellaneous expenses	2,061
Total	25,857,502
*Breakup of Auditor's remuneration	
Audit fee	50,000
Other services	25,000
Service tax	9,270
	84,270

IDFC BANK LIMITED

NOTES FORMING PART OF FINANCIAL STATEMENTS AS AT AND FOR THE PERIOD ENDED MARCH 31, 2015

10 **Provisions & Contingencies**

a. There are no litigations claims made by the Company or pending on the Company

b. Provisions for onerous contracts are recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting the future obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

11 The Company is yet to commence its commercial operations. Accordingly, there are no separate reportable segments as per Accounting Standard 17 on 'Segment Reporting' as specified u/s 133 of Companies Act, 2013 read with rule 7 of the Companies (Accounts) Rules, 2014.

12 As per Accounting Standard 18 on 'Related Party Disclosures' as specified u/s 133 of Companies Act, 2013 read with rule 7 of the Companies (Accounts) Rules, 2014.

Holding Company: IDFC Limited (Upto December 25, 2014)
IDFC Financial Holding Company Limited (w.e.f. December 26, 2014)

The nature and volume of transactions carried out with the above related party in the ordinary course of business is as follows:

₹

Name of related party and nature of relationship	Particulars	March 31, 2015
IDFC Limited	Intercompany payable	25,801,097
	Proceeds from issue of equity share capital	500,000

*Subsequently IDFC Bank's shares were purchased by IDFC Financial Holding Company Limited.

13 In accordance with Accounting Standard 20 on 'Earnings Per Share' as specified u/s 133 of Companies Act, 2013 read with rule 7 of the Companies (Accounts) Rules, 2014.

Particulars	Current period
Loss after tax (₹)	(25,848,802)
Weighted average number of equity shares (Nos.)	22,192
Basic & diluted earnings per share (₹)	(1,164.79)
Nominal value per share (₹)	10

14 Preliminary expenses [see note 2(k)]

Breakup of the Preliminary expenses are as under:

	Current Period
Notary	1,725
Franking	1,540
Form Inc-1 Fees	2,000
Stamp Duty	520
Registration Fees	25,002,400
Others	562,034
Professional Fees	140,450
	25,710,669

15 The Company has a negative net worth as at March 31, 2015 however, the accounts of the Company have been prepared on going concern basis, since the ultimate parent company IDFC Limited has committed to infusion of funds and other support as necessary in accordance with the corporate restructuring plan for the IDFC group approved by the Board of Directors of IDFC Limited in the meeting dated October 30, 2014. This demonstrates the ability and intention of the Company to continue as a going concern.

16 Since the Company was incorporated on October 21, 2014 this is the first accounting period of the Company. Accordingly there are no comparative figures.

For Deloitte Haskins and Sells
Chartered Accountants
(Registration No. 117365W)

Zubin Shekary
Partner
(Membership No. 48814)

Mumbai, April 29, 2015

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

Anil Baijal
Director

Rajiv Lall
Director

Mahendra N. Shah
Company Secretary

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INDEPENDENT AUDITORS' REVIEW REPORT

TO THE BOARD OF DIRECTORS OF
IDFC BANK LIMITED

Introduction

We have reviewed the financial results for the quarter ended June 30, 2015 included in the accompanying Statement of Unaudited Financial Results ("the Statement") of **IDFC BANK LIMITED** ("the Company"). The Management of the Company is responsible for the preparation and fair presentation of this Statement in accordance with the format prescribed by IDFC Limited ("the Ultimate Holding Company"), and the instructions issued by the Ultimate Holding Company, which are in accordance with generally accepted accounting principles in India, as applicable for the purpose of the financial results included in the accompanying Statement, which has been prepared solely to enable IDFC Limited to prepare its consolidated financial results for the quarter ended June 30, 2015. The Statement has been approved by the Board of Directors of the Company. Our responsibility is to report on the Statement based on our review.

Scope of Review

We conducted our review of the Statement in accordance with the Standard on Review Engagements (SRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Institute of Chartered Accountants of India. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial results included in the Statement is not prepared, in all material respects in accordance with the format prescribed by the Ultimate Holding Company, and the instructions issued by the Ultimate Holding Company, as referred to above.

Deloitte
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Restriction on Distribution

This report has been issued at the request of the Company for submission to the Ultimate Holding Company to enable it to prepare and publish the consolidated financial results. As a result, our report may not be suitable for any another purpose. Our report is intended solely for the information of the Ultimate Holding Company and the Board of Directors of the Company and is not intended to be and shall not be used by anyone other than these specified parties without our prior written consent.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants
(Registration No. 117365W)

Zubin Shekary
Partner
(Membership No. 48814)

MUMBAI, 27 July, 2015
ZS/PG/PPA/2015-16

IDFC BANK LIMITED

Statement of unaudited financial results for the quarter ended June 30, 2015			(₹)
Particulars	Quarter ended 30.06.2015	Quarter ended 31.03.2015 (see note 3)	Period from 21.10.2014 to 31.03.2015
	(Reviewed)	(Reviewed)	(Audited)
1 Income from operations	-	-	-
2 Expenses			
Other expenses	120,966	40,541	25,857,502
Total expenses	120,966	40,541	25,857,502
3 Profit / (loss) from operations before other income, finance costs and tax (1-2)	(120,966)	(40,541)	(25,857,502)
4 Other income	-	-	-
5 Profit / (loss) before tax (3+4)	(120,966)	(40,541)	(25,857,502)
6 Tax expense (net)	-	(8,700)	(8,700)
7 Net profit / (loss) after tax (5-6)	(120,966)	(31,841)	(25,848,802)

Notes:

1 The above results were reviewed by the Audit Committee and approved by the Board of Directors on July 27, 2015 and have been subjected to "Limited Review" by the Statutory Auditors.

2 The statement has been prepared for the purpose of submission to IDFC Limited, the Ultimate holding Company, to enable them to prepare & publish the consolidated financial results.

3 The figures for the quarter ended March 31, 2015 are the balancing figures between reviewed figures in respect of the period from October 21, 2014 to December 31, 2014 and the audited figures of period ended March 31, 2015.

4 Since the Company was incorporated on October 21, 2014 the above results does not include figures for the quarter ended June 30, 2014.

5 The Accounting policies adopted in the preparation of the financial results are consistent with those followed in the previous period unless otherwise stated.

6 The figures for the previous quarter / period have been regrouped wherever necessary, in order to make them comparable.

In terms of our report attached.

For Deloitte Haskins & Sells
Chartered Accountants
(Registration No. 117365W)

Zubin Shekary
Partner
(Membership No. 48814)

Date: July 27, 2015
Place: Mumbai

For and on behalf of the Board
of IDFC Bank Limited

Director

IDFC BANK LIMITED

BALANCE SHEET AS AT JUNE 30, 2015

	Notes	As at June 30, 2015	As at June 30, 2015	₹ As at March 31, 2015
Equity and liabilities				
Shareholders' funds				
(a) Share capital	1	500,000		500,000
(b) Reserves and surplus	2	(25,969,768)		(25,848,802)
			(25,469,768)	(25,348,802)
Current liabilities				
(a) Trade payables	3		114,000	51,180
(b) Other current liabilities	4		375,864,019	25,806,097
TOTAL			350,508,251	508,475
Assets				
Non-current assets				
(a) Long Term Loans and advances	5		350,000,000	-
(b) Deferred tax asset	6		8,700	8,700
Current assets				
(a) Cash and cash equivalents	7		499,551	499,775
TOTAL			350,508,251	508,475

IDFC BANK LIMITED

STATEMENT OF PROFIT AND LOSS FOR THE QUARTER ENDED JUNE 30, 2015

		Notes	For the quarter ended June 30, 2015	₹ October 21, 2014 to March 31, 2015
I	Income			
	Other income		-	-
	Total income (I)		-	-
II	Expenses			
	Other expenses	8	120,966	25,857,502
	Total expenses (II)		120,966	25,857,502
III	Loss before tax (I - II)		(120,966)	(25,857,502)
IV	Tax expense			
	Current tax		-	-
	Deferred tax		-	(8,700)
	Total tax expenses (IV)		-	(8,700)
V	Loss for the period from continuing operations (III - IV)		(120,966)	(25,848,802)
	Earnings per equity share (not annualised) (nominal value of share ₹ 10 each)			
	Basic (₹)		(2.42)	(1,164.79)
	Diluted (₹)		(2.42)	(1,164.79)

IDFC BANK LIMITED

Notes forming part of financial statements as at and for the quarter ended June 30, 2015

1 Share capital

	As at June 30, 2015		As at March 31, 2015	
	Number	₹	Number	₹
Authorised shares				
Equity shares of ₹ 10 each	5,000,000,000	50,000,000,000	5,000,000,000	50,000,000,000
Issued, subscribed & fully paid-up shares				
Equity shares of ₹ 10 each	50,000	500,000	50,000	500,000
(All of above shares are held by IDFC Financial Holding Company Limited and its nominees)				
Total		500,000		500,000

(a) Reconciliation of the number of equity shares outstanding at the beginning and at the end of the period.

	As at June 30, 2015		As at March 31, 2015	
	Number	₹	Number	₹
Outstanding at the beginning of the period	50,000	500,000	-	-
Issued during the period	-	-	50,000	500,000
Outstanding at the end of the period	50,000	500,000	50,000	500,000

(b) Terms / rights attached to equity shares

- The Company has only one class of equity shares having a par value of ₹ 10 per share. Each holder of equity shares is entitled to one vote per share.

- In the event of liquidation of the Company, the holders of equity shares will be entitled to receive any of the remaining assets of the Company, after distribution of all preferential amounts. However, no such preferential amounts exists currently. The distribution will be in proportion to the number of equity shares held by the shareholders.

(c) Details of shareholders holding more than 5% of the shares in the Company

Equity shares

	As at June 30, 2015		As at March 31, 2015	
	Number	% of Holding	Number	% of Holding
IDFC Financial Holding Company Limited and its nominees	50,000	100%	50,000	100%

IDFC BANK LIMITED

Notes forming part of financial statements as at and for the quarter ended June 30, 2015

2 Reserves & surplus

	As at June 30, 2015	₹ As at March 31, 2015
Deficit in the Statement of Profit and Loss		
Opening balance	(25,848,802)	-
Loss for the period	(120,966)	(25,848,802)
Closing balance	(25,969,768)	(25,848,802)

3 Trade payables

	As at June 30, 2015	₹ As at March 31, 2015
Provision for expenses	114,000	51,180
Total	114,000	51,180

IDFC BANK LIMITED

Notes forming part of financial statements as at and for the quarter ended June 30, 2015

	As at June 30, 2015	As at March 31, 2015
		₹
4 Other current liabilities		
Statutory dues	-	5,000
Intercompany payables	375,864,019	25,801,097
Total	375,864,019	25,806,097

	As at June 30, 2015	As at March 31, 2015
		₹
5 Long term Loans and advances		
Advance tax	350,000,000	-
Total	350,000,000	-

	As at June 30, 2015	As at March 31, 2015
		₹
6 Deferred tax asset		
Deferred tax asset	8,700	8,700
Total	8,700	8,700

	As at June 30, 2015	As at March 31, 2015
		₹
7 Cash and cash equivalents		
Balance with bank:		
In current account	499,551	499,775
Total	499,551	499,775

₹

	For the quarter ended June 30, 2015	October 21, 2014 to March 31, 2015
8 Other expenses		
Preliminary expenses written off	-	25,710,669
Printing & Stationary	-	42,525
Professional Fees	6,741	17,977
Auditors' remuneration*	114,000	84,270
Bank charges	225	2,061
Total	120,966	25,857,502
*Breakup of Auditor's remuneration		
Audit fee	50,000	50,000
Tax Audit fees	25,000	-
Other services	25,000	25,000
Service tax	14,000	9,270
	114,000	84,270

Deloitte Haskins & Sells

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INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF
IDFC BANK LIMITED

Report on the Condensed Interim Financial Statements

We have audited the accompanying Condensed Interim Financial Statements of **IDFC BANK LIMITED** ("the Company"), which comprise the Condensed Interim Balance Sheet as at September 30, 2015, the Condensed Interim Statement of Profit and Loss and the Condensed Interim Cash Flow Statement for the period then ended and the Selected Explanatory Notes.

Management's Responsibility for the Condensed Interim Financial Statements

The Company's Management is responsible for the preparation of these Condensed Interim Financial Statements, including determination of the sufficiency and adequacy of the Selected Explanatory Notes, that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the recognition and measurement principles laid down in the Accounting Standards (including Accounting Standard (AS-25) on Interim Financial Reporting) specified under Section 133 of the Companies Act, 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014 and other accounting principles generally accepted in India in so far as applicable to these condensed interim financial statements. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that are operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Condensed Interim Financial Statements based on our audit.

We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accounts of India. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Condensed Interim Financial Statements are free from material misstatements.

Deloitte Haskins & Sells

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the Condensed Interim Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Condensed Interim Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal financial controls relevant to the Company's preparation of the Condensed Interim Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Management, and evaluating the overall presentation of the Condensed Interim Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Condensed Interim Financial Statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid Condensed Interim Financial Statements give a true and fair view in conformity with AS 25 and the accounting principles generally accepted in India, so far as they are applicable to these condensed interim financial statements, of the state of affairs of the Company as at September 30, 2015 and its profit and its cash flows for the six months ended on that date.

Emphasis of Matter

We draw attention to Note 5 to the Condensed Interim Financial Statements which describes demerger of financial undertaking of Ultimate Holding Company in to the Company in accordance with the Scheme of Arrangement under section 391-394 of the Companies Act, 1956 approved by Hon'ble Madras High Court vide its order dated June 25, 2015.

Our Opinion is not modified in respect of this matter.

Other Matter

This report is intended solely for the information and use of the Board of Directors of the Company and for onward submission to The National Stock Exchange of India Limited, BSE Limited or any other regulatory authority as required by law. This report is not intended to be and should not be used by any person other than the specified parties without our prior written approval.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants
(Firm's Registration No. 117365W)

P. R. Ramesh

P. R. Ramesh
Partner
(Membership No.70928)

MUMBAI, October 26, 2015

IDFC Bank Limited

Condensed Interim Balance Sheet as at September 30, 2015

₹

	As at 30-Sep-15 Audited	As at 30-Sep-15 Audited	As at 31-Mar-15 Audited
Sources of Funds			
Capital		17,975,126,680	500,000
Reserves and Surplus		52,895,985,413	(25,848,802)
Total		70,871,112,093	(25,348,802)
Application of Funds			
Investments		70,631,410,607	-
Loans & Advances		829,063,973	-
Deferred Tax Asset		6,970	8,700
Current Assets			
a) Cash & Bank Balances	280,000		499,775
b) Others	598,863,495		-
Less: Current Liabilities & Provisions			
a) Liabilities	(1,188,403,302)		(25,806,097)
b) Provisions	(109,650)		(51,180)
Net Current Assets		(589,369,457)	(25,357,502)
Total		70,871,112,093	(25,348,802)
Contingent Liabilities		-	-
Selected explanatory notes (Refer Annexure I)			

Since the Company was incorporated on October 21, 2014, the above results does not include the figures for half year ended September 30, 2014.

As per our report of even date attached

For Deloitte Haskins & Sells
Chartered Accountants

P. R. Ramesh
Partner
Mumbai, October 26, 2015

For and on behalf of the Board

IDFC Bank Limited

Rajiv B. Lall
Director

Vikram Limaye
Director

IDFC Bank Limited

Condensed Interim Profit and Loss Account for the period ended September 30, 2015

₹

Particulars	Half year ended 30-Sep-15	October 21, 2014 to March 31, 2015
	Audited	Audited
Revenue From Operations	918,064,444	-
Total Income	918,064,444	-
Other expenses	6,029,264	25,857,502
Total Expenditure (excluding provisions & contingencies)	6,029,264	25,857,502
Profit or (Loss) from ordinary activities before tax	912,035,180	(25,857,502)
Extraordinary Items	-	-
Profit or (Loss) before tax	912,035,180	(25,857,502)
Tax Expense (including deferred tax)	315,794,730	(8,700)
Net Profit or (Loss) for the period	596,240,450	(25,848,802)
Earnings per equity share (not annualised) (nominal value of share ₹ 10 each)		
Basic	2.05	(1,164.79)
Diluted	2.05	(1,164.79)
Selected explanatory notes (Refer Annexure I)		

Since the Company was incorporated on October 21, 2014, the above results does not include the figures for half year ended September 30, 2014.

As per our report of even date attached

For Deloitte Haskins & Sells
Chartered Accountants

P. R. Ramesh
Partner
Mumbai, October 26, 2015

For and on behalf of the Board

IDFC Bank Limited

Rajiv B. Lall
Director

Vikram Limaye
Director

IDFC Bank Limited

Condensed Interim Cash Flow Statement for the period ended September 30, 2015

₹

Particulars	Half year ended 30-Sep-15	October 21, 2014 to March 31, 2015
	Audited	Audited
Cash flows from operating activities	336,345,307	(225)
Cash flows from investing activities	(70,636,785,527)	-
Cash flows from financing activities	70,300,220,445	500,000
Net increase / (decrease) in cash and cash equivalents	(219,775)	499,775
Cash and cash equivalents at beginning of the period	499,775	-
Cash and cash equivalents at end of period	280,000	499,775

Since the Company was incorporated on October 21, 2014, the above results does not include the figures for half year ended September 30, 2014.

As per our report of even date attached

For Deloitte Haskins & Sells
Chartered Accountants

P. R. Ramesh
Partner
Mumbai, October 26, 2015

For and on behalf of the Board

IDFC Bank Limited

Rajiv B. Lall
Director

Vikram Limaye
Director

Annexure I

Selected explanatory notes to the Condensed Interim Financial Statements for the Half Year Ended September 30, 2015

1 Background

IDFC Bank Limited ('the Company') is a public company, incorporated in India on October 21, 2014. The Company is a wholly owned subsidiary of IDFC Financial Holding Company Limited. The Company has received the final banking license from Reserve Bank of India (RBI) on July 23, 2015. Post receipt of necessary approvals required for the commencement of bank operations, the demerger of financial undertaking is effected on October 1, 2015 being the effective date.Therefore, the Condensed Interim Financial Statements are not prepared as per the requirements prescribed under the Banking Regulation Act, 1949 and circulars & guidelines issued by RBI.

2 Principal Accounting Policies

The accounting policies followed by the Company in preparation of interim financial statements as at and for the period ended September 30, 2015 are consistent with those used in preparation of the financial statements for the year ended March 31, 2015.

3 Basis Of Preparation

The condensed interim financial statements have been prepared and presented under the historical cost convention and accrual basis of accounting, unless otherwise stated and are in accordance with the recognition and measurement principles laid down in the Accounting Standards (including Accounting Standard (AS-25) on Interim Financial Reporting) specified under Section 133 of the Companies Act, 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014 in so far as they apply to the Company and other accounting principles generally accepted in India. These condensed interim financial statements should be read in conjunction with the annual financial statements of the Company as at and for the year ended March 31, 2015.The accounting policies followed in the preparation of the interim financial statements are consistent with those followed in the preparation of annual financial statements. The results of the interim period are not necessarily indication of the result that may be expected for any future interim period / full year.

4 The Company is yet to commence its commercial operations. Accordingly, there are no separate reportable segments as per Accounting Standard 17 on 'Segment Reporting' as specified u/s 133 of Companies Act, 2013 read with rule 7 of the Companies (Accounts) Rules, 2014.

5 Pursuant to filing of the Scheme of Arrangement under section 391-394 of the Companies Act, 1956 before the Hon'ble Madras High Court ("High Court") on April 13, 2015 to demerge Financial Undertaking of IDFC Limited into IDFC Bank Limited, the Hon'ble High Court, vide its order dated June 25, 2015 has approved the Scheme. Accordingly, the demerger has been recorded on the effective date i.e. October 1, 2015 and the Net Assets amounting to ₹ 623,456 Lakhs pertaining to Financial Undertaking are transferred to IDFC Bank Limited. Accordingly no adjustments have been given in these Condensed Interim Financial Statements.

The Financial Undertaking transferred to IDFC Bank Limited as referred above includes Advances of ₹ 4,193,663 Lakhs net of Provision of ₹ 444,454 Lakhs where provision on Advances is higher than the rates prescribed by the Reserve Bank of India Guidelines. The Financial Undertaking also includes Contingent Liabilities of ₹ 28,563 Lakhs, Capital Commitments of ₹ 84,005 Lakhs and Notional Principal of Derivative contracts of ₹ 1,390,357 Lakhs. In consideration, 1,594,020,668 shares of face value of ₹ 10 each have been issued to the shareholders of IDFC Limited on record date October 5, 2015.

6 Contingent liabilities and commitments (to the extent not provided for)

Particulars	Current period	Previous period
Contingent liabilities and commitments (to the extent not provided for)	-	-

7 Comparative Figures

The figures for previous period / year are not comparable due to substantial increase in activities during the current period.

As per our report of even date attached
For Deloitte Haskins & Sells
Chartered Accountants

P. R. Ramesh
Partner
Mumbai, October 26 , 2015

For and on behalf of the Board
IDFC Bank Limited

Rajiv B. Lall
Director

Vikram Limaye
Director

DECLARATION

No statement made in this Information Memorandum contravenes any of the provisions of the Companies Act, the SCRA, the SEBI Act or rules or regulations made thereunder. All legal requirements applicable in this regard, including the guidelines, instructions, etc., issued by SEBI, and any governmental or other competent authority in this behalf, as the case may be, have been duly complied with.

All the information contained in this Information Memorandum is true and correct.

On behalf of the Board of Directors of IDFC Bank Limited:

Rajiv B. Lall
Managing Director & Chief Executive Officer

Mahendra N. Shah
Company Secretary & Chief Compliance Officer

Place: Mumbai, India

Date: October 30, 2015