

## **BASEL III - PILLAR 3 DISCLOSURES AS AT JUNE 30, 2021**

Basel III Capital regulations are applicable to Banks in India from 1st April 2013. Detailed guidelines on Composition of Capital Disclosure Requirements are issued by RBI under the Master Circular – Basel III Capital Regulations July 2015 and are amended from time to time. The Basel III framework consists of three-mutually reinforcing pillars:

- Pillar 1 - Minimum capital requirements for credit risk, market risk and operational risk
- Pillar 2 - Supervisory review of capital adequacy
- Pillar 3 – Market Discipline

Market discipline (Pillar 3) comprises a set of disclosures on the Capital Adequacy and Risk Management framework of the Bank. This document covers the Pillar 3 disclosures and Capital Adequacy Status for IDFC FIRST Bank. It also describes the Risk Process and Governance at the Bank to effectively on-board, monitor and report risk.

### **DF 1- SCOPE OF APPLICATION**

The Basel III Capital Regulations (“Basel III”) are applicable to IDFC FIRST Bank and its one wholly owned subsidiary IDFC FIRST Bharat Limited which together constitutes the group.

### **Qualitative Disclosure**

#### **a. Group entities covered for consolidation**

The consolidated financial statements present the accounts of IDFC FIRST Bank Limited, its wholly owned subsidiary IDFC Bharat Limited and its associates. The Bank consolidates its subsidiaries in accordance with Accounting Standard-21 (AS-21) ‘Consolidated Financial Statements’ on a line-by-line basis by adding together like items of assets, liabilities, income and expenditure. Investments in associates are accounted for by the equity method in accordance with AS-23, Accounting for Investments in Associates in Consolidated Financial Statements.

List of group entities considered for consolidation is given below:

Name of the entity / Country of incorporation	Included under accounting scope of consolidation (yes/no)	Method of consolidation	Included under regulatory scope of consolidation (yes / no)	Method of consolidation	Reasons for difference in the method of consolidation	Reasons if consolidated under only one of the scopes of consolidation
IDFC FIRST Bharat Limited	Yes	Consolidated in accordance with AS-21-Consolidated Financial Statements	Yes	Consolidated in accordance with AS-21-Consolidated Financial Statements	NA	NA
Millennium City Expressway Private Limited	Yes	Accounted for by the equity method in accordance with AS-23, Accounting for Investments in Associates in Consolidated Financial Statements	No	NA	NA	Bank's investment has been risk weighted for capital adequacy purposes.

**b. List of Group entities not considered for consolidation both under accounting and regulatory scope of consolidation**

Not Applicable

## Quantitative Disclosure

### c. List of group entities considered for consolidation

Name of the entity / country of incorporation	Principle activity of the entity	Total balance sheet equity (INR in crores)	Total balance sheet assets (INR in crores)
IDFC FIRST Bharat Limited	Business Correspondent	5.58	286.49

### d. The aggregate amount of Capital deficiencies in all subsidiaries which are not included in the regulatory scope of consolidation

Not Applicable

### e. The aggregate amounts (e.g. current book value) of the bank's total interests in insurance entities, which are risk weighted

As of June 30, 2021, the Bank does not have investment in any insurance entity

### f. Any restrictions or impediments on transfer of funds or regulatory capital within the banking group

Nil

## DF 2- CAPITAL ADEQUACY

### Qualitative disclosure

IDFC FIRST Bank has developed a strong risk management framework to assess and monitor its credit, market and operational risk that is inclusive of its risk culture, risk governance, policies & procedures, and risk technology. The Pillar I Capital Calculation covers the following risks:

- Credit Risk in Banking Book (Using Standardized Approach)
- Market Risk in Trading Book (Using Standardized Approach)
- Operational Risk across the Bank (Using Basic Indicator Approach)

In addition to the calculation of minimum regulatory capital as per Pillar I, the Bank has also developed an Internal Capital Adequacy Assessment Process (ICAAP) governance model to cover risks over and beyond what is envisaged under Pillar 1. This includes an assessment of capital for risks identified under Pillar II and a stress testing framework to cover stressed scenarios the economy and the Indian banking system might face.

The Bank is exposed to the following varied risks as covered under Pillar II:

- Interest Rate Risk in the Banking Book
  - Credit Concentration Risk
  - Liquidity risk
  - Settlement Risk
  - Reputation Risk
  - Business and Strategic Risk
  - Risk of underestimation of credit risk under the standardized approach
  - Internal Rating Model Risk
  - Risk of weakness in credit risk mitigants
  - Information Technology Risk
  - Information and Cyber Security Risk
  - Residual Risk of Securitisation
  - Business Correspondence & Micro ATM Risk
  - Pension Obligation Risk
  - Currency Induced Credit Risk
  - Outsourcing Risk
  - Compliance Risk
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- Business Continuity Management Risk
- People Risk
- Conduct Risk
- Climate Risk
- Fraud Risk

In light of COVID-19 pandemic and considering the impact of second wave, Bank has taken additional COVID-19 related provisioning in current and previous quarters. Bank has also recognized Pandemic Risk as one of the key risks and the impact of Pandemic Risk is captured by way of modifying the stress scenarios of Credit Risk, Liquidity Risk, Operational Risk etc. The extent to which the COVID-19 pandemic will continue to impact the Bank's operations and asset quality will depend on future developments. The Bank has maintained strong capital and liquidity position and would continue to be the focus area for the Bank.

The ICAAP serves as a key guiding tool towards capital management in the Bank. The Bank recognizes that it is still in an evolving stage and the ICAAP serves as a vital document for the evaluation of management strategies. The ICAAP document is prepared on an annual basis and subject to approval by the Board of Directors and submitted to RBI thereafter

The ICAAP is subject to regular and independent review by Internal Audit Department separately from the Supervisory review and evaluation process (SREP) conducted by the RBI, to ensure that the ICAAP is comprehensive and proportionate to the nature, scope, scale and level of complexity of the Bank's activities and accurately reflects the material risks that the Bank is exposed to.

Areas of review include:

- Integrity, accuracy, and reasonableness of the processes
- Appropriateness of the bank's capital assessment process based on the nature, scope, scale and complexity of the bank's activities
- Timely identification of any concentration risk
- Accuracy and completeness of any data inputs into the bank's capital assessment process
- Reasonableness and validity of any assumptions and scenarios used in the capital assessment process
- Conduct appropriate stress testing

Stress Testing forms an integral part of the ICAAP process and assesses the extent of capital required under various stress scenarios and sensitivity tests envisaged by the Bank. Stress Testing Framework demonstrates how Stress Testing is used to evaluate the impact of various stress situations on the Bank's capital adequacy. The Bank has a Board approved Stress Testing Policy in line with extant RBI guidelines on stress testing.

The scope of stress testing covers sensitivity analysis (single risk factor), scenario analysis (event based multiple risk factor) for the material risks identified by the bank and as prescribed by the regulator. As a risk management tool stress testing shall serve the following purposes for the Bank:

- To estimate the Bank's risk exposures under stressed conditions
- To improve understanding of the Bank's risk profile and material risks
- To evaluate the Bank's capacity to withstand stressed situations and serve as an integral part in capital management
- To enable development of appropriate strategies for mitigating significant risks

### Quantitative disclosure

As per Basel III guidelines, the minimum regulatory capital required to be maintained by the Bank as on 30<sup>th</sup> June 2021 is 10.875% with minimum Common Equity Tier 1 (CET1) of 7.375% (including CCB of 1.875%). The Bank is required to maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9% [11.5% including Capital Conservation Buffer (CCB)], with minimum Common Equity Tier I (CET1) of 5.5% (8% including CCB) as on 1st October 2021.

Minimum regulatory Capital requirement of Bank's credit, market and operational risk as on June 30, 2021 are as given below:

(INR in Crores)

Particulars	Amount
<b>i) Capital requirements for Credit Risk</b>	<b>10,933</b>
Portfolios subject to Standardised Approach	10,933
<b>ii) Capital requirements for Market Risk (SDA)</b>	<b>1,355</b>
Interest rate risk	941
Equity risk	352
Foreign exchange risk (including gold)	63
<b>iii) Capital requirements for operational risk</b>	<b>1,036</b>
Basic indicator approach	1,036

•Market Risk Capital includes Securitisation exposures (Investments in PTC's) of Rs.261 Cr

•Credit Risk Capital is computed at 10.875% (as applicable currently) of Credit RWA. Market Risk and Operational Risk Capital Charge is the actual capital computed as per extant guidelines prior to RWA multiple used for CRAR consolidation

IDFC FIRST Bank currently maintains a Common Equity Tier 1 (CET1) Ratio of 14.89% and a Capital to Risk Weighted Assets (CRAR) ratio of 15.58%.

(INR in Crores)

Particulars	Standalone	Consolidated
<b>(a) Risk Weighted Asset for Credit Risk</b>	<b>101,059</b>	<b>100,534</b>
- On-Balance Sheet Items	89,150	88,625
- Non-Market Related Off-Balance Sheet Items	9,615	9,615
- Market Related Off-Balance Sheet Items	1,724	1,724
- Exposure to QCCP	570	570
<b>(b) Risk Weighted Asset for Market Risk</b>	<b>16,941</b>	<b>16,941</b>
- Interest Rate Risk	11,759	11,759
- Equity Risk	4,394	4,394
- Foreign Exchange Risk	788	788
<b>(c) Risk Weighted Asset for Operational Risk</b>	<b>12,946</b>	<b>12,955</b>
<b>Total Risk Weighted Asset (RWA)</b>	<b>130,946</b>	<b>130,429</b>
- Tier 1 Capital	19,460	19,418
- Tier 2 Capital	916	909
<b>Total Capital</b>	<b>20,376</b>	<b>20,327</b>
<b>Capital Adequacy Ratios</b>		
<b>CET1 Ratio</b>	<b>14.86%</b>	<b>14.89%</b>
<b>Tier 1</b>	<b>14.86%</b>	<b>14.89%</b>
<b>CRAR</b>	<b>15.56%</b>	<b>15.58%</b>

Capital of the consolidated entity is lower than the standalone entity due to Goodwill on acquisition being adjusted against the Capital.

## RISK EXPOSURE AND ASSESSMENT

### A. Risk Culture

The Bank promotes a strong risk culture throughout the organisation. A strong risk culture is designed to help reinforce the Bank's resilience by encouraging a holistic approach to management of risk & return and an effective management of risk, capital and reputational profile. The Bank actively takes risks in connection with its businesses. The following principles underpin the risk culture at IDFC FIRST Bank:

1. Risk taken is approved within the risk management framework
2. Risk taken is within a defined risk appetite
3. Risk taken is adequately compensated
4. Risk is continuously monitored and managed

Employees at all levels are responsible for management and escalation of risks. The Bank expects employees to exhibit behaviour that supports a strong risk culture. The following aspects support the risk culture of the Bank:

**Tone at the top:** Tone at the top refers to communication of risk appetite statements, risk limits and risk strategy and leveraging on the same to identify and prioritise appropriate risk behaviour that is required for building the desired risk culture.

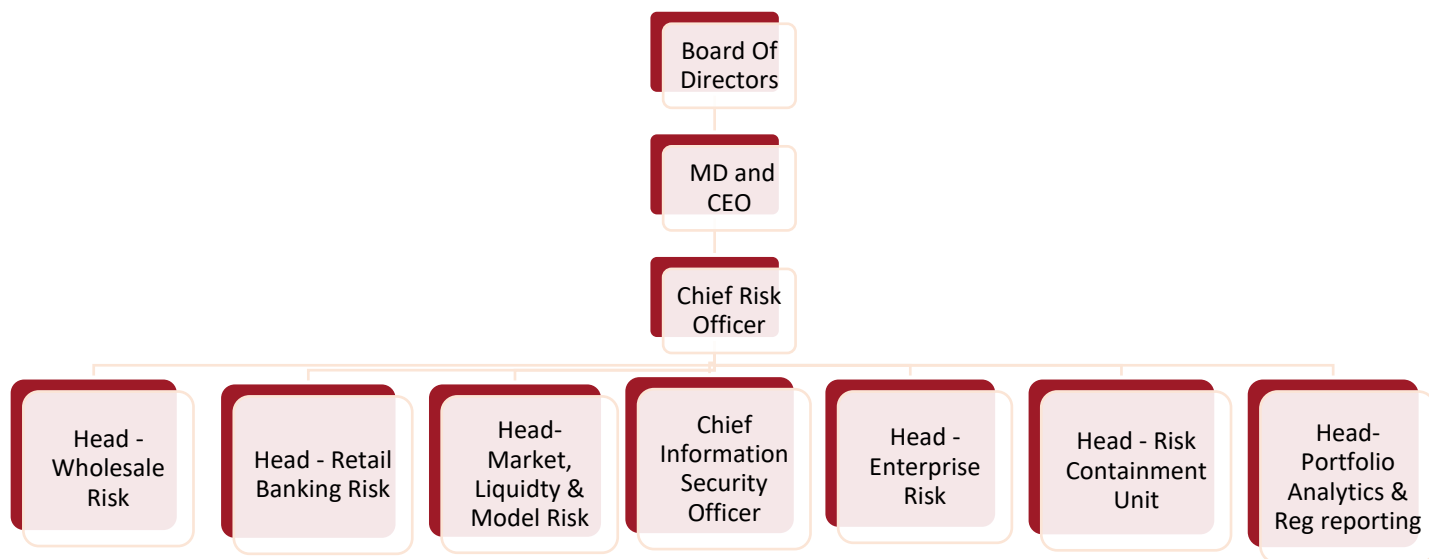
**Accountability:** Accountability refers to clear and transparent communication of roles and responsibilities to committees and staff members across the three lines of defence (LOD) essential for effective risk governance, viz. front office functions, risk management & oversight and assurance roles are played by functions independent of one another with clearly defined responsibilities.

### B. Risk management Team

The Bank has created a state of art risk management system to effectively monitor the risks faced by the Bank due to its business operations. Risk management department performs risk management, monitoring, reporting and escalations to senior management and committees. In Risk Management department there are dedicated teams for Wholesale Banking and Retail banking business segments. There are separate teams for managing Market, Operational, Fraud and Information Security Risks etc.



Below is the Organisational Structure of Risk Management Department –



### C. Risk Infrastructure

IDFC FIRST Bank has developed a comprehensive infrastructure of policies, procedures, people and technology to actively measure, monitor and report risk to the senior management and to the Board. This risk infrastructure is reviewed on periodic basis for completeness, appropriateness to business and alignment to changing risk within the economy and the business.

#### Policies

A Board approved Risk Appetite Framework lays down the risk appetite & boundary for target market, onboarding criteria, portfolio mix including tenor/product mix and other concentration risk parameters. The key policies for IDFC FIRST Bank are approved by the Board. In addition to these, several Management Policies and operational manuals have been developed to manage risk. The Board level policies are reviewed at least on an annual basis by the RMCB while the Management Level policies and manuals are reviewed at least annually by the Senior Management.

The key Board Policies include Risk Management Policy, Credit (Lending) Policy, Credit Risk Management Policy, Market Risk Management Policy, Operational Risk Management Policy, Fraud Risk Management Policy, ICAAP Policy, ALM Policy, Funds & Investment Policy, Forex & Derivative Policy and Portfolio Acquisition Policy etc.

In addition to the above Policies, the Credit Manuals lays down the detailed processes to be carried out for loan sanction/approval, documentation & credit administration and post disbursement monitoring activities. The Bank maintains a process for identifying Watch list accounts.

#### **D. Risk Governance**

The Chief Risk Officer manages execution of the Risk Governance Framework at IDFC FIRST Bank. The Chief Financial Officer enables assessment and deployment of Capital to various businesses based on the Risk Strategy and the Risk Appetite approved by the Board.

The Bank has set up a robust risk governance framework based on the following key principles:

- While the Board is responsible for the overall governance and the oversight of core risk management, execution strategy is delegated to risk subcommittee of the Board.
- Segregation of duties across the three-lines of defence model whereby front office functions, risk management & oversight and assurance roles are played by functions independent of one another.
- Risk strategy is approved by the Board on an annual basis and is defined based on Bank's Risk Appetite in order to align risk, capital and performance targets.
- All major risk classes are managed via risk management processes including: credit risk, market risk, operational risk, liquidity risk, business risk, reputational risk and other pillar 2 risks.
- Policies, processes and systems are in place to enable the risk management capability.
- Risk Management has the appropriate representation on management committees of the Bank and its respective businesses, and other governance forums as appropriate. At these forums, Risk Management's approval is required for decisions impacting bank's risk profile.
- Risk monitoring, stress testing tools and escalation processes have been established to monitor the performance against approved risk appetite.

## E. Governance Committees



The Board has delegated authority to the Risk Management Committee of the Board (RMCB) for oversight and review of risk management in the Bank. The RMCB maintains active supervision of the Bank's exposure, asset quality and risk strategy. Additionally, the RMCB reviews the policies, strategies and associated frameworks for risk management, assures independence of Risk Management and constructively challenges the management's proposals and decisions on all aspects of risk management arising from the Bank's activities. The RMCB is supported by the following sub-committees to facilitate effective execution of the above responsibilities.

### **Credit & Market Risk Management Committee (CMRC)**

The key purpose of the Credit & Market Risk Management Committee is to oversee implementation of credit risk management framework and market risk management frameworks across the Bank, monitor risk on the Credit and Investment portfolio of the Bank and provide recommendations to the RMCB. The Committee also ensures implementation of the risk management policy approved by the Board, formulation, review and implementation of risk appetite and ensure compliance with the board approved risk parameters/prudential limits including but not limited to monitoring of risk concentrations and review status of portfolio management, loan review mechanism, risk monitoring and evaluation, regulatory/legal compliance, adequacy of provision, risk concentrations, industry reviews, compliance to market risk and liquidity risk limits and suggest corrective measures. The Committee is also responsible for Identification, assessment, monitoring, reporting and analysis of market risk associated with Financial Markets Group, formulation of policies, setting of risk parameters and overseeing compliance.

### **Asset Liability Management Committee (ALCO)**

The purpose of the Asset Liability Management Committee is to act as a decision making unit responsible for integrated balance sheet risk management from risk-return perspective including strategic management of interest rate and liquidity risks. ALCO reviews asset liability profile of the Bank, assesses liquidity risk and Interest Rate Risk from the ALM perspective and give directives for managing the funding requirements. ALCO is responsible for reviewing the Liquidity status, results of Liquidity & IRRBB stress testing and Contingency Funding Plan of the Bank on a periodic basis. ALCO also approves the methodology for computing the base rate, Marginal Cost of Funds linked Lending Rate (MCLR), External Benchmark Linked Lending Rate framework, pricing of assets and liabilities and desired maturity profile of the incremental assets and liabilities.

### **Operational & InfoSec Risk Management Committee**

The purpose of the Operational and Information Security Risk Management Committee is to oversee implementation of operational risk management framework including fraud risk management across the Bank and provide recommendations to the RMCB. It also helps to identify, assess, monitor and evaluate significant Information Security risk exposure of IDFC FIRST Bank and assess management actions to mitigate the bank's exposure in a timely manner.

Apart from the above, Bank also has constituted Audit committee of the Board to ensure review of MIS related to Compliance and Compliance controls on a periodic basis before they are taken up to the Board and/or the Committees of the Board.

## **DF 3- CREDIT RISK: GENERAL DISCLOSURES FOR ALL BANKS**

### **Qualitative disclosure**

#### **Credit Risk Management**

Credit risk is the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a borrower or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions.

As part of Credit risk management, the Bank has:

- Established governance framework to ensure an effective oversight, segregation of duties, monitoring and management of credit risks in the Bank.

- Established standards to facilitate effective identification and assessment of credit risk.
- Established standards for effective measurement (measurement of credit risk capital requirements in line with Basel III requirements) and monitoring of credit risk.
- Established principles for portfolio risk management and stress testing.

The Bank provides customized financial solutions to corporates, individuals, small and micro-enterprises, entrepreneurs, financial institutions and the government. With best-in-class corporate governance, rigorous risk management, experienced management and a diversified team, IDFC FIRST Bank is uniquely positioned to meet the aspirations of its customers and stakeholders.

### **Credit Approval Process**

The Banks Credit Policies & Operations Manual forms the core to controlling credit risk in various activities and products.

#### **Wholesale Bank<sup>1</sup>:**

Credit Risk Unit with support from Business unit and Credit Administration Department (CAD), is entrusted with the responsibility of implementing processes for credit risk identification, assessment, measurement, monitoring and control. Business unit has the responsibility to originate the proposals and prepare the credit approval notes. Risk unit performs an independent appraisal of these notes including highlighting key risks, reviewing and finalising the credit rating, and then submits these notes for approval. Credit approvals are done as per the board approved Delegation of Authority. CAD is responsible for managing the credit administration activities, credit documentation and independently monitoring the compliance to sanction terms and conditions. The Credit Operations manual lays down specific responsibilities of each unit – Business, Risk & CAD

#### **Retail Bank**

The Credit Risk for Retail Asset business is being managed through a Risk Appetite and Product Program lending framework. In such programs, the Bank approves maximum levels of credit exposure for a product / customer with similar characteristics and profiles, under clearly defined standard terms and conditions. Such product programs once duly approved basis Delegation of Authority are implemented for a large set of homogeneous customers within standard operating procedures and underwriting guidelines. Credit Bureaus, Scorecards, verification of customer antecedents through engagement with third party agencies and due diligence on collateral - if applicable, are extensively used for underwriting individual customers,

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<sup>1</sup> Wholesale Bank largely includes Large Corporates, ELC, PSUs, MNCs, Conglomerates, Infra, FIG

basis the approved guidelines. Individual approvals are done as per the approved Delegation of Authority and Risk Based Approval Matrix.

For Rural segment given the nature of customers, an alternate credit assessment methodology supplemented by strong portfolio monitoring is being additionally used for Credit risk management. The credit granting process has been defined in Product Programs / Credit Manual, and is mainly inclusive of pre-defined customer selection criteria's covering age, income and stability norms. Credit underwriting is performed at branch level after conducting due-diligence of the customer through Residence/business premises visit, reference checks and Bureau Checks. Individual approvals are done as per the approved Delegation of Authority and deviation approval matrix

The portfolio monitoring for entire Retail Asset portfolio is done at a high level of granularity and segmentation. Remedial strategies are implemented if a loan / portfolio is identified as an adversely labelled credit, or if there are incipient signs of stress, using credit bureaus as the primary source of information.

### **Risk Monitoring and Reporting**

Credit risk monitoring for the Bank is broadly done at two levels – Account level and Portfolio level. While account monitoring aims to identify weak accounts at an incipient stage to facilitate corrective actions whereas, portfolio monitoring aims towards managing risk concentrations in the portfolio as well identifying stress in certain sectors / industries.

The Bank has also established an Early Warning Signal (EWS) process to identify, monitor and act on signs of early sickness in the loan accounts. The EWS reports are published at periodic frequency and such reports are discussed in the joint meeting among stakeholders which helps Bank to take necessary and corrective actions. Such accounts, where potential distress has been identified, are included and maintained in a Watch list and reviewed on a periodic basis by the business and underwriting units so that suitable steps may be taken for mitigation of the risk. The Bank also actively monitors its credit portfolio on non-stress related factors, such as concentration risk, program limits, rating migrations and industry risk analysis.

## I. Definition of Non-Performing Advances

IDFC FIRST Bank defines and classifies an advance as NPA in line with the extant regulatory guidelines. Non-performing advances are further classified into the following three categories based on the period for which the asset has remained non-performing:

- i. Substandard
- ii. Doubtful
- iii. Loss

### Substandard Advances

A substandard advance is one that has remained NPA for a period less than or equal to 12 months. These advance exhibit well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the Bank will sustain some loss, if deficiencies are not corrected.

### Doubtful Advances

An advance would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, 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 Advances

A loss advance is one where loss has been identified by the Bank or internal or external auditors or the RBI inspection, but the amount has not been written off wholly. In other words, such an advance is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

## Criteria for treatment of Account as NPA

A loan or an advance is identified as a non-performing advance where;

- Interest and / or instalment of principal remains overdue for a period of more than 90 days in the case of a term loan,
- The account remains 'out of order' in the case of an Overdraft / Cash Credit (OD / CC),
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

- Interest and / or instalment of principal remains overdue for two crop seasons in the case of short duration crops and one crop season in the case of long duration crops,
- The instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
- The amount of liquidity facility remains outstanding for more than 90 days, in the case of an undertaken securitisation transaction,
- With respect to derivative transactions, if the overdue receivables, that represent a positive mark-to-market value of a derivative contract, remain unpaid for a period of 90 days from the specified payment due date.

In case of Interest payments, classify an account as NPA only if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.

The assets restructured will be immediately reclassified as 'sub-standard assets' upon restructuring except for DCCO restructuring.

### **Provisions/write off on loans and other credit facilities**

The Bank makes general provisions on all standard advances based on the rates under each category of advance as prescribed by RBI. In addition, the Bank makes provisions for standard assets in stressed sectors, at rates higher than the regulatory minimum, based on evaluation of risk and stress as per the Board approved policy. The provision on standard advances is not be reckoned for arriving at net NPAs. The provisions towards standard advance (other than provision against identified advances) is not netted from gross advance but shown separately as “Contingent Provisions against Standard Assets” under “Other Liabilities”.

Legacy advances in infrastructure sector that were transferred to IDFC FIRST Bank (erstwhile IDFC Bank) on demerger of financing undertaking from IDFC Limited ('identified advances') carries provisions on a prudent basis based on assessment of risk relating to possible slippages, extant environment, specific information or pattern of servicing. These provisions being specific in nature are netted off from gross advances. These provisions are reviewed and reassessed at least once in a quarter.

Specific loan loss provisions in respect of non-performing advances are made based on Management’s assessment of the degree of impairment of wholesale and retail advances, subject to the minimum provisioning level prescribed by the RBI. These provisions are reviewed and reassessed at least once in a quarter.



In case of corporate loans, provision is made for substandard, doubtful and loss assets at the rates prescribed by RBI or higher as approved by the management. Provision on retail loans and advances, subject to minimum provisioning requirement of the RBI are assessed at borrower level, on the basis of ageing of loans based on internal policy of the Bank.

In accordance with Resolution Framework for COVID-19 announced by the RBI on August 6, 2020 and on subsequent dates, the Bank has implemented a one-time restructuring for certain eligible borrowers and such borrowers are classified as Standard Restructured in accordance with this framework. The same is represented in quantitative disclosures given below.

## Quantitative disclosure

The following section provides details of all risk exposures held at IDFC FIRST Bank as on June 30, 2021:

### a. Exposure <sup>2</sup> by Facility Type

(INR in Crores)

Category	Credit Exposure
Fund Based Facilities*	130,345
Non-Fund Based Facilities**	20,849
<b>Total</b>	<b>151,194</b>

\* Fund Based Facilities include Loans & Advances (Net of Provisions), Investments in Bonds & Debentures, Commercial Papers, Equity Shares, Preference Shares and Balances with Banks. It excludes fixed and other assets and Government securities.

\*\* Non-Fund Based Facilities (post CCF) include exposure through issuance of Letter of Credit, Bank Guarantee, Acceptance. This also includes the CEM Exposure through Foreign Exchange and Derivative Transactions at the Bank.

### b. Exposure by Geographic Distribution

(INR in Crores)

Category	Fund Based	Non-Fund Based
Domestic	130,345	20,849
Overseas	-	-
<b>Total</b>	<b>130,345</b>	<b>20,849</b>

<sup>2</sup> Note: Exposure as per Basel guidelines, refers to Net FB and NFB O/s post CCF after provisions.

**c. Exposure by Industry**
**(INR in Crores)**

Category	Funded Exposure	Non-Funded Exposure
Banks & Financial Institutions*	12,446	3,439
Transport	5,947	1,509
Telecommunication and Telecom Services	119	3,328
Wholesale and Retail Trade	2,314	673
Energy	2,126	788
Construction, Social and Commercial Infra	645	2,124
Metal & Steel	931	1,634
Engineering & Electronics	995	1,540
Food, Beverages & Agri	1,293	1,149
Petroleum (non-infra)	825	1,500
Professional and Other Services	1,283	895
Chemicals and Chemical Products	1,094	1,033
Real Estate ^	1,234	0
Automobile	897	297
Textiles	461	125
Water and Sanitation	401	162
Rubber, Plastic and their Products	273	160
Cement	260	89
IT & Computers	110	174
Other Residual Industries	1,667	230
Mortgage Loans (excluding Commercial RE)	23,674	0
Business / Consumer Loans	22,681	0
Vehicle Loans	9,440	0
Other Retail Assets @	11,897	0
Other Securities #	27,331	0
<b>Grand Total</b>	<b>130,345</b>	<b>20,849</b>

\* Banks & Financial Institution exposure includes exposure to Banks, NBFC, HFCs including trade exposure, balance with banks, exposure to QCCP and money at call and short notice.

^ Commercial Real Estate including LRD.

@ Other Retail Assets comprises of retails assets not classified elsewhere, including JLG Loans.

# Other Securities include Bonds, Debentures including NCD's, Commercial Papers, Equity Shares, Preference Shares, Venture Capital Funds, Investments in subsidiary.

**Exposures to industries (other than retail advances not elsewhere classified) in excess of 5% of total exposure**

(INR in Crores)

Category	Funded Exposure	Non-Funded Exposure
Banks & Financial Institutions	12,446	3,439

**d. Maturity Pattern**

(INR in Crores)

Residual Tenor Bucket	Cash & Balance with RBI	Balances with banks & Money at call and short notice	Investments	Loans & Advances #	Fixed Assets	Other Assets
1D	580	4,749	22,898	400	0	33
2 - 7D	378	0	1,545	2,378	0	368
8 - 14D	175	0	688	1,043	0	120
15 - 30D	129	0	1,060	2,464	0	807
31D - 2M	145	0	732	3,505	0	303
2 - 3M	223	0	1,245	4,499	0	2,624
3 - 6M	326	0	3,171	8,574	0	450
6M - 1Y	561	0	3,473	12,677	0	407
1 - 3Y	1,856	0	8,318	29,735	0	3,968
3 - 5Y	608	0	1,932	11,454	0	588
> 5Y	45	0	4,184	21,536	1,298	736
<b>Total</b>	<b>5,026</b>	<b>4,749</b>	<b>49,245</b>	<b>98,265</b>	<b>1,298</b>	<b>10,404</b>

#Net of provisions

**e. Classification of NPA**

(INR in Crores)

Category	Gross NPA	Net NPA
Sub-Standard	3,982	2,211
Doubtful	559	82
- Doubtful 1	91	49
- Doubtful 2	468	33
- Doubtful 3	0*	-
Loss	126	-
<b>Total</b>	<b>4,667</b>	<b>2,293</b>

\*insignificant amount

**f. Standard Restructured and NPA Accounts**
**(INR in Crores)**

Particulars	Amount
Gross Standard Restructured Assets*	2,834
Gross NPA	4,667
Gross NPA to Gross Advances %	4.61%
Net NPA	2,293
Net NPA to Net Advances %	2.32%

\*Includes Standard Restructured Investment/NCD

**g. Movement of NPA**
**(INR in Crores)**

Particulars	Gross NPA
<b>Opening Balance on April 1, 2021</b>	4,303
Additions during the period/ year	2,847
Reductions during the period/ year	(2,483)
<b>NPA Balance as on June 30, 2021</b>	<b>4,667</b>

**h. Movement of NPA Provision (Gross)**
**(INR in Crores)**

Particulars	Amount
<b>Opening Balance April 1, 2021</b>	<b>2,420</b>
Provisions made during the period/ year	1,711
Write off (release of provision) during the period/ year*	(1,490)
Write back on upgrades/recovery during the period/year	(267)
<b>Provision Balance at June 30, 2021</b>	<b>2,374</b>

\*Includes release of provision due to upgradation of account

**i. Movement of provisions for Standard Restructured**
**(INR in Crores)**

Particulars	Amount
<b>Opening Balance on April 1, 2021</b>	<b>150</b>
Additions during the period/ year*	304
Reductions during the period/ year	-
<b>Provision Balance as on June 30, 2021</b>	<b>454</b>

\*Net additions are disclosed; Includes specific provisions on restructured accounts.

**j. Movement of Specific Provision and general provision in Advances**

(INR in Crores)

Particulars	Specific Provision	General Provision
<b>Opening Balance April 1,2021</b>	<b>753</b>	<b>959</b>
Provisions made during the period/ year	-	612
Write off during the period/ year	-	-
Write back during the period/ year	(14)	(19)
Any other adjustment (incl. transfer between provisions)	(154)	-
<b>Provision Balance at June 30, 2021</b>	<b>585</b>	<b>1,552</b>

Includes specific provisions on restructured accounts

**k. Amount of non-performing investments (NPIs)**

(INR in Crores)

Particulars	Amount
Gross non-performing investments	1,255
Less: Provisions	(1,246)
<b>Net non-performing investments as on June 30, 2021</b>	<b>9</b>

**l. Movement of provisions for non-performing investments (NPI)**

(INR in Crores)

Particulars	Amount
<b>Opening balance April 1,2021</b>	<b>1,365</b>
Provisions made during the period/ year	1
Release during the period/ year	(120)
<b>Closing balance at June 30, 2021</b>	<b>1,246</b>

**M. Amount of non-performing matured Investments (Other Assets)**

(INR in Crores)

Particulars	Amount
Gross non-performing investments	315
Less: Provisions	(315)
<b>Net non-performing matured investments as on June 30, 2021</b>	<b>-</b>

**N. Movement of provisions for non-performing matured Investments (Other Assets) (INR in Crores)**

Particulars	Amount
<b>Opening balance April 1,2021</b>	<b>215</b>
Provisions made during the period/ year	100
Release during the period/ year	-
<b>Closing balance at June 30, 2021</b>	<b>315</b>

**O. NPA by major Industry type (INR in Crores)**

Category	Gross NPA	Provisions for NPA	Provisions for Standard assets \$	Write off during the period (YTD) #	Specific provisions
Top 5 industries (by exposure)	1,461	668	220	Nil	583

\$ includes standard asset provisioning on account of OTR. Excludes UFCE provision; # Wholesale Segment, excludes buyouts

**P. Movement of provisions for depreciation on investments\* (INR in Crores)**

Particulars	Amount
<b>Opening balance April 1,2021</b>	<b>678</b>
Provisions (net) made during the period/ year	6
<b>Closing balance at June 30, 2021</b>	<b>684</b>

\*excluding NPI

**DF 4- CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDISED APPROACH**
**Qualitative disclosure**
**A. Use of External Credit Rating**

The Bank relies upon the ratings assigned by eligible external credit rating agencies, as defined by RBI, for assigning risk weights for credit risk capital computation. The Reserve Bank has identified the external credit rating agencies that meet the eligibility criteria specified under the revised Framework. Ratings given by the following credit rating agencies are used by the Bank for the purpose of risk weighting their claims:

- Credit Analysis and Research Limited;
- CRISIL Ratings Limited;

- India Ratings and Research Private Limited (India Ratings);
- ICRA Limited;
- Brickworks Rating India Private Limited (Brickwork); and
- Acuite Ratings and Research Limited (Formerly known as SMERA Ratings Ltd.)
- Infomerics Valuation and Rating Pvt Ltd (INFOMERICS)

Bank is also using the ratings of the following international credit rating agencies for assigning risk weights to claims for capital adequacy purposes where the exposure can be specified as international exposure:

- Fitch;
- Moody's and
- Standard & Poor's

Some Key Principles:

- Bank uses the chosen credit rating agencies and their ratings consistently for each type of claim, for both risk weighting and risk management purposes.
- For assets which have a contractual maturity of more than one year, long term ratings accorded by the chosen credit rating agencies is used.
- If there are two ratings accorded by chosen credit rating agencies, then the lower of the two ratings is applied. If there are three or more ratings accorded by chosen credit rating agencies, then the better of the two lowest ratings is applied.
- To be eligible, the rating agency should have reviewed the rating at least once during the previous 15 months.

The Bank is using issuer ratings and short-term and long-term instrument/bank facilities ratings which are assigned by the accredited rating agencies viz. Brickwork, CARE, CRISIL, ICRA, India Ratings, Acuite and Infomerics. These ratings are available in the public domain basis which risk weights are assigned in line with RBI norms. In respect of claims on non-resident corporates and foreign banks, ratings assigned by international rating agencies i.e. Standard & Poor's, Moody's and Fitch is used. Structured Obligation (SO) ratings are not used unless the Bank has a direct exposure in the 'SO' rated issue.

The following risk weights are applied, as prescribed by RBI in the Master Circular – Basel III Capital Regulations.

#### Claims on Domestic Sovereigns

Both fund based and non-fund based claims on the central government attract a zero risk weight. Central Government guaranteed claims attract a zero-risk weight.

### Claims on Public Sector Entities (PSEs)

Claims on domestic public sector entities are risk weighted in a manner similar to claims on Corporates.

### Claims on Foreign Banks

The claims on foreign banks are risk weighted as under as per the ratings assigned by international rating agencies

S &P / Fitch ratings	Moody's ratings	Risk weight (%)
AAA to AA	Aaa to Aa	20
A	A	50
BBB	Baa	50
BB to B	Ba to B	100
Below B	Below B	150
Unrated	Unrated	50

### Claims on Corporates, NBFCs excluding NBFC CIC

Claims on corporates, and Non-Banking Finance Companies (NBFC) excluding NBFC CICs (NBFC Core Investment Companies) are risk weighted as per the ratings assigned by the rating agencies registered with the SEBI and accredited by the Reserve Bank of India. The following table indicates the risk weight applicable.

Domestic rating agencies	Risk weight (%)
AAA	20
AA	30
A	50
BBB	100
BB & below	150
Unrated*	100/150



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\*Claims on Unrated Corporates, NBFCs

- (a) Unrated claims on borrowers, having total Banking exposure of Rs.200 Cr and above are risk weighted at 150% ; others will attract 100% RW
- (b) Unrated claims on borrowers, rated in the past, having total Banking exposure of Rs.100 Cr and above are risk weighted at 150%; others will attract 100% RW

Claims on Restructured Advances

With a view to reflect a higher element of inherent risk which may be latent in entities whose obligations have been subjected to re-structuring / re-scheduling either by banks on their own or along with other bankers / creditors, the unrated standard / performing claims on these entities are assigned a higher risk weight until satisfactory performance under the revised payment schedule has been established for one year from the date when the first payment of interest / principal falls due under the revised schedule. The risk weights applied is 125 per cent.

Claims Classified as Commercial Real Estate Exposure

Claims on Commercial Real Estate is applied a risk weight of 100 per cent or higher if warranted by the external rating of counterparty

Non-Performing Advances (NPA)

The unsecured portion of NPA, net of specific provisions (including partial write-offs), is risk-weighted as follows:

- 150 per cent risk weight when specific provisions are less than 20 per cent of the outstanding amount of the NPA;
- 100 per cent risk weight when specific provisions are at least 20 per cent of the outstanding amount of the NPA;
- 50 per cent risk weight when specific provisions are at least 50 per cent of the outstanding amount of the NPA

Claims on Advances classified as Capital Market Exposure

Advances classified as 'Capital market exposures' attract a 125 per cent risk weight or risk weight warranted by external rating (or lack of it) of the counterparty, whichever is higher.

### Claims classified as consumer credit

Claims classified as consumer credit, including personal loans, but excluding credit card receivables attracts a risk weight of 100% (As per RBI circular dated September 12,2019)

### Off-Balance Sheet Exposures

The risk weighted off-balance sheet credit exposure is calculated as the sum of the risk-weighted amount of the market related and non-market related off-balance sheet items. The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure is calculated by means of a two-step process:

- (a) The notional amount of the transaction is converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor or by applying the current exposure method; and
- (b) The resulting credit equivalent amount is multiplied by the risk weight applicable to the counterparty or to the purpose for which the bank has extended finance or the type of asset, whichever is higher.

### Unhedged Foreign Currency Exposure

Currency induced credit risk is related to the position of the customer's Unhedged Foreign Currency Exposure (UFCE). The Bank currently measures, monitors and applies incremental risk weight as defined below.

Likely Loss/EBID (%)	Incremental Capital Needed
Less than 75 percent	0 percent
75 percent and above	25 percent increase in risk weight

### **Internal Credit Rating**

In addition to actively pursuing an external rating on the facility, the bank has also developed a robust internal ratings framework.

Some key features of this rating framework are:

- Internal credit rating is a core element of IDFC FIRST Bank's risk management framework. To determine an internal credit rating, an objective assessment of the counterparty's default probability is done based on present characteristics and assumptions. This rating also reflects the credit view for the next 12 months.

- No credit limit is approved without an approved internal credit rating except as may be specifically provided in this policy. In case of exceptions, necessary approvals are obtained as per the Delegation of Authority.
- Assessment of internal credit rating are based on any one of the approved credit rating models as maybe applicable basis the industry and business segments.
- Internal Rating or Obligor rating (OR) is on a 14-point scale starting from iAAA to iD.

Additional Risk weight is taken on certain advances that were grandfathered through IDFC Limited as per the directive of RBI.

### Quantitative disclosure

#### Credit Exposure by Risk Weight

(INR in Crores)

Category	Amount
Below 100% Risk Weight	101,892
100% Risk Weight	41,175
More than 100% Risk Weight	8,126
Deducted (Provisions)	(2,963)
<b>Total</b>	<b>148,230</b>

## DF 5- CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDISED APPROACHES

Credit Risk mitigation refers to employment of methods to reduce the risk of lending to a borrower. Bank uses several techniques to mitigate credit risks associated with the borrower. Cash flow is the primary take out which is assessed thoroughly. Secondary sources are through collaterals (both current and fixed assets) and other credit support like SBLC/ Guarantees etc.

The Bank has in place a Board Approved Credit Risk Management Policy which provides the framework for Credit Risk Mitigation and Collateral Management. Detailed process with respect to collateral management is covered under Collateral Management Manual of the Bank.

The Borrower's financial strength and debt-servicing capacity is the primary consideration while granting credits and the Bank does not rely, solely on collateral or guarantees as the primary source of repayment or as a substitute for evaluating the borrower's creditworthiness.

Bank accepts collateral as it may deem appropriate basis the underlying case. Accordingly, securities like current/ fixed assets of the company or third party, cash margin is taken as primary and/ or collateral

securities. Where deemed appropriate, Bank also specifies covenants/ conditions like fixed assets coverage ratio, negative lien, etc.

The Bank considers the following collaterals as eligible financial collaterals to claim the credit risk mitigation benefit for capital calculation under credit risk standardized approach:

1. Cash (including deposits)
2. Gold (including bullion and jewellery of 99.9 % purity)
3. Securities issued by Central & State Governments
4. Kisan Vikas Patra
5. National Savings Certificates
6. Life Insurance Policies with a declared surrender value of an Insurance Company which is regulated by IRDA
7. Debt securities, rated by a chosen credit rating agency, in which the Bank is sufficiently confident about market liquidity
8. Other Corporate Debt Securities of which the Bank is sufficiently confident about market liquidity
9. Units of Mutual Funds, etc.

Presently RBI permits the use of Eligible Financial collaterals for reduction of exposures for computation of credit risk capital. Where applicable a 'haircut' in the form of discounting factor is applied to the value of the financial collateral in line with extant guidelines.

Eligible Financial collaterals after application of haircuts are netted from the gross exposure and risk weight applicable to the transaction is applied to the net exposure

Where available, the Bank also makes use of credit mitigation by way of guarantees from eligible guarantors in line with extant RBI guidelines by following a substitution approach of applying the risk weight of the guarantor instead of the risk weight that would have been applicable to the borrower.

## **DF 6- SECURITISATION EXPOSURES: DISCLOSURES FOR STANDARDISED APPROACH**

### **Qualitative disclosure**

Securitisation is the process of pooling and repackaging of homogenous illiquid financial assets into marketable securities that can be sold to investors. The process leads to the creation of financial instruments that represent ownership interest in or are secured by a segregated income producing asset or pool of assets. These assets are generally secured by personal or real property (e.g. automobiles, real estate or equipment loans), but in some cases are unsecured (e.g. credit card debt, consumer loans).

Securitisation enables the Bank to improve the returns on capital employed, hold a diversified portfolio, meet priority sector lending requirements (PSL), take exposure in loan segments where the Bank may not have distribution reach or significant presence.

Major Risks inherent in securitisation transactions include Credit Risk, Liquidity Risk, Interest Rate Risk and Prepayment Risk. Among other risks Bank may also factor in Co-Mingling Risk (time lag between receipt of pool collections and payment to the Buyer during which the Originator continues to hold the amounts collected)

In case of Securitization, the Bank normally invests in PTC's, issued by the SPV. These securities are classified as investments in the books of the Bank. Further, the portfolio is subject to mark to market in line with the FIMMDA valuation guidelines. Bank also invests in Security Receipts issued by the Reconstruction Companies / Securitisation Companies. SRs are valued as per NAV provided by the SCs / RCs. Investor (in case of Securitisation) takes credit exposure on the underlying obligors forming part of the Pool. The Bank has a strong credit monitoring process in place to monitor the credit quality of the underlying pool. Bank also has a detailed policy governing the use of credit risk mitigation to mitigate the risks in general.

The Bank relies upon the ratings assigned by eligible external credit rating agencies, as defined by RBI, for assigning risk weights for capital computation.

### **Summary of accounting policies for securitization activities**

"Net income arising on account of sale of standard asset, being the difference between the sale consideration and book value, is amortised over the life of the securities issued by the Special Purpose Vehicle ('SPV'). Any loss arising on account of sale is recognised in the Profit and Loss Account in the year in which the sale occurs. In case of Non-Performing Assets sold to Securitisation Company ('SC') / Reconstruction Company ('RC') for cash, excess provision is reversed to Profit and Loss Account. Any loss arising on account of sale is recognised in the Profit and Loss Account in the year in which the sale occurs. If sale is against issuance of Security receipts('SRs') by SC / RC, the sale will be recognised at lower of redemption value of SRs and net book value of financial asset sold. On realisation, the proceeds are reduced against the carrying value of SRs and surplus, if any, is recognised in the Profit and Loss Account."

With effect from April 1, 2018 investments in SRs by more than 10 percent of the SRs backed by the assets sold and issued under the scheme of securitization, provisioning requirement on SRs will be higher of provisioning rate required in terms of net asset value declared by the SCs/RCs or provisioning rate as applicable to the underlying loans, assuming that the loans notionally continued in the books.

### Quantitative disclosure

Presently Bank has only investments under the Securitisation transaction (Investment in PTC's) and does not have any direct exposure under its Banking Book with respect to Securitisation.

#### 1. Aggregate amount of exposures securitised by the bank for which the bank has retained some exposures, and which is subject to the market risk approach

(INR in crores)

Exposures Type	Outstanding amount
Mortgage backed loans	1,938
Vehicle Loans	654
Micro Finance loans	812
Business and Consumer Loans	445
<b>Total</b>	<b>3,850</b>

Exposure to PTC's are covered

#### 2. Aggregate amount of on-balance sheet and off-balance sheet securitisation exposures retained or purchased

(INR in crores)

Exposures Type	On balance sheet	Off Balance Sheet
Mortgage backed loans	1,938	-
Vehicle Loans	654	-
Micro Finance loans	812	-
Business and Consumer Loans	445	-
<b>Total</b>	<b>3,850</b>	<b>-</b>

#### 3. Risk Weight wise securitisation exposures

(INR in crores)

Category	Amount
Below 100% Risk Weight	3,681
100% Risk Weight	-
More than 100% Risk Weight	169
Deducted	-
<b>Total</b>	<b>3,850</b>

Risk weight is derived basis total MR RWA / Book Value

The above exposure refers to Bank's investment in PTC's. Bank also has an investment in SRs to the tune of Rs. 910 crores.

## DF 7- MARKET RISK IN TRADING BOOK

### Market Risk Management

The Bank has set up robust Market Risk management process which sets out the broad guidelines for managing Market Risk that the Bank is exposed to. Management of market risk encompasses risk identification, measurement, setting up of limits and triggers, monitoring, control, reporting and taking corrective actions, where warranted. The Market Risk management process at the Bank ensures that the Treasury dealings in the product that are exposed to market risk are within the risk appetite of the Bank. The Board approved risk appetite is handed down as limits to Financial Markets Group. The prescribed limits are monitored by the Market Risk department and reported as per the guidelines laid down from time to time. The market risk objective, framework and architecture along with the functions of market risk are detailed in the Board Approved Market Risk Management Policy.

### Bank monitors and measures market risk on the following positions:

- Trading book positions in interest rate sensitive securities, including interest rate derivatives
- Open positions in foreign exchange, including foreign exchange derivatives
- Trading book positions in equity securities
- Position exposed to market risk, undertaken as part of the non-trading activities (part of Banking Book)

### Market Risk Management Governance Framework:

The governance framework for market risk management is as follows:

- Board of Directors (BoD)
- Risk Management Committee of Board (RMCB)
- Credit Risk and Market Risk Committee (CRMC)
- Market Risk Committee (MRC)
- Market Risk Department

The Bank has ensured segregation of duties in terms of independent Front Office, Back Office and Market risk department.

**Market Risk Department** of the Bank provides periodic reviews and analysis to BoD, RMCB, ALCO and C/MRC. It is responsible for preparation and review of the Policy and Limits with regard to market risk post discussion with Financial Markets Group. Market Risk Department also reviews valuation methodologies, reviews risk computation methodologies like VAR, sensitivities, conducts stress testing, conducts hedge effectiveness testing as per the frequency detailed in the hedge strategy documents etc.

Bank has an **independent team** within Market Risk function that monitor limits as laid down in the Limit Management Framework (LMF) and report breaches and exceptions, if any. The department's main responsibilities also include review of market data, computation and dissemination of valuation, Front Office P&L, risk and position statements, monitor stop loss triggers as per the Stop Loss Monitoring framework & carryout rate scan.

#### **Classification of Books:**

Market Risk governance framework involves classification of books into Trading Book and Banking Book. The Bank's trading book consists of securities held in held for trading (HFT) and Available for Sale (AFS). All foreign exchange (FX) and derivatives transactions, other than classified as hedging or funding deals. The Bank's banking book consists of all positions which are not included in the Bank's trading book.

#### **Management of Market Risk in the Trading Book**

The Market Risk Committee (MRC) advises the market risk limits within the risk appetite framework approved by the Board and reviews the trading book positions against the sanctioned limits for compliance and provide necessary directions on the same on a periodic basis.

#### **Management of Market Risk in the Banking Book**

The ALCO also has the responsibility of ensuring adherence to the limits set by the Board as well as formulation of balance sheet strategy for the Bank as a whole. This includes broad direction for management of the market risk in the banking book as stipulated in the Bank's Asset Liability Management (ALM) Policy. The ALM Policy also prescribes stipulations on management of liquidity risk and interest rate risk in the banking book.

#### **Market Risk Monitoring Parameters:**

- Risk on fixed income portfolio is measured through PV01 and VaR.
- Foreign exchange exposure is measured through MTM, Net overnight open position (NOOP), Aggregate Gap limits, Pv01 and VaR.
- Risk on Derivatives portfolio is measured through MTM, PV01, Greeks (Delta, Gamma and Vega) and VaR.

Bank has implemented advanced methodology of estimating potential future exposure on a counterparty arising out of Fx and Derivative deals done with the counterparty. The methodology estimates future exposure using simulated market factors and market scenarios.



**Required Capital for Market Risk as on June 30, 2021**
**(INR in Crores)**

<b>Capital Required</b>	<b>Amount</b>
Interest rate risk	941
Equity risk	352
Foreign exchange risk	63

**DF 8- OPERATIONAL RISK**
**A. Operational Risk Management**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent in all activities arising out of Bank's business and operations and could result in financial losses, litigation, regulatory fines or other damage to the Bank. The severity of impact on the bank, its employee and customers is dependent on the efficacy with which operational risk is managed by the Bank. The goal is to keep operational risk at appropriate levels, in light of the Bank's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment in which it operates.

**Governance and organization structure for managing operational risk**

Risk Management Committee of the Board has the primary responsibility of oversight and review of risk management in the Bank. Board has approved the Operational risk management policy to achieve below objectives:

- Provide guidance and framework for management of operational risks across the Bank's businesses and support functions to proactively assess and take necessary steps to manage these risks.
- Through the introduction of sound practices for operational risk, reduce the frequency of risks occurring and their potential impact through embedding controls in a proactive and cost effective manner thus minimizing losses from operational failures.
- Develop a common understanding of Operational Risk across the Bank and embed risk ownership within businesses and support functions so as to identify and manage operational risks in a timely manner.
- Manage Capital optimally by moving to more advanced approaches.
- Meet the regulatory requirements emanating from the relevant pronouncements of RBI and Basel recommendations regarding operational risk.

The Bank has put in place Board approved governance and organisational structure that specifies roles and responsibilities of employees, Business and Shared Service Units, Operational Risk Management Department and other stakeholders towards operational risk management.

### **Risk identification, measurement, monitoring and reporting**

Responsibility of identification and management of operational risk on day-to-day basis lies with Business and Shared Service Units. Operational Risk Unit is responsible for designing and implementing framework and tools that help identify, manage operational risk and for assessing the design and operating effectiveness of controls. Internal Audit validates and assures stakeholders on efficacy of governance, risk management and internal controls. Key initiatives taken by Bank to ensure timely identification and management of risks include–

- All Products are subjected to assessment and management of Critical Risks.
- Risk and Controls Self-Assessment (RCSA) methodology that supports identification and mitigation of key risks using bottoms-up approach. Every process is reviewed for identifying 'Inherent risks' basis probability of occurrence & severity of impact, related controls assessed for design efficiency and control effectiveness to arrive at 'Residual risk'. Depending on the severity of residual risks, risk acceptances are obtained from appropriate authorities.
- Framework for on-going monitoring of risks through Key Risk Indicators (KRIs). This includes defining and monitoring Bank level and process level KRIs.
- Operational risk Incident reporting process that involves detailed risk analysis for material incidents to learn from errors for strengthening controls through Loss and Near miss data.
- Tracking of Actions for timely closure of Open Issues from RCSAs, Control Testing, Risk incidents and Audit.
- Periodic reporting of material risk exposures to Senior Management to facilitate timely mitigation.
- Roll out of mandatory e-learning training modules for Operational risk, Fraud risk and Information security risk management for all employees to build a strong risk culture through continuous training and awareness.

## **B. Information Security Risk**

Information security group (ISG) is an independent group that oversees risks related to information / Cyber security. The group is headed by a senior executive of the bank and is designated as Chief Information Security Officer (CISO), who reports to the Chief Risk Officer. This group operates under information security management system framework (ISMS) and cyber security framework that is aligned with RBI guidelines and the ISO 27001 standard. In the Bank, this group guides and supports implementation of strong information security principles in the areas of technology solutions, the related processes and people.

### **Cyber Security Risks**

The Bank, based on its cyber security framework has developed a comprehensive Cyber Crisis Management Plan (CCMP) that articulates various scenarios like DDoS attacks, Webpage Defacement, Hacking & Advanced Persistent Threats, etc. and has formulated this plan to prevent, detect, contain, and recover from such incidents through a multidisciplinary team namely, Cyber Security Incident Response Team. In addition to having taken these strong measures, the Bank has also taken a Cyber Security Insurance to adequately cover impact of such incidents.

## **C. Business Continuity Management**

IDFC FIRST Bank understands the environment it operates in and the associated risks that could adversely affect its operations, staff safety and commitment to its stakeholders and hence has put in place a comprehensive Business Continuity Management (BCM) Program. The BCM program commits to 1) Protect staff 2) Maintain continuity of critical operations 3) Protect IDFC FIRST Bank assets and brand value.

The BCM program is aligned to the guidelines prescribed by Indian regulatory bodies as well as to global & industry best BCM practices.

A BCM Policy is in place which provides IDFC FIRST Bank management's (IDFC FIRST Bank Board, MD & CEO and Crisis Management Team (CMT)) vision & commitment towards its BCM program. The BCM Program is jointly owned by the Bank's Board, MD & CEO and the CMT. The CMT is delegated the powers of the Board to maintain the program on a continuous basis.

Further, IDFC FIRST Bank has established a Crisis Management Plan (CMP) & Crisis Management Team (CMT) which is tightly aligned to the BCM program to ensure timely communications & response during a crisis. A separate Pandemic Plan and Disaster Recovery plan exists to compliment the overall readiness of the BCM Program.

### **Approach followed by the bank for operational risk capital assessment**

As per the RBI guidelines on Basel III, the Bank has adopted Basic Indicator approach for computing capital charge for operational risk. The capital required for operational risk (Consolidated) at June 30, 2021 was Rs. 1,036 crores.

### **DF 9- INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)**

The Interest Rate Risk on the Banking Book (IRRBB) measures the interest rate risk inherent in the banking book for both on and off balance sheet exposures, from a short term and long term perspective. This includes the impact of changes due to parallel shocks, yield curve shifts, yield curve inversions, changes in the relationships of rates (basis risk), and other relevant scenarios.

Interest rate risk is the risk where changes in market interest rates might adversely affect the Bank's financial condition. The immediate impact of changes in interest rates is on the Net Interest Income ('NII'). A long term impact of changing interest rates is on the Bank's net worth as the economic value of the assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

The re-pricing risk arises due to differences in the timing of re-pricing of assets and liabilities as well as the cash flows. The re-pricing gaps affect bank earnings as well as economic value of the net worth.

The Bank follows the below approaches to manage the Interest Rate Risk:

#### **1. Earnings Perspective:**

The Bank uses Traditional Gap Analysis (TGA) to evaluate its impact on earnings by assessing the impact of adverse movements in interest rates on income due to the changes in underlying market yield over a 1-year horizon.

Below is the impact on Bank's earnings for a parallel shift in yield curves:

(INR in Crores)

Interest Rate Risk in Banking Book (IRRBB)			Impact on EAR	
			Upward	Downward
Parallel Shift in yield curves	Traditional Gap Analysis (EaR @ 1Yr)	Baseline -250 bps	136	(136)
		Medium - 300 bps	164	(164)
		Severe - 400 bps	218	(218)

## 2. Economic Value Perspective:

The Bank uses Duration Gap Analysis (DGA) to evaluate the impact on Market Value of Equity (MVE). Interest Rate Sensitivity using DGA is evaluated grouping rate sensitive assets, liabilities and off balance sheet items under the broad categories as prescribed by RBI under various time buckets; and

- i. Compute Modified Duration (MD) of these categories of assets/ liabilities and off-balance sheet items using the common maturity, coupon and yield parameters.

Below is the impact on Bank's MVE for a parallel shift in yield curves:

(INR in Crores)

Interest Rate Risk in Banking Book (IRRBB)			Impact on EVE	
			Upward	Downward
Parallel Shift in yield curves	Duration Gap Analysis (EVE)	Baseline -250 bps	(330)	330
		Medium - 300 bps	(396)	396
		Severe - 400 bps	(528)	528

## DF 10- GENERAL DISCLOSURE FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK

Counterparty risk may arise in the context of OTC derivatives and Securities Financing Transactions. The Bank applies the Current Exposure Method as per the extant RBI guidelines for the computation of counterparty credit risk on the derivatives. The risk-weighted amount of an off-balance sheet item (derivative) that gives rise to credit exposure is generally calculated by means of a two-step process:

- a) The notional amount of the transaction is converted into a credit equivalent amount (CEA), by multiplying the amount by the specified credit conversion factor or by applying the current exposure method; and
  - i. Under current exposure method the notional amount is multiplied by the instrument risk factor specified for exchange rate and interest rate contracts [ known as Potential Future Credit Exposure (PFCE)]
  - ii. The positive MTM [ known as Current Credit Exposure (CCE)] is then added to the PFCE as computed basis above to arrive at the Credit Equivalent Amount (CEA) [CEA=PFCE+CCE]
  
- b) The resulting credit equivalent amount (CEA) is multiplied by the risk weight applicable to the counterparty.

The Bank has entered into Credit Support Annex ('CSA') agreements with some of the major counterparty banks. CSA helps bank to manage credit risk by posting collateral for "in the money" OTC derivatives.

Bank also computes capital charge for default risk on a Repo-/Reverse Repo-style transactions transaction based on the RBI guidelines.

In addition to the default risk capital requirement for counterparty credit risk, Bank also computed Credit Value Adjustment (CVA) which is an additional capital charge to cover the risk of mark-to-market losses on the possible counterparty credit risk deterioration on OTC derivatives. Bank computes CVA based on the portfolio capital charge for CVA risk for their counterparties.

The Counterparty Credit Exposure with Notional' s is as per table below:

(INR in Crores)

Particulars	March 2021		June 2021	
	Currency Derivatives	Currency Derivatives	Currency Derivatives	Interest Rate Derivatives
Notional	79,339	109,697	63,212	108,132
Credit Exposure	3,065	1,812	2,873	1,756

## DF 16- EQUITIES - DISCLOSURE FOR BANKING BOOK POSITIONS

The Bank does not actively trade in equities. The Bank does not have any outstanding equity positions under the Held for Trading (HFT) portfolio. The Bank's investment in Equities (including Preference Shares, Investment in Security Receipts, Venture Capital Units and Convertibles, if any) are part of the investment in shares as part of the overall lending under Project Finance, Strategic Investments as well as Financial Investments. The valuation of equities is carried out as per the RBI guidelines. Basis the valuation of the equities as per above guidelines, Securities are valued script wise and depreciation / appreciation is aggregated for each category. Net depreciation, if any, compared to the acquisition cost, in any of the categories, is charged to the Profit and Loss Account. The net appreciation in each category, if any, is not recognised except to the extent of depreciation already provided.

The guidelines applied for valuation of equity investments are:

### **Valuation of Preference Shares:**

- If market quotes are available, then the same would be used for valuation.
- If market quotes are not available, the preference shares would be valued based on FIMMDA methodology

### **Valuation of Security receipts:**

- Such instruments would be valued as per Net Asset Value (NAV) given by the issuing reconstruction company / securitization Company.

### **Valuation of Equity:**

The valuation methodology is detailed below:

- Listed common equity shares are valued in line with closing price for such shares as available on the stock exchange. The closing price of the equity is sourced from NSE and in case the equity script is not listed on NSE then the close price is sourced from BSE. In case the script is not listed in either NSE or BSE, then the close price is sourced from the exchange where the script is listed.
- Equity shares for which current quotations are not available or where the shares are not quoted on the stock exchanges, would be valued at break-up value (without considering revaluation reserves, if any) which is to be ascertained from the company's latest balance sheet (which should not be more than one year prior to the date of valuation) (here, the meaning of "break-up value" is the equity

capital and reserves as reduced by intangible assets, divided by the number of equity shares of the investee company)

- In case the latest balance sheet is not available the entire shares are valued at Re.1

#### **Valuation and classification of banks' investment in VCFs:**

- VCF's are valued in line with valuation norms for other equity shares as per instructions laid down in RBI guidelines

In the case of investments in the form of units, the valuation is done at the NAV shown by the VCF in its financial statements.

#### **Equity/Investment positions as of 30<sup>th</sup> June 2021:**

**(INR in Crores)**

Below table includes AFS/HFT/HTM position and investments in Equity, VCF and SRs

<b>Particulars</b>	<b>Amount</b>
Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Book Value: 3,327 Fair Value: 2,538
The types and nature of investments, including the amount that can be classified as:	
• Publicly traded; and	Book Value: 348 Fair Value: 431
• Privately held.	Book Value: 2,979 Fair Value: 2,107
The cumulative realised gains (losses) arising from sales and liquidations in the reporting period.	171
Total unrealised gains (losses)*	83
Total latent revaluation gains (losses)*	(789)
Any amounts of the above included in Tier 1 and/or Tier 2 capital.	NIL



Particulars	Amount
Capital requirements broken down by appropriate equity groupings, consistent with the bank’s methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirements.	Total Charge on Equity: 351  AFS Book: 351

\*Unrealised losses have been duly provided for

### Composition of Capital and Leverage Ratio

Disclosures pertaining to composition of capital, including the capital disclosure templates, main features of equity and debt capital instruments, the terms and conditions of equity and debt capital instruments and leverage ratio have been disclosed separately on the Bank’s website under the ‘Regulatory Disclosures Section’.