



“IDFC First Bank Limited

Conference Call”

February 23, 2026



**MANAGEMENT: MR. V. VAIDYANATHAN – MANAGING DIRECTOR AND,  
CHIEF EXECUTIVE OFFICER – IDFC FIRST BANK  
LIMITED  
MR. SUDHANSHU JAIN – CHIEF FINANCIAL OFFICER  
AND HEAD OF CORPORATE CENTER – IDFC FIRST  
BANK LIMITED  
MR. SAPTARSHI BAPARI – HEAD INVESTOR  
RELATIONS AND ESG – IDFC FIRST BANK LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Conference Call of IDFC First Bank. As a reminder, all participant line will be in the listen-only mode and there will be an opportunity for you to ask question after the presentation conclude. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. V. Vaidyanathan. Thank you and over to you sir.

**V. Vaidyanathan:** Good morning everybody. This is Vaidyanathan.

**Sudhanshu Jain:** Good morning everyone. I am Sudhanshu Jain.

**Saptarshi Bapari:** Hi, good morning everyone. This is Saptarshi.

**Sudhanshu Jain:** Yes, before I invite Mr. Vaidyanathan, maybe I'll just give a brief synopsis of the matter. We did made a press release on February 21, but just for context I will just lay out the issue once again. This matter pertains to a particular branch in Chandigarh and is confined to a limited set of Haryana government linked accounts. The main issue which we have observed here is that certain employees of this branch, most possibly in connivance with external parties, have fraudulently transferred these amounts to beneficiaries who had accounts outside of our bank.

These accounts are also expected to be suspicious. These could be done in connivance with third parties, the details of which will emerge post the forensic audit which we have initiated with KPMG and further investigations by law enforcement agencies and so on. We can assure that the bank has acted very swiftly and decisively to handle this matter. All employees whom we currently suspect have been suspended.

There is no senior management involvement in the entire incident as far as we understand currently. We have conducted proper fraud management committee meetings, board and audit committee meetings. As I said, KPMG has been appointed to do the forensic audit. We have kept regulators informed, auditors informed of this matter. We in terms of actions, we have already filed police complaints and we are engaging with other law enforcement agencies.

We have also initiated recovery and lien marking actions across the banking system. So these are certain actions which we have already taken. We have existing controls in place, of course in light of the incident, we will try to enhance certain more controls as we sort of move along. But I can assure you that this issue is confined to only this branch. There is no impact as such on any other customer or any other branch which has come to our notice. In terms of financial impact, the discrepancy currently found is about INR490 crores.

We have additionally where we have received I would say certain reconciliation requirements, so then through the reconciliation we observe that there is a discrepancy of INR490 crores. We have additionally estimated INR100 crores, that's how it comes to a INR590 crores of impact which we have put out in the press release. We have put out this number as we could best assess at this point of time, but we feel that the number is broadly appropriate to the situation, current situation.

We don't anticipate this to broadly move from here on to a great extent. It could be a small as we sort of go through the process, maybe these numbers could slightly change. Again want to assure that the bank is well capitalized.

As you would recollect in the previous earnings call also we have said that the profitability of the bank is on a positive trajectory because we expect credit cost to keep coming down and we also expect improvement in net interest margin during the fourth quarter and hence whatever is the outcome of this exercise, we should be in a comfortable position to subsume that. And we are making all efforts to trace the flow of funds and seek appropriate restoration of funds.

With this, maybe I'll ask Mr. Vaidyanathan to add further color on this one.

**V. Vaidyanathan:**

Yes, good morning everybody. Thank you very much for joining this call. A few investors called us yesterday and told us that, the information that we provided in the note to the exchanges is quite detailed, but still the impact, the financial impact is not well understood, whether this entire amount will be hit to the P&L, whether recoveries will come, etcetera.

And that's where then we thought to ourselves that we should take this investor call right now and explain to you what the implication is. So this is broadly the subject of it. And before we come to the financial implication, I must just say that this is a specific isolated incident that has happened in one branch with one client group, which is the group that has been named out there by us.

And you know, this is basically a case where debit instructions have come supposedly from the client, which our people, which clearly to us indicates a fraudulent activity, have passed the entries and have transferred the money to certain parties outside the bank from the client's account. Now they've also used cheques, when in looked in hindsight looks forged, but someone has cleared it.

So this looks to us on the basis of the work we've done, clearly a case of an employee fraud and it also, our internal fingerprints and our details are quite clear, that external parties are also involved here. So this is a serious matter for us. We have run this bank now for as you know, for 10 years and we have never seen a instance like of this order of magnitude, certainly not. Bank has really excellent controls across the system.

As you know we are a very technology ahead bank or technology first bank and on all fronts like mule and AML etcetera, bank is doing you know very well in terms of overall numbers and controls and so on. But this is not a digital transaction. This is a physical transaction where people have come, you know, the cheques have been forged. This is, let me say, the oldest kind of fraud probably known to banking.

So how this has happened is obviously happened with the connivance of employees. There is maker, checker, authorizer, the whole system exists, but obviously with some bunch of people have come together to make it happen. So we will get to the bottom of this, we will spare no one and, we have quickly moved in.

We have, appointed a forensic auditor for this, KPMG, and we will expect them to move you know in great diligence and move very fast and, we will take the full support of the law

enforcement of the country and really I can tell you we will spare just no one and we will take it as it comes. Now as far as the bank is concerned, I'd like to specifically share with you that the bank is now fundamentally in a strong position.

So just to share with you that the operating profit of the bank has now crossed 2%, which was earlier 0.5%. So basically on the core of the bank, it is now that bank is on a very strong position and therefore and the graph is rising. We have already guided to you earlier that on the basis of the trajectory and the incremental unit economics, we expect this to further go upwards of about 3.5% in due course as the bank fully evolves based on the rates at which we borrow and the rate we lend and the margin we enjoy, which is upwards of 5.8% or 5.7% last quarter.

But this quarter we expect to be 5.8%. So on the basis of that strong strength, we feel that this is an incident that will pass through the P&L as and when it comes and we will take it out. But I can tell you this incident will not pass through our memory because this is a very significant event for us and we will really scan every nook and corner of the bank for any such process gaps if any or any employee collusion fraud etcetera.

And we will make necessary amendments to contain this from here on. We have done a discussion with our employees last night, across the country and people have come across and said that they are holding fort very well, they're comfortable with the situation. Every one of them is proud about the fact that they're working with the bank and the bank is dealing with all matters so clearly, ethically, decisively and transparently.

And they are very proud of the service levels of the bank, they're proud of the technology we provide, the products we provide to the customers which are really customer-first products, about the way we deal with our customers. So there is a strong degree of confidence in a cultural sense, there's a strong degree of confidence in the people. Our board has been taken through the full matter and they have given certain guidances but at the same time has full support.

We have taken the regulator past the matter and they have given us their inputs and guidance. We have spoken to a few media channels who talked to us yesterday. So we have done, you know, we have been all of yesterday being involved in dealing with the situation. But I can broadly tell you that the bank is in full control and transactions across the country will happen smoothly and this is an isolated case.

We in the last five years, seven years we put up over 1,000 branches, cumulatively maybe over 1,050 or 1,060 and we have really not seen any incident of this nature that has happened here. So but this incident is a further opener for us. We will check one more time, implement necessary controls and keep going. And I do feel that, a quarter ahead hopefully you will look through this incident. So once again for people who have joined the call, you know, thank you for joining and feel free to ask your questions please.

**Moderator:** Thank you. Our first question come from the line of Kunal Shah from Citigroup. Please go ahead.

**Kunal Shah:** Yes, hi sir. So, few questions. Firstly, in terms of the impact as you indicated the aggregate amount involved in the reconciliation is almost like INR590 odd crores and given that the money maybe the other bank has also filed in terms of the credits being received from us in to the extent

of like say INR25 crores, INR47 odd crores. So, in that sense would this entire amount be repayable to the Haryana government and the liability lies on us?

So this will be like something like the entire financial impact that will have to be taken through the P&L or is there any other way is there some money which is still available in those particular customer accounts at this point in time?

**V. Vaidyanathan:** So, this you know basically we're doing a, layer by level one, level two, level three, we're figuring out where the money has gone and, to the extent that there are moneys lying in account have not left the system, to that extent of course we will we will be able to block the money and try to recover those dues.

**Kunal Shah:** And if you can just quantify in terms of how much of the money would have been left, how much is the total Haryana government deposits and what would be the total government deposits for IDFC Bank?

**Sudhanshu Jain:** Yes, so Kunal I'll come in. So, the total Haryana government deposits are roughly 0.5% of our total deposits, so it's not that meaningful in that sense. Since the notification which came a couple of days back, we have seen an outflow of about INR200 odd crores here. But we feel since the overall number itself is small, it should be quite manageable.

**Kunal Shah:** Okay, okay. And this 0.5% would be after this INR200 crores of outflow.

**V. Vaidyanathan:** Yes, I'm saying even if but for a bank of about INR2.8 lakh crores of deposits like INR200 crores is, you know, not the item, Yes.

**Kunal Shah:** Yes. And anyways wherein this would have been avoided and now looking at the internal controls what we would put in place in terms of authorization limits with respect to a particular ticket, would that have really helped or maybe there wouldn't have been no way because there would have been the connivance with the external parties as well and maybe it shouldn't have been avoided? So what internal controls, processes, how stringent we would get with particularly with respect to the government accounts and government business with this incident?

**V. Vaidyanathan:** The thing is that, at this point of time, even as we speak, there are excellent controls, which obviously, has failed in the case because of collusion. But let me just share with you the controls itself in any case. There is a proper governance framework, there are defined SOPs, there is authorization framework, there is a maker, checker, authorizer systems in banks as in case certainly in the case of ours.

And then there is a process for even normal customers, not just for government not for large transactions, but for individual customers, there's a positive confirmation from customers for transaction value above INR5 lakhs, the branch staff calls the customer to confirm the transaction before processing that cheque.

So, the bank also offers customers, a system of something called positive pay, where the customer can positively confirm the cheque issued by them, meaning that the customer has issued a cheque of a certain amount, customer can come to the app and specifically authorize the transaction as a positive pay.

So, these things, do exist. But of course, the positive pay is the customer has to specifically come and voluntarily subscribe to it, because we cannot enforce it because then cheque will, even genuine cheque may return.

The other thing is that, there is additional verification of high value transactions for transaction value above INR10 lakh, additional verifier verifies that the transaction has been correctly executed by the maker checker. So, there are really many checks and balances. The issue in this case is that, many of these people connived in making it happen.

Now in terms of, what new controls, we will implement. This is a quick one on the basis of the last three days work, but of course, we will do more as the days progress. We are planning to put an explicit system based on confirmation of high value transactions for branch-based transactions exceeding a predefined threshold, we will take an explicit confirmation from the customer and we'll make it mandatory.

The customer's confirmation will then be captured through a verified digital channel with a stipulated window, meaning that the customer, for example if we want to clear a particular transaction, we don't have to really call you, we will trigger an alert for you to specifically go to your app and say that yes, please clear the transaction.

So, this is a specific, control we'll bring, extra control. Now with the arrival of AI, we are also going to additionally bring, currently, say before the arrival of AI until the banking till date, the authorizer, the branch manager physically sees the cheque and confirms signatures are matching and clearing it.

But now we will put a system whereby through AI, AI will do an initial checking and then it will be double confirmed by the human. So therefore, exceptions handling will be better controlled. So, we will see this is not an electronic transaction so to say, this is a, physical cheque, manual cheque, a debit instruction that has come and like I said, the most traditional kind of fraud that has happened here.

So, we will improvise upon that and put some new controls on this. But frankly, we definitely feel that the overall system at the bank is something that will further enhance based on the experiences we get from this incident and we will deeply study how collusion happened and how we can prevent collusion, that could be the other root matter.

**Sudhanshu Jain:** And further to add, we had also sent out transaction alerts, monthly bank statements, monthly balance confirmation we had sought. So, all of those processes are run through systems and those controls are very much in place.

**V. Vaidyanathan:** That's an important point Sudhanshu has raised. You know, even in this case, SMS alerts have gone, balance confirmation certificates have gone. So, all that has been going on in this case as part of the process.

**Kunal Shah:** Sure. So, you don't see any potential contingent effect of other state government's decision in terms of how they allocate the government business to this de-empanelled banks? Would there be a risk on that front?

**V. Vaidyanathan:** We'll have to take it as it comes, but you know, we are a bank with a strong capital adequacy, with a good rating. As you know we are rated AAA by CRISIL on fixed deposits and AA+ in the long-term rating of the bank, which by the way has got upgraded twice in the last five years from AA- to AA and from AA to AA+. And you can clearly see the direction of travel of the bank's rating.

Our net worth is over INR46,000 crores. Our customer business, which is both deposits and loans, is now touched INR5.6 lakh crores and you can see the growth over the last five years. You can see how the operating profit has risen from a few thousand crores to over INR7,000 crores. So, there are the bank is in a very strong trajectory. So, we feel that people will take care of it and we are very sensitive to all government accounts as much as we are with end customers.

So, our intention is not to really to litigate this or anything like that, where if we have made a mistake, we will own it up straightforward and we will do whatever requires to be done. And if there is anything if there's in the grey zone where we feel counterparties are involved, we will speak with them as conducive as possible and try to find a meaningful solution.

So, we basically don't mean to given a choice, we don't mean to litigate this unnecessarily. We believe that completely being fair and if something is our responsibility, we will admit it and we will move with it.

**Kunal Shah:** Sure. That helps. Yes, thanks, thanks for answering all the questions.

**Moderator:** Thank you. Our next question come from the line of Piran Engineer from CLSA. Please go ahead.

**Piran Engineer:** Yes, hi, good morning. Just my first question is how long did this fraud go on before it was uncovered?

**V. Vaidyanathan:** So some of these questions will be difficult to answer at this stage because there are implications as we speak. This can become a legal matter and anything we say at this point of time, we'll have to be very careful. So let me just say that it has in a significant way as we put out in the stock exchange, when we first got Haryana government's request to transfer funds to another bank.

At that stage, the bank saw that the money was not reconciling as much as the government department thought was there in the account vis-a-vis what was actually in the account, which probably was a month ago but it accelerated during the last three days from February 18th onwards. So let me say, largely the actions that have been taken have been momentarily spotted just after February 18th to date is when the action has accelerated so much here.

**Sudhanshu Jain:** And just to add that whatever these requests which we have received so far, there the difference or the discrepancy which we have observed currently is to the tune of about INR490 crores. Additionally, we have scanned the rest of the accounts as well from where we have self-identified about INR100-odd crores.

That's why we feel that the impact or the discrepancy amount could be more around that INR590 crores, which we've quoted in the release. And of course, as Vaidya said earlier, this numbers could move from here, we could also get recoveries through these accounts. The legal process

could itself establish and validate some of these claims. So we would give an update once this entire process is concluded.

**V. Vaidyanathan:** So this INR590 crores is the summation as Sudhanshu mentioned is the 490 is what to the extent when they asked for balance confirmations vis-a-vis what we saw in the bank account of those clients, that is the difference, that is INR490 crores. INR100 crores, Sudhanshu mentioned is the extra diligence that we went and checked other bank accounts and so on and so forth. This is a bit of our own estimate, you know, at this point of time. But we think we're broadly right in the numbers we put out and we put it out in good faith, the extra INR100 crore.

Now the next point is on this front is that, like Sudhanshu said that if there's any recovery that comes through the process, the impact will be reduced to that extent. Hopefully, not extra any more claims are going to come. We don't know. But we will deal with it as it comes. But our good faith assessment is that at this point of time this is approximately the number that we've said is approximately correct.

**Sudhanshu Jain:** And sorry, just one more thing to add, we also have an employee dishonesty policy, of course the amount there is about INR35-odd crores, so to that extent some amount could be negative.

**Piran Engineer:** To the extent of what? INR35 crores?

**Sudhanshu Jain:** Yes, employee dishonesty policy which we have taken at a bank level to cover some of these.

**Piran Engineer:** Insurance?

**Sudhanshu Jain:** Yes.

**Piran Engineer:** Okay, yes, got it.

**Sudhanshu Jain:** So the final impact, will depend on some of these factors of recovery, the insurance that we have, if any extra claim, you know, we'll take it as it comes. But I want to just say Piran that whatever it is, we will deal with it and decisively deal with it in a matter that is most fair and appropriate according to our, you know, as it goes.

**Piran Engineer:** Yes. No, see my question came from the point of view if it's been happening for a long time, you know, it's also then the fault of the Haryana government and then they should pay up for it. Why should the bank pay up for it is how I'm thinking? If their own officials have done that, then why are we liable?

**V. Vaidyanathan:** Yes, see, that that's the reason I said that, we are not putting out any specific number right now as to what we will provide for, not provide for, etcetera, because there's time between now to the next results. So we'll think the whole thing over because if counterparties are like the ones you're mentioning, if that component is identified or covered, I'm sure they will also look into the matter.

It could be the third parties where the money has been transferred out. We will really go hell after leather after those people as well. So we will take this as it comes. But we have put out the, in our best estimate the outer limit of what could happen to in a sense. And then take it from there, because as you know we don't postpone things. That's the reason instead of counting it as

490, we put out as 590. Because we really don't want to postpone and leak the market with more and more news.

So we have proactively done extra work, proactively identified extra accounts, proactively put INR100 crores into it. And then hoping that that's how we do this and as all of you who know us for maybe 15-20 years would know that we don't postpone things when it comes to accounting or governance.

**Piran Engineer:** Got it. And also like is there a chance that employees one level up are also involved because if the maker checker process is there, ideally the checker should be someone who is not in touch or knows the maker?

**V. Vaidyanathan:** Well, we'll come to know during the forensic audit and everybody will be investigated and the trails and everything will be checked, and we will identify this and get to the bottom of this.

**Piran Engineer:** Got it, got it. And just lastly, overall government deposits with the bank would be how much? Like Haryana is 0.5%, but all put together?

**Sudhanshu Jain:** I think it would be in line with broadly the industry standards, would be about for us also it's about 8% to 10%, somewhere in that zone.

**Piran Engineer:** Got it, got it.

**V. Vaidyanathan:** But that includes central government, state government and frankly many of these organizations have a long track record with us for running back to 7, 8, 10 years, you know, it's just not about just deposits just for information, it is basically providing a bunch of solutions. And on the solutions front, like many of you are a customer's customers and hopefully you would have seen the quality of the services we provide at the branch, on the Internet, on the mobile banking, on the call center, etcetera, and the products.

Similarly, on the government banking side also, it's not only about taking deposits from them, we are providing solutions to them. We are deeply integrated with them. We collect tax for them, both state taxes as well as central taxes, the GST, the CBDT and so on. So just want to let you know that it is not that bank has taken some deposits from government, we have given deep solutions to them.

For example, these are end-point customers where we collect from and pay them the taxes and there's an agency business running here. So we have a deep, thick relationship with all of them, and therefore we believe that this will be a matter that we will be able to handle and manage comfortably. And the business of the bank is growing. So it is obvious that the services of the bank are appreciated by them for that the business is expanding with IDFC in this case.

So as you know, our deposits of the bank are growing by about 20% to 25% and similarly government banking business also growing by that order of magnitude. So we have deep relationship with these people. I don't think we should really concern that the whole system will have a concern anything like that. But we will still, you know, improve on our services from here on.

**Piran Engineer:** Got it, got it. Yes, okay, that's it from my end. Thanks, and all the best.

- V. Vaidyanathan:** Thank you.
- Sudhanshu Jain:** Thank you.
- Moderator:** Thank you. Our next question come from the line of Vincent from Principal AM. Please go ahead.
- Vincent:** Yes, thank you for making this call. I'd like to ask since February 18th this year, what other communications from other government related or linked clients or accounts have we received related to this matter?
- V. Vaidyanathan:** Nothing, apart from what has come from this government, state government department, nothing else. Like I said, we enjoy good relationship with the ecosystem. And then we are deeply integrated, it's a very important point for you to take note of, is deeply like system-to-system, host-to-host integrations are on. So it's a running machinery. It's not only that somebody's left deposits with us.
- And to your second point, of course, that even for this, in this case, like someone else pointed out that looks like there is a connivance of multiple parties and therefore, why should only IDFC First Bank pay for this? There are multiple. We are evaluating all of these things in a legal sense.
- I'd like to say that that our general approach is that if we feel with a hand on heart that this is our bank's mistake, then we will not litigate these things, we will pay up. If we feel that there are multiple parties involved and other people also has to have responsibility, then we will go as per the process of law. But we intend to deal with this in a amicable manner with the entire ecosystem.
- Sudhanshu Jain:** And Vincent just to add, just to reiterate the discrepancies which we have got pertains only to this branch, no other branch.
- V. Vaidyanathan:** This is very important what Sudhanshu pointed out.
- Sudhanshu Jain:** I just want to keep reiterating that.
- V. Vaidyanathan:** Yes, no, thanks for that one. The important point, you know, see we are running over a 1,000 branches and frankly a 1,000 branches for starting from say 206 branches in 2018 December to 1,000 today, more than 1,000. And really from a 1,000 branches we've not had these issues, one branch has happened, nothing that we want it's a serious enough matter for us to learn from it, but, it's one branch, one client group.
- So we will deal with it, this is a very isolated instance and other employees of the bank are you know the check and controls of the bank are thick, strong and many of them are technology based.
- Vincent:** So since five days ago there's no other communications with other clients on this matter, Yes?
- V. Vaidyanathan:** No, we've not got any inward calls from any of these people at all.
- Vincent:** And I think since we're trying to size the impact, do we by any chance have insurance on this?

- V. Vaidyanathan:** Yes, Sudhanshu mentioned that a moment earlier, we have some employee dishonesty insurance of about INR30-odd crores in this case.
- Sudhanshu Jain:** INR35 crores.
- V. Vaidyanathan:** INR35 crores.
- Vincent:** Okay. And I think one last point is that based on what we know so far, how is it that the client received statements monthly and did not realize this happened, Yes?
- V. Vaidyanathan:** No, this is indeed a good question. The client in this case, these are system triggered, this is important to note. These are system triggered SMS, email alerts of every transaction had been sent and so on. So well, these are your question is something that will be examined as part of the process of evaluation and therefore hopefully, the respective responsibilities will be assessed and we will take it as it comes.
- Vincent:** So the client acknowledge that they received these statements?
- V. Vaidyanathan:** These are system generated.
- Sudhanshu Jain:** Yes, so these statements have as I said transaction alerts have been sent to the mobile number, statements have been sent on the authorized email IDs and this has been sent on a periodic basis.
- Vincent:** Yes, Yes, thanks for that Sudhanshu. I just want to understand on receipt of the statements and in fact in the last five days did the client acknowledge that there was a lapse in their process and they have in fact received these statements?
- Sudhanshu Jain:** So we feel that statements have certainly been sent and would have been received. One of the client have come back with certain discrepancy and then this reconciliation process is underway with few more clients and that's how we have assessed the discrepancy amount. Of course, we will now wait for this process to get over.
- V. Vaidyanathan:** See these are the kind of things that we will get into the depth of it that the bank has triggered the alerts. So as far as and in fact there are normal clauses that if you find a discrepancy with the statement please get back to us immediately. So this is a normal banking convention and disclaimers when banks send because when banks send statement of accounts and banks send SMS. So these things have been there and these will come up as a subject of discussion during the whole process.
- Vincent:** Just one more, sorry, Yes. I mean since I think it's very important for any bank to get this right, which is the statements are true and accurate, it is just that the client was not aware that certain employees had initiated the debit.
- V. Vaidyanathan:** No, but irrespective of whether cheques were forged and they were paid out assuming that they were, when you look in hindsight and you check the signature and assuming they're not exactly tallying. And so even if that be so, the bank has there is a certain bank balance that is reflecting on the books of the account. That has been sent out to the parties. But like we said these are part of the evaluation of the processes that will come up whether about the delivery, about the

responsibilities and so on. And we will we will take it as part of the process and we will handle it as it comes.

**Vincent:** Well sir, I just need to get this right, which is accounting for the fraudulent transactions after that the statements are true and accurate? Had the transactions happened the balance are accurate?

**V. Vaidyanathan:** No, no, obviously, because to the extent, let us say that a bank account has a INR100 and suppose INR20 has been taken out, has a cheque has been passed out of INR20, the balance INR80 is the balance on the books of the account. And that is what the statement of account will go for. Yes, so that is what it will go for. So there is no error, there is no absolutely no error in the statement of account as such. The statement of account is true and accurate.

**Vincent:** Okay, that's clear.

**V. Vaidyanathan:** This is very important, I'm so happy you asked the question. Yes, so there's absolutely no error in the statement, statement reflected what the system balance shows. If a fraudulent transaction has happened, so if it happened that has gone, so that is a fraudulent transaction, but bank balance is correct, the transaction is correct. It has happened and the customer has been told. So there is absolutely no system error, system reported the correct balance and customer was sent the right balance.

**Moderator:** Our next question come from the line of Param Subramanian from Investec.

**Param Subramanian:** Yes, hi, good morning. My first question is on this forensic audit. So what is the scope of this audit? Is it specific to the branch or is it wider and when can we expect the outcome of this? Yes, that's my first question.

**V. Vaidyanathan:** We are working out the scope at this point of time maybe Sudhanshu can throw light. Sudhanshu.

**Sudhanshu Jain:** Yes, so I'm saying as I said this incident seems to be just particular to this branch and largely because of connivance of employees and maybe some parties outside. So we're yet to finalize on the scope and we've appointed KPMG only yesterday, so we'll get into some of those nitty-gritties during the course. And typically depends on the investigation of course, typically to my best of the understanding these processes could take about four to five weeks to conclude.

**Param Subramanian:** Four to five weeks. Okay, and it is specific to the branch. Okay. Secondly, this was asked previously what is the exposure of the bank to say all state governments and central government broadly as a percentage of deposits?

**V. Vaidyanathan:** I thought Sudhanshu just answered that earlier, no? Because it's...

**Sudhanshu Jain:** About 8% to 10% of our total deposits to state government, central government, PSU entities.

**V. Vaidyanathan:** And it's been typically growing in line with the overall book of the bank so to say, somewhere in that zone.

**Param Subramanian:** Okay, okay. Then on deposits overall, I mean I know it's very early days, but do you think this can have any implication I'm not talking about state government, but overall on say higher value

deposit balances, because we have only just started undertaking this journey of reducing our savings account rates, right? So is that something that you think will see some delays or because we are also following a strong growth trajectory. Any colour on that relatively?

And secondly, we are talking about say, a tight control on cost going ahead. Will this have any implications on that because I heard you mention Vaidya that we are undertaking a review of our processes etcetera. So any impact on say both of these things?

**V. Vaidyanathan:** Sorry, I didn't understand last word review of, but let me fill it in for you because I couldn't hear you well. But I broadly got the spirit of your question. So what I meant is, I didn't hear the tail of your question. Rest I've heard.

**Param Subramanian:** So if I could mentioned that, Yes, Yes. So I meant since we are undertaking a review of processes across the bank, I think you called that out and of course we are in a process of consolidating our cost. So will there be impact of this on that?

**V. Vaidyanathan:** Okay, I got the question. So first of all you see the bank's largely let me say, while this is a collusion of employee case, the bank systems are already in place. Let me just share with you that for a bank to run so well, you may have noticed that it's been like 10 years. There has never been a single smell about the bank in the market about either experience by customers or even any incident like this.

So obviously, let me just say that systems of the bank are running really very, very well. This is a case of collusion. So this is a case of collusion of our employees with some counterparties outside. And this is a key risk to address is the collusion risk. The systems as such are running really well and fine. So we don't expect that because of this we have to put so many new controls that going to impact the cost of the bank or anything like that.

So I think it we don't think so. If anything if we incur, you know, a small cost towards a part of control, it's probably a good cost to incur. But we don't expect any material cost coming from that. Your second question is the bank reduced interest rates so sharply recently. Well, the fact is that, yes we have dropped interest rates, but the deposits are continue to come well from even after we dropped the rates and it's quite comfortable.

And number three we believe that over the last maybe many years, maybe 7 or 8 years, the bank has built a really good brand, the bank has built, culturally if you see if you notice the bank's appreciated for its culture, even employees how they experience the culture and how they spread the word around in the market among their friends, families, relatives and everybody has bank accounts with us. The smell of the bank is very, very good, which is a very difficult thing to achieve.

It's not about advertisement, advertisement is about how much money you spend, but experience is the hardest to gain. And the bank has built that experiences. The bank has built in terms of deposit growth, bank has built a really good mobile app, bank has built hyper-personalization capabilities, bank has built data lake, analytics, machine learning, artificial intelligence and hyper-personalization, anti-spamming rules, anti-reputation rules, these are like and very good design layer, the UI UX layer, the experience layer, and the response times are really good.

So what I'm trying to say is that the bank has built really good capabilities and relationship management and service capabilities and service center. So bank has built such a fantastic stack of capabilities, but really deposits are coming from the full stack. So that's very important to note. And we believe that one incident of one branch in one location, people will look through and deposits will continue to grow. And if there's, you know, anyway results will come out, we'll share with you results of deposits this quarter also.

**Sudhanshu Jain:** And Param just to add we maintain liquidity levels and we will of course closely monitor the situation.

**Param Subramanian:** Okay, fair enough. Yes, I got very clear. So, again on liquidity, right? So I mean our LCR is at like 115%, it's a little lower than where the other large private banks are. So as some abundant caution say from a near-term perspective, will we have some say higher liquidity buffers we'll be maintaining so, you know, consequent near-term impact on margins? I'm just trying to understand sir the implications from a near-to-medium term business trajectory?

**V. Vaidyanathan:** Bank always makes, you know our bank. We always keep high capital adequacy more than requirement. We always do retailization more than requirement. We always keep more liquidity than more than requirement. We are like super, super conservative in the way we run the bank. You can see that the credit deposit ratio of the bank for 7 years in a row on an average for the last 7 years is 75%. Okay, 75%.

So it's been 7 years on an average on an incremental basis. The stock was higher, it's now come down below to comfortable levels. But basically you can see that incremental has been 75%. So we run the bank really very, very conservatively. We take no chances at all. And we have very, very low levels of certificate of deposits.

You could have heard from the market that certificate deposits gone up to INR5.5 lakh crores in the system, IDFC has hardly taken certificate deposits we keep it very low. So we run the bank through core high quality retail deposit franchise from individual customers. So not to worry, these are our principles of running the bank, never take chances and that's how we'll run it.

**Param Subramanian:** One last question Vaidya, if I may. So I mean what is the gap that you think I mean you will be undertaking a review, but what is that gap versus some of the large private banks that you think was there if any, or do you think this could have played out in any bank in your view because you did call out that you have been strong in our risk management, but this has happened at our bank, right? So what is that gap and what are we doing incrementally to bridge that?

**V. Vaidyanathan:** Yes, clearly, clearly employee collusion risk, if a maker checker authorizer everybody in a branch compromises with a counterparty on the outside and clears a fraudulent cheque or clears a fraudulent transaction, maybe in this case even with multiple parties. So this is the kind of a stuff that can happen anywhere, that too in this a traditional the oldest kind of fraud of a cheque and that kind of stuff.

But really when we will also introspect on this, we should also think about our staff transfer policy, how maybe their own behavior, maybe we should be able to figure out more transaction pattern of how employees' accounts and conduct are, we need to think a little deeper about how we could have stopped dealt with the collusion.

This is not a system failure, this is not electronic system failure, the systems are, you know, running holding us very well. It is a collusion of individuals. So we will reflect on this. We will definitely reflect on this and we will take some very decisive moves about how we will prevent this going forward. And we really would be never want to see another incident like this in our lifetime in this bank again. We will make some very, very decisive moves.

**Param Subramanian:** Thanks a lot, Vaidya. Thanks, Sudhanshu, all the best.

**V. Vaidyanathan:** Thank you.

**Moderator:** Thank you. Our next question come from the line of Prakhar Sharma from Jefferies. Please go ahead.

**Prakhar Sharma:** Hi, good morning and thank you for doing this call in a timely fashion and sharing the color. I just wanted to ask if it would be possible see the biggest question that all of us are trying to wonder is this one branch, one government issue or is there any chance that maybe a month or two later something else comes up?

Is it possible to cover in the scope of either the audit or separate exercise a reconciliation of balances across governments and maybe issue a consolidated press release that this exercise has been done and no gaps have been observed or if any gap has been observed. That will give immense clarity to the market not to or kind of extrapolate this issue beyond what has come over the weekend, if that's possible?

**V. Vaidyanathan:** Yes, this is a good point, this is a good point. We will evaluate this actually. We'll think this over a little. But I think it's a good point. Because see the thing is that the more we expand the more focus will be lost, we want to be very, very clear about the focus of this we have to get to the bottom of this.

And with regard to the due diligence, whether internally or externally, we will definitely do a proper due diligence on the rest of the system as well. Definitely do that and thanks Prakhar, that's a very good input.

**Prakhar Sharma:** Perfect. Thank you so much and best wishes to all of you.

**V. Vaidyanathan:** Thank you Prakhar.

**Sudhanshu Jain:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, due to the time constraint, that was the last question for today. I would like to hand the con...

**V. Vaidyanathan:** No, no that's fine. I don't want to cut out anybody. If anybody else has to ask any questions, please feel free.

**Moderator:** Sure. Our next question come from the line of Subir Sen from Aditya Birla Sun Life Insurance. Please go ahead.

**Subir Sen:** Thanks for the opportunity. Just wanted a small clarification that 490 plus 100 which you mentioned, that 100 also pertains to Haryana government?

- V. Vaidyanathan:** Yes, yes.
- Subir Sen:** And this is only one account and one cheque or there are multiple cheques and multiple accounts?
- V. Vaidyanathan:** I think these are multiple.
- Subir Sen:** Okay, okay. Thank you.
- Sudhanshu Jain:** They pertain to that branch only.
- V. Vaidyanathan:** Again, they also pertain to that branch.
- Sudhanshu Jain:** INR100 crores also.
- Subir Sen:** Okay, thank you.
- Moderator:** Thank you. Our next question come from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.
- Nitin Aggarwal:** Yes. Hi for the opportunity. Just sir one small question like this money that has gone out INR590 crores, like is it all to the private banks or some PSU banks also there? And only two banks have been de-empanelled by the state government. So why is that so and any color, if you can share as to the mix of the outflow and this some rationale on all this de-empanelment?
- V. Vaidyanathan:** The money has gone to many other banks actually in the system. And even those banks are cooperating in the process. So we've reached out to many of them and they're all highly cooperative. With regard to the, what was the second question?
- Nitin Agarwal:** The de-empanelment has happened only for two banks, whereas multiple banks?
- V. Vaidyanathan:** That we can understand there, from their point of view, from the counterparties' point of view, that that incident has occurred. I think it will be a natural reaction for them to put to take the action they did. I think that it is our responsibility to do better and to and to give the necessary assurances and come back in the game.
- Nitin Agarwal:** Sure sir. Thanks so much.
- V. Vaidyanathan:** And in many occasions in the, the as Nitin you know the bank for long. We have really where we've come from this bank, we've really so I think we've covered lot of ground, we will cover ground on this front as well and win back the confidence of that client.
- Nitin Agarwal:** Sure, we obviously understand sir. And thanks for doing this call. Thank you so much.
- Moderator:** Thank you. Our next question come from the line of Deepak Gupta from JM Mutual Fund. Please go ahead.
- Deepak Gupta:** Hi morning sir. I just wanted to understand the timeline of the incident, given the fact that the branch would have been subjected to multiple concurrent and internal audits, does it imply that this would have been a recent transaction, which is why it wasn't discovered?

- V. Vaidyanathan:** I mentioned that, no, earlier that there are certain things which are under the under the scope of the audit, let the information come out as it comes out. But the trigger was the fact that certain departments, asked for balance confirmations. And then what they assumed or they thought, basically the books of accounts there was a difference and that's how we surfaced this.
- But really what we have done is that apart from the INR490 crores that came out, we have independently self-evaluated the rest of the system, we have found a gap of INR100 crores, we put everything together and we want to announce to everybody one shot. So that they don't have to come back to you again and again. This is our intent at this point of time.
- Deepak Gupta:** Understand that. And sir, given the fact that, that there has been wrongdoing from the government side as well probably and the investigation is going on, shouldn't we fight tooth and nail to get the money back or to ensure that we don't have too much of financial loss?
- V. Vaidyanathan:** See, the thing is that first of all, it is the forensic audit that will establish a lot more of these of the facts. And from the facts will come responsibilities. And it is you could be very well be right that there could be errors from the other party as well, there could be error from the some colluding party who are the beneficiaries.
- So if all that responsibility will be attached. Now your question is that why should IDFC First Bank, foot the bill for the entire amount if multiple parties are involved and other parties are also involved. That is something we will establish at the point of as it goes. But our intention generally as an approach as a bank, as a management, is whatever is fair has to be done.
- If it's our responsibility we will foot the bill. And to the extent our responsibility is crystallized, definitely we'll foot the bill. We will not fight tooth and nail for things that we don't deserve to keep in our books or our P&L.
- Deepak Gupta:** Sure, noted sir. Thank you.
- Moderator:** Thank you. Our next question come from the line of Jayant from Axis Capital. Please go ahead.
- Jayant:** Thank you for the opportunity. One question I wanted to ask, what would be the size of government state government deposits in our overall deposits and do you see any impact?
- V. Vaidyanathan:** I thought Sudhanshu already answered that, that it's and also with regard maybe you joined late and sorry, you didn't finish your second part of the question.
- Jayant:** Second question was that only sir, that I'm sorry if it's already answered, but is do you see any impact from other state governments in North?
- V. Vaidyanathan:** Yes, Yes, I think that question was already answered. But since you're coming in late maybe I'll just quickly in 10 seconds I'll answer this. That we have deep strong relationship with everybody, our systems are deeply integrated with these with the systems of these governments, we pay we collect taxes for them, we do there are multiple sets of services we collect state taxes, central taxes, GST, central so there are just so much more we do with them. It's like deeply integrated relationship.

We expect the relationship to continue to behave well with everybody else. And like I said, we are a, well-rated bank. I'd like to say we are AAA CRISIL on fixed deposits and AA+ on CRISIL on long-term rating. These are very high ratings and increasing, if you see the trend.

So we are a good bank, good capital adequacy, good balance sheet size, good culture, good systems, deep integration, so we have many things going in our favor and good relationship management and people who don't litigate unnecessarily. So I believe, we will demonstrate by our conduct that we dealt well in this matter and we will continue to enjoy the confidence of the people.

**Jayant:** Thank you sir and apologies for the repetition.

**V. Vaidyanathan:** Yes. Can we take a last question friends? Because I think we've been at this.

**Moderator:** Sure. We'll take the last question from Siva Natarajan from Principal Asset Management. Please go ahead.

**Siva Natarajan:** Yes, hi, thanks. Just following up on an explanation you gave earlier, is the process for authenticating and clearing a physical cheque at IDFC the same as other large private banks?

**V. Vaidyanathan:** Yes, it's very much the same. In fact we are absolutely on par with any good bank. This is a collusion that has happened, like we discussed before. And it's a collusion risk, it can happen anywhere. But of course we will now reflect on it and see what more we can put in terms of the controls.

But to answer your question, yes, of course, not only the processes are the same, we do validation, then there's eye-to-eye checking of the cheque versus the system, so the process are same basically you check the signature on the instrument versus the system of the system, you clear it and then there is a double triple check of a maker, authorizer, verifier etcetera.

All that has been followed in this case and then followed these are followed up with, sending a communication system generated statement to the registered customer IDs, mobile alerts, SMS alerts, monthly bank statements, monthly balance confirmation certificates, all of these things go to the customer. So these are the standard process of the banking system.

**Siva Natarajan:** Thank you.

**V. Vaidyanathan:** So if with your permission friends can I please close this call? Moderator, can I go ahead? Because it's been like it's like touching nine. I'd like to just, conclude by saying one thing that this incident of course has deeply disturbed us not because of anything else but because the bank has had a sterling record on operational excellence for the last 10 years, like I said before, not a single smell like this in 10 years of operation and in the last seven years post-merger as well.

So when that story gets disturbed by one incident, it has deeply disturbed us. We are not going to let this go in waste. We are going to get to it, if it's collusion is the key risk then we will address collusion. And if there any other systems also we will address it, maybe we'll discover if we discover anything. And that's one.

Number two we would like to point out that the core operations of the bank is very important for you to we request you to take note of. This incident has disturbed you also, we feel, we really regret that, it shouldn't have happened, particularly the magnitude of the issue is more and that also disturbs us.

But coming back to it. So but when you look back, I want to just share with all of you that this bank has come through from the situation we were, let me say, at the time of merger, the core operating profit of the bank is very strong.

Our ability to take some of these hits today is better than ever before. And that the core strength is strong. When you will look through this hopefully all of you will look through this for 1 quarter. We have not yet decided what we will provide or not provide, but you assume let you know that we will take some provisions for this, please assume that.

And we believe that the bank, because the net interest margin is expected to increase, the credit cost is expected to go down this quarter. So we were on the standalone basis we were expecting a very solid quarter this Q4 in terms of profitability. We were expecting you should see last 2 quarters gone up from INR350 crores to INR500 crores. We were expecting a higher number this quarter.

So we were ability this is our normal base case expectation. Of course despite this hit if we were to take one, we still expect to be profitable. This is our estimates at this point of time. So we believe that hopefully when you will wake up, a quarter from now, you will look through this, we will not look through it, but hopefully you will look through this and maybe from there on we will emerge stronger.

I want to take this opportunity even sharing with all our employees that we have come through a lot to become a strong bank now and be rated what we are and we will come out stronger from this, we will emerge stronger, we are confident about that.

**Moderator:**

Thank you sir. Ladies and gentlemen, on behalf of IDFC First Bank, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.