

IDFC First Bank

23 February 2026

Operator: Ladies and gentlemen, good day and welcome to the conference call of IDFC First Bank Ltd. on recent developments. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone 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.

Management: Good morning everybody. This is Vaidyanathan.

Management: Good morning everyone, I am Sudhanshu Jain.

Management: Hi, good morning everyone, this is Saptarshi.

Management: Before I invite Mr. Vaidyanathan, I will give a brief synopsis of the matter. We made a press release on February 21, but for context, I will 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 we have observed is that certain employees of this branch, most likely 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. This could have been 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.

We can assure you 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 meetings, and audit committee meetings. As I said, KPMG has been appointed to do the forensic audit. We have kept regulators and auditors informed of this matter.

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. We have existing controls in place. In light of the incident, we will try to enhance further controls as we move along. I can assure you that this issue is confined only to this branch. There is no impact on any other customer or any other branch that has come to our notice.

In terms of financial impact, the discrepancy currently found is about 490 crores. We have additionally received certain reconciliation requirements, through which we observed a discrepancy of 490 crores. We have additionally estimated 100 crores. That is how we reached the 590 crores of impact which we put out in the press release. We have put out this number as we could best assess at this point in time, but we feel that the number is broadly appropriate to the current situation. We do not anticipate this to move significantly from here. It could change slightly as we go through the process.

Again, I want to assure you that the bank is well-capitalized. As you would recollect in the previous earnings call, we said that the profitability of the bank is on a positive trajectory because we expect credit costs to keep coming down and we also expect improvement in net interest margins during

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the fourth quarter. Hence, whatever the outcome of this exercise, we should be in a comfortable position to subsume that. We are making all efforts to trace the flow of funds and seek appropriate restoration of funds. With this, I will ask Mr. Vaidyanathan to add further color.

Management: Good morning everybody and thank you very much for joining this call. A few investors called us yesterday and mentioned that the information provided in the note to the exchanges is quite detailed, but the financial impact is not well understood—specifically whether this entire amount will hit the P&L; or if recoveries will come. That is why we thought we should hold this investor call to explain the implications.

This is a specific, isolated incident that occurred in one branch with one client group. This is a case where debit instructions came, supposedly from the client, which clearly indicates fraudulent activity. Our personnel passed the entries and transferred the money to parties outside the bank from the client's account. They also used checks which, in hindsight, look forged, but someone cleared them. This looks clearly like a case of employee fraud involving external parties.

This is a serious matter for us. We have run this bank for 10 years and we have never seen an instance like this, certainly not of this magnitude. The bank has excellent controls across the system. We are a technology-first bank. On all fronts like mule detection and AML, the bank is doing very well in terms of numbers and controls. However, this was not a digital transaction. This was a physical transaction where checks were forged. This is the oldest kind of fraud known to banking.

This happened with the connivance of employees. The maker, checker, and authorizer system exists, but a group of people came together to make it happen. We will get to the bottom of this and spare no one. We have quickly appointed a forensic auditor, KPMG, and we expect them to move with great diligence. We will take the full support of the law enforcement of the country.

As far as the bank is concerned, it is fundamentally in a strong position. Our operating profit has now crossed 2%, up from 0.5% earlier. On the core of the bank, we are in a very strong position and the trajectory is rising. We have already guided that we expect this to go upwards of 3.5–4% in due course as the bank evolves. Our margin was around 5.7% last quarter, and we expect it to be around 5.8% this quarter. On that basis, we feel this incident will pass through the P&L; as and when it comes, but it will not pass through our memory.

We will scan every nook and corner of the bank for any process gaps or employee collusion. We discussed this with our employees across the country last night. People are holding forth very well and are comfortable with the situation. They are proud to work here because the bank deals with all matters ethically and decisively. There is a strong degree of confidence in the people and the culture. Our board has been briefed and has provided guidance and support. We have also informed the regulator.

The bank is in full control and transactions across the country will continue smoothly. In the last 7 years, we have opened over 1,000 branches and have not seen an incident of this nature. This is an eye-opener for us. We will check everything, implement necessary controls, and keep going. I believe a quarter from now, you will look through this incident. Thank you for joining, and feel free to ask your questions.

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Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from the line of Kunal Shah from City Group. Please go ahead.

Kunal Shah – City Group: Hi sir. A few questions. First, regarding the impact, you indicated the aggregate amount in reconciliation is almost 590 crores. Given that other banks have also filed in terms of credits received, is the entire amount repayable to the Haryana government? Does the liability lie with us? Will the entire financial impact be taken through the P&L, or is there money still available in those specific customer accounts?

Management: We are doing a layer-by-layer analysis to see where the money has gone. To the extent that money is lying in accounts that have not left the system, we will be able to block those funds and try to recover them.

Kunal Shah – City Group: Can you quantify how much money is left, what the total Haryana government deposits are, and the total government deposits for IDFC First Bank Ltd.?

Management: The total Haryana government deposits are roughly 0.5% of our total deposits, so it is not that meaningful in that sense. Since the notification a couple of days ago, we have seen an outflow of about 200 crores, but since the overall number is small, it should be manageable.

Management: For a bank with 4.8 lakh crores of deposits, 200 crores is not the main item.

Kunal Shah – City Group: Could this have been avoided? Looking at internal controls, would stricter authorization limits for specific ticket sizes have helped? How stringent will we get with government accounts following this incident?

Management: Even as we speak, there are excellent controls in place which failed in this case due to collusion. We have a governance framework, defined SOPs, and maker-checker-authorizer systems. For individual and government customers, there is a positive confirmation for transactions above 5 lakhs where branch staff calls the customer. We also offer "Positive Pay" where customers can authorize checks via the app, but we cannot enforce it as it might lead to genuine checks being returned. There is also additional verification for transactions above 10 lakhs.

In this case, people connived to make it happen. Regarding new controls, we plan to put in an explicit system for high-value transactions. For branch-based transactions exceeding a threshold, we will require explicit confirmation via a verified digital channel or app. We are also going to use AI. Currently, a branch manager physically clears checks, but we will implement a system where AI performs initial checking followed by human confirmation to better handle exceptions. This was a physical, manual check fraud—the most traditional type. We will improvise and put new controls in place.

Management: To add, we also send out transaction alerts, monthly bank statements, and monthly balance confirmations. Those processes are done through systems and are very much in place. SMS alerts and balance confirmation certificates were going on in this case as part of the process.

Kunal Shah – City Group: Do you see any potential contingent effects of other state governments' decisions regarding how they allocate business to empaneled banks? Is there a risk there?

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Management: We will have to take it as it comes. We are a bank with strong capital adequacy and good ratings. We are rated AAA by CRISIL on fixed deposits and AA+ on long-term ratings, which has upgraded twice in the last 5 years. Our net worth is over 46,000 crores. Our customer business, including deposits and loans, is now 5.6 lakh crores. Our operating profit has risen significantly to over 7,000 crores.

We believe people will understand. We are very sensitive to government accounts. We do not intend to litigate this unnecessarily. Where we have made a mistake, we will own it and do what is required. If there is a gray zone involving the responsibilities of counterparties, we will speak with them conductively to find a solution. We believe in being fair.

Kunal Shah – City Group: Thank you for answering the questions.

Operator: Thank you. Our next question comes from the line of Viran Engineer from CLSA. Please go ahead.

Viran Engineer – CLSA: Hi, good morning. How long did this fraud go on before it was uncovered?

Management: Some of these questions are difficult to answer at this stage because they may have legal implications. Let me say that when we received the Haryana government's request to transfer funds to another bank about a month ago, the bank saw that the money was not reconciling. This accelerated from February 18 onwards. The moment we spotted this after February 18, our actions accelerated.

Management: To add, the discrepancy observed from those specific requests is about 490 crores. We additionally scanned other accounts and self-identified another 100 crores. That is why we feel the discrepancy amount is around 590 crores. These numbers could move as the legal process validates claims and as we get recoveries.

Management: The 590 crores is the summation of the 490 crores difference in balance confirmations and 100 crores from our own extra diligence checking other accounts. We think we are broadly right in the numbers we put out in good faith. If recoveries come, the impact will be reduced. Our assessment is that this is approximately the correct number. Additionally, we have an employee dishonesty insurance policy of 35 crores which could negate some of the impact.

Viran Engineer – CLSA: My question stems from the idea that if this has been happening for a long time, it might also be the fault of the Haryana government, and they should be responsible. Why should the bank pay for it?

Management: We have not concluded the check. If their own officials were involved, why are we liable? That is why we are not putting out a specific provision number right now. We will evaluate if counterparties are responsible. We will pursue third parties where money was transferred. We put out the outer limit of 590 crores proactively rather than 490 crores because we do not want to postpone things or leak more news later. We do not postpone accounting or governance issues.

Viran Engineer – CLSA: Is there a chance that higher-level employees are involved? If there is a maker-checker process, the checker should ideally not be in touch with the maker.

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Management: The forensic audit will establish that. Everyone will be investigated, and we will get to the bottom of the trails.

Viran Engineer – CLSA: Lastly, what are the total government deposits with the bank?

Management: It is about 8–10%, which is in line with industry standards. This includes central government, state government, and PSU entities. It is not just about deposits; we provide deep solutions, collect taxes like GST and CBDT, and are integrated host-to-host with them. Our relationship is thick, and the business is growing. We don't believe the system as a whole will have a concern, but we will continue to improve our services.

Viran Engineer – CLSA: Got it. That is all from my end.

Operator: Thank you. Next question comes from the line of Vincent from Principal AM. Please go ahead.

Vincent – Principal AM: Thank you for this call. What communications have we received from other government-linked clients since February 18?

Management: Nothing else. We enjoy a good relationship with the ecosystem. As I said, we are deeply integrated system-to-system. No other clients have contacted us. Regarding the recovery, we are evaluating everything in a legal sense. If it is the bank's mistake, we will not litigate; we will pay up. If there are multiple parties involved, we will follow the process of law.

Management: To reiterate, the discrepancies pertain only to this branch. We run over 1,000 branches and have not had these issues elsewhere. This is very isolated.

Vincent – Principal AM: Regarding the monthly statements, how is it the client received them and did not realize this was happening?

Management: That is a good question. These are system-triggered SMS and email alerts sent for every transaction. This will be examined during the evaluation to assess respective responsibilities.

Vincent – Principal AM: Did the client acknowledge receiving these statements?

Management: Statements were certainly sent and would have been received. One client came back with a discrepancy, and reconciliation is underway with a few more. We will wait for that process to conclude. The bank triggered the alerts. Standard banking convention states that if you find a discrepancy, you must inform the bank immediately. This will be a subject of discussion during the process.

Vincent – Principal AM: To be clear, after accounting for the fraudulent transactions, the statements sent were true and accurate reflections of the system balance at the time?

Management: Yes, there was no system error. If 20 was taken out of 100, the system reflected 80, and the statement showed 80. The statement reflected exactly what the system balance showed. The system showed the correct balance based on those transactions and the customer was notified.

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Vincent – Principal AM: Thank you.

Operator: Our next question comes from the line of Param Subramaniam from Investec. Please go ahead.

Param Subramaniam – Investec: Hi, good morning. What is the scope of the forensic audit and when can we expect the outcome?

Management: We are working out the scope. We appointed KPMG yesterday. Since the incident seems particular to this branch, the focus will be there. Typically, these processes take about 4–5 weeks to conclude.

Param Subramaniam – Investec: Regarding deposits, do you think this will have any implications on higher-value balances or our journey of reducing savings account rates? Will this impact your Consolidation of costs?

Management: The bank's systems are running very well. This is a case of collusion of individuals, not a digital system failure. We do not expect this to require so many new controls that it impacts the bank's costs significantly.

Regarding interest rates, we dropped them sharply recently, but deposits continue to come in comfortably. We have built a strong brand and culture over the years. Our mobile app, hyper-personalization, and AI capabilities provide a great customer experience. We believe people will look through this isolated incident and deposits will continue to grow. We will share the deposit results this quarter. We also maintain high liquidity levels and will monitor the situation.

Param Subramaniam – Investec: Our LCR is at 115%. Will you be maintaining higher liquidity buffers near-term, and will that impact margins?

Management: We always maintain high capital adequacy and liquidity. We are very conservative. Our average incremental credit-to-deposit ratio over the last 7 years is 75%. We have very low levels of certificates of deposits (CDs). We run the bank through a core, high-quality retail deposit franchise. We never take chances.

Param Subramaniam – Investec: What is the gap versus other large private banks? Could this have played out in any bank, or is there something specific we are doing to bridge a gap?

Management: If a maker, checker, and authorizer in a branch compromise with an outside party, it can happen anywhere. This is a traditional fraud. We will introspect on our transfer policy and behavior monitoring to better deal with collusion risks. We will take decisive moves to prevent this from ever happening again.

Operator: Thank you. Next question comes from the line of Prakhar Sharma from Jeffries. Please go ahead.

Prakhar Sharma – Jeffries: Hi, good morning. Is it possible to perform a reconciliation of balances across all government accounts and issue a consolidated press release stating no other gaps were observed? That would give immense clarity to the market.

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Management: That is a very good point. We will evaluate this. While we must stay focused on getting to the bottom of this specific incident, we will certainly do a proper due diligence on the rest of the system as well. Thank you for that input.

Operator: Thank you. Next question comes from the line of Subir Sen from Aditya Birla Sun Life Insurance. Please go ahead.

Subir Sen – Aditya Birla Sun Life Insurance: Just a clarification: does the 100 crores also pertain to the Haryana government? And were there multiple checks?

Management: Yes, the additional 100 crores pertains to the Haryana government and that specific branch. There were multiple checks and multiple accounts involved in that branch.

Operator: Thank you. Next question comes from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal – Motilal Oswal: Hi. Was the money transferred to private banks or PSU banks? Why was the empanelment limited to two banks?

Management: Money went to many other banks in the system, and they are cooperating with us. Regarding empanelment, it is a natural reaction from the counterparty due to the incident. It is our responsibility to do better, provide the necessary assurances, and win back the confidence of that client.

Operator: Thank you. Next question comes from the line of Deepak Gupta from JM Mutual Fund. Please go ahead.

Deepak Gupta – JM Mutual Fund: I wanted to understand the timeline. Given that the branch is subject to audits, does this imply these were recent transactions?

Management: Certain things are under the scope of the audit. The trigger was the request for balance confirmations where a difference surfaced. Apart from the 490 crores that surfaced, we independently identified an additional 100 crores of risk. We wanted to announce everything at once so we do not have to come back to you again.

Deepak Gupta – JM Mutual Fund: Shouldn't we fight to ensure we don't have too much financial loss if there was wrongdoing on the government side too?

Management: The forensic audit will establish facts and responsibilities. It is possible other parties are responsible. We will establish that. However, our approach is to do what is fair. If it is our responsibility, we will pay. We will not fight for things we do not deserve to keep, but we will seek appropriate responsibility where it is due.

Operator: Next question comes from the line of Jayant from Axis Capital. Please go ahead.

Jayant – Axis Capital: I wanted to ask about the size of state government deposits and if you see impact from other state governments like Punjab or Delhi?

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Management: As mentioned, government and PSU deposits are about 8–10% of our total. We have strong integrated relationships with various states for tax collection and other services. We are a AAA-rated bank with good capital and a strong culture. We believe our conduct in dealing with this matter will demonstrate our integrity and we will continue to enjoy the confidence of our clients.

Operator: We will take the last question from Shiva Natarajan from Principal Asset Management. Please go ahead.

Shiva Natarajan – Principal Asset Management: Is the process for authenticating and clearing physical checks at IDFC First Bank Ltd. the same as other large private banks?

Management: Yes, it is very much the same and on par with any good bank. This was a collusion. We will reflect on what more controls we can add. But standard processes—signature validation, maker-authorizer-verifier checks, and system-generated alerts—were all followed.

Management: I would like to conclude by saying that this incident has deeply disturbed us. Not for any other reason than that the bank has had a sterling record of operational excellence for 10 years. When that record is disturbed by one incident, it affects us. We are not going to let this go to waste; we will address collusion risks decisively.

The core operation of the bank is very strong. Our ability to take hits today is better than ever. Our net interest margin is expected to increase and credit costs are expected to go down. We were expecting a very solid Q4 in terms of profitability. Even with this hit, we still expect to be profitable. We believe that a quarter from now, you will look through this, and the bank will emerge stronger. I also want to tell our employees that we have worked hard to become a strong bank, and we will emerge stronger from this.

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

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