Management Discussion and Analysis

Global economy

The global economy exhibited signs of recovery from the pandemic, as a result of policy stimulus and widespread vaccination coverage during the first half of calendar year 2022. However, instability emerged with the onset of the Russia-Ukraine war and this conflict not only hindered the ongoing recovery but also led to a significant increase in inflationary pressures. Although the commodity prices - which experienced a sharp increase following Russia's invasion of Ukraine - have now stabilised, the geopolitical tensions remain high which would exert upward pressure on inflation.

The global growth rate during calendar year 2022 decelerated to 3.40%. According to the International Monetary Fund (IMF), global inflation rose significantly from 4.70% in calendar year 2021 to 8.70% in calendar year 2022, thereby exceeding the targeted inflation rates in most of the countries throughout the year. Central banks across the world responded with policy tightening measures to curb runaway inflation and this resulted in tighter financial conditions. The policymakers needed to do a delicate balancing act, in order to enhance prospects and also to mitigate potential risks.

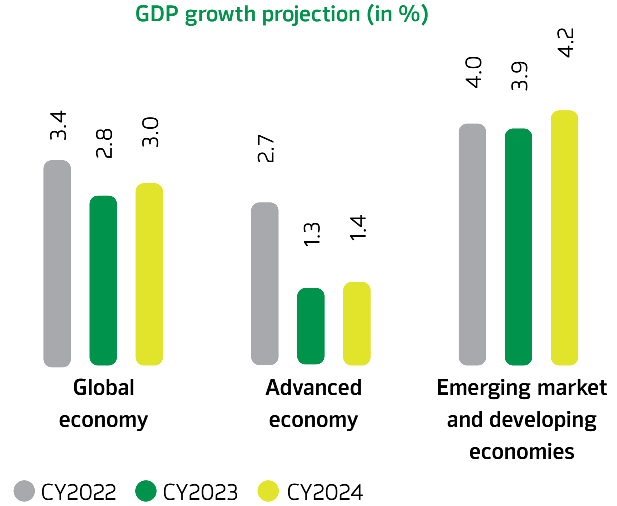
Amidst the persistent challenges such as high – but gradually stabilising – inflation, tighter financial conditions and ongoing geopolitical conflicts, the global economy in the second quarter of 2023 has managed to maintain the momentum gained in the previous quarter. The global policy measures, improvements in supply chains and resurgence in demand for contact-intensive services have contributed to the buoyancy in the global economy.

Outlook

Global economic growth is anticipated to remain under pressure throughout calendar year 2023 and may continue to exhibit restrained growth in the medium term. According to the IMF's World Economic Outlook (WEO) report published in April 2023, global growth is expected to decline from 3.40% in calendar year 2022 to 2.80% in calendar year 2023. Subsequently, the medium-term projection indicates that growth is expected to stabilise at approximately 3.00% in calendar year 2024. However, the progress is expected to be gradual, influenced by persistent and heightened upward pressures that pose challenges to a swift recovery.

While global headline inflation is projected to decrease from 8.70% in calendar year 2022 to 7.00% in calendar year 2023 due to lower commodity prices, the underlying or core inflation is expected to decline at a slower pace only. Additional adverse events such as elevated inflation, more stringent policies, financial strain, heightened weaknesses in major economies or escalation in geopolitical tensions have the potential to push the global economy into a recession.

GDP growth projection (in %)



Source: World Economic Outlook, IMF (April 2023)

Indian economy

The Indian economy exhibited resilience and managed to achieve a full recovery in financial year 2023, surpassing the performance of many other nations and is now focused to regain its pre-pandemic growth trajectory. The growth has been contributed by a recovery in India's discretionary spending aided by the festival season, restoration of consumer confidence and the government's focus on capital expenditure (capex).

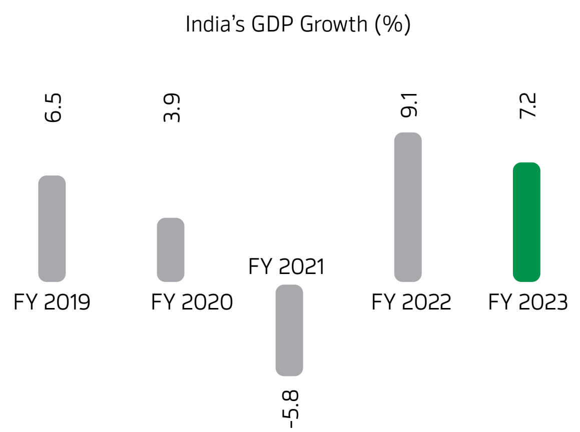
According to the data from the National Statistical Office (NSO), the projected real GDP growth rate for financial year 2022-2023 is 7.20%, which exceeds the earlier estimate of 7.00%, as stated in the second advance estimates.

Inflation in India witnessed a significant increase during calendar year 2022-2023, primarily driven by global supply shocks and higher input costs. In April 2022, inflation reached its peak at 7.80%. However, as a result of targeted supply management measures implemented by the Government and successive hikes in the policy REPO rate by the Reserve Bank, inflation gradually moderated to 4.81% in June 2023.

India experienced significant growth of approximately 7.00% in its merchandise exports compared to the previous years' level. The country also witnessed a shift from being a net importer to an exporter in certain sectors and the service exports demonstrated robust growth, with a notable increase of 27.90% during the year. Also, agriculture and allied activities showcased their resilience during financial year 2022-2023, with significant growth of 3.30% in Gross Value Added (GVA).

Management Discussion and Analysis

Real GDP Growth %



(Source – National Statistical Office, NSO)

Outlook

India's economic activity has demonstrated resilience in the face of global challenges, primarily due to a favourable domestic policy environment and the Government's persistent focus on implementing structural reforms. The projected real GDP growth for financial year 2023-2024 is expected to reach 6.50%, supported by lower global commodity and food prices, as well as the recovery from contact-intensive services.

Moreover, the Government's sustained focus on Capex, double-digit credit growth and increasing optimism among businesses and consumers are expected to drive economic growth in the foreseeable future. The inflation outlook is characterised from the uncertainties arising out of persistent geopolitical tensions and upward pressures on commodity prices. Assuming a normal monsoon, the Consumer Price Index (CPI) inflation is projected to reach 5.10% for financial year 2024.

Indian banking industry

Despite global headwinds, India's banking system has historically been one of the most stable in the world. Capital base of Indian banks have shown a healthy trend with the capital to risk-weighted assets ratio (CRAR) and the common equity tier 1 (CET1) capital ratio at historical highs of 17.10% and 13.90%, respectively, in March 2023. Banks have steadily enhanced their Returns on Assets (RoA) and Returns on Equity (RoE). Non-Performing Assets of SCB's have reduced and GNPA ratio fell to a 10-year low of 3.90% in March 2023 and the net Non-Performing Assets (NNPA) ratio declined to 1.00%. The Provision Coverage Ratio (PCR) rose to 74.00%. For the nation's unbanked citizens, the Government has continually worked to foster financial inclusion.

According to the Reserve Bank of India (RBI), bank credit increased by 15.00% year-on-year (YoY) in financial year 2022–2023 compared to 9.60% YoY in financial year 2021–2022. In financial year 2022-2023, bank deposits increased by 9.60% YoY compared to 8.90% YoY in the previous fiscal year (financial year 2021-2022). The sustained improvements in asset quality and profitability have led to the strengthening of Indian bank balance sheets on the back of the economic recovery.

The digital lending environment in India has recently risen sharply, particularly in the aftermath of the pandemic outbreak. Banks and NBFCs are increasingly lending either directly through their own digital platforms or through arrangements with Fintechs.

Government initiatives

Budget 2023-24 key announcements

Introduction of a revised credit guarantee scheme

The Budget 2023 introduced a revitalised credit guarantee scheme, injecting approximately ₹ 9,000 Crore into the corpus of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). This initiative aims to provide enhanced access to collateral-free loans for MSMEs and the scheme is expected to facilitate new collateral-free guaranteed financing of up to ₹ 2 Lakh Crore.

Financial support for digital payments

Digital payment has bolstered the income of small businesses and street vendors in the country, enabling fast and secure bank-to-bank transactions even for small amounts. The Union Budget assured continuous financial support for the digital public infrastructure in financial year 2023-2024.

Simplification of the KYC process

The streamlining of the KYC procedure could lead banks to adopt the new simplified approach. The adoption of a 'risk-based' approach - rather than a 'one size fits all' approach - will simplify the KYC process. Moreover, financial sector regulators will be encouraged to develop a KYC system that is fully adaptable to meet the requirements of Digital India.

Management Discussion and Analysis

Central data processing centre

Since the country is moving towards digitalisation, the centralization of data management has become critical. As a result, the Finance Minister recommended setting up a central processing arrangement with field offices under the Companies Act to allow the companies to respond faster through centralised form handling.

The Budget for financial year 2023-2024 has put forth a proposal to create a national financial information registry to serve as a centralised repository for financial and related data. This initiative aims to improve seamless access to credit, promote financial inclusion and contribute to overall financial stability.

Interest Subvention

Government has relaunched interest subvention for farmers (1.50% for the financial years 2022-2023 and 2023-2024).

Regulatory measures by RBI

Policy Tightening

The Monetary Policy Committee (MPC) of RBI increased the policy repo rate by 250 bps during financial year 2022-2023 from 4.00% to 6.50%. The policy rates have been maintained without any change up to the meeting held during June 2023.

Central Bank Digital Currency (CBDC) operationalization

The launch of the CBDC pilot features the e₹-R (Retail) to test Person-to-Person (P2P) and Person-to-Merchant (P2M) payments in real-time, and the e₹-W (Wholesale) to test secondary market transactions in government securities.

Rise of RegTech: Launch of DAKSH by RBI

DAKSH is a web-based end-to-end workflow platform used by RBI for monitoring compliance requirements in Supervised Entities (SE). The Regulator also migrated its payments fraud reporting module to DAKSH effective from 01st January 2023, as an extension of the Central Payments Fraud Information Registry (CPFIR) launched during the year 2020.

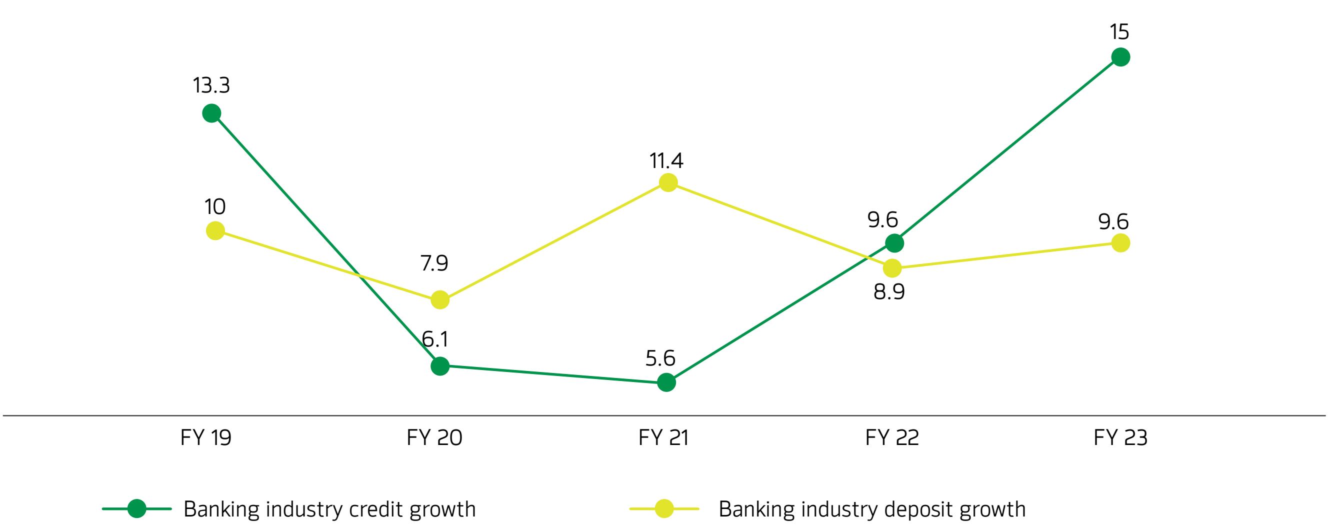
Initiatives for financial inclusion

RBI advised the Banks to roll out Digital Banking Units (DBUs) to provide end-to-end digital processing of small ticket Retail and MSME loans, in its nationwide push for financial inclusion.

Payments infrastructure transparency

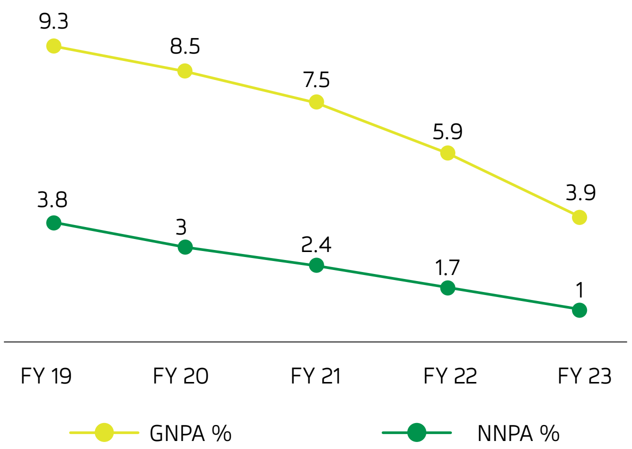
The Reserve Bank of India launched its Payments Vision 2025, an ambitious and progressive plan with a vision of e-Payments for Everyone, Everywhere, and Every Time.

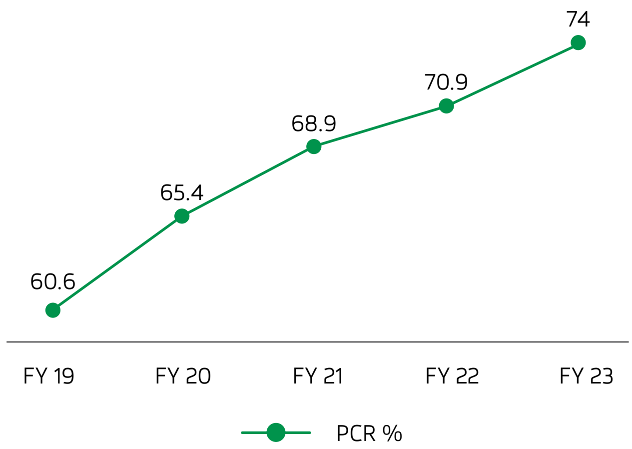
To bolster India's digital payment ecosystem, the Reserve Bank of India and the Monetary Authority of Singapore joined hands to introduce the Linking of UPI (Unified Payments Interface) of India with PayNow of Singapore. Through the integration of UPI and PayNow, users of both payment systems will be able to swiftly, securely and affordably send money across borders using their respective mobile applications.



Management Discussion and Analysis

Banking System: Improvement in Asset quality and strengthening of balance sheet





Source: RBI's Financial Stability Reports

Growth drivers

Strong economic growth

The Indian economy is predicted to grow rapidly in the ensuing years, fuelled by increased consumption and investment. This will result in an increase in credit demand from businesses and households. The banking industry will benefit from the growing demand for financial services in the future.

Favourable Industry Indicators

The credit growth has picked up since the last financial year and the momentum is expected to be sustained in the medium term. The Asset Quality of most of the Banks has improved and the credit cost for the Banks has softened. Banks have also augmented their CAR levels and an overall positive sentiment prevails across the industry.

Digitalisation

The banking industry has seen a transition from traditional banking to digital banking during the last few years. The Indian banking industry is undergoing a rapid digital transformation, which is making it easier for customers to access banking services and products. The development of Fintech, improvements in mobile and internet access, market-based financial intermediation and IT breakthroughs are contributing to the transformation. This will lead to an increase in the number of customers using banking services and products which would further support the banking sector.

Outlook

The banking system in India is expected to maintain a stable outlook, supported by the robust fundamentals of the domestic economy. Moreover, the strengthening of balance sheets by the Banks, a positive surge in credit demand and comfortable asset quality levels will aid in improving the key financial metrics of the Banks.

The average Net Interest Margin (NIM) of the Indian banking sector is anticipated to undergo a slight contraction in line with the gradual normalisation of deposit rates in financial year 2024. The asset quality is expected to remain stable, with Non-Performing Assets (NPA) ratios experiencing a modest decline due to recovery and write-off of legacy loans.

As pandemic-related forbearance measures continue to unwind in financial year 2023-2024, there is room to accommodate risks and banks seem to be in a favourable position to support sustained credit growth.

Management Discussion and Analysis

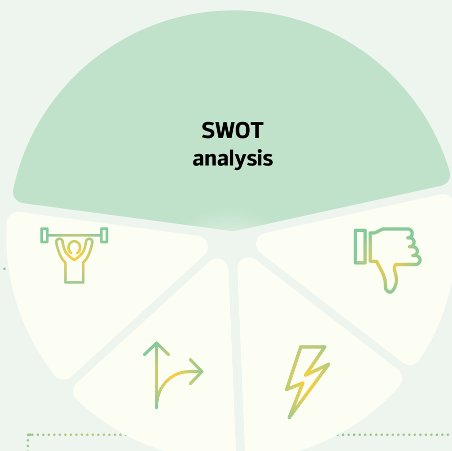
Corporate overview

Karur Vysya Bank has a rich banking tradition for over a century and was founded in the year 1916 by Shri M. A. Venkatarama Chettiar and Shri Athi Krishna Chettiar, to meet the financial needs of merchants and agriculturists. Headquartered in Karur, Tamil Nadu, the Bank's network is spread over 799 branches and 2,240 ATMs/BNRMs in India.

The Bank has a rich legacy of strong financial performance, consistent profitability and a high commitment to customer service. The Bank has grown as a financial conglomerate over the years with its operations spanning across various verticals like Treasury, Corporate/Wholesale banking, Commercial, Agriculture, Retail banking and is a forerunner in harnessing technology for its customers.

799
Branches

2,240
ATMs/BNRMs



Strengths

- Low cost and stable deposit franchise
- Good brand recall and reputation
- Extensive branch network in South India
- Experienced and well-trained staff
- Strong financial performance
- Dedicated customer focus
- Diversified business segments

Weaknesses

- Regional concentration
- Lower presence in the Retail segment
- Low visibility beyond South and West markets

Opportunities

- Resilient domestic growth
- Early bird adaptor of Digital banking
- Expansion into new markets and opportunities for rural growth
- Scaling up of business through alternate channels
- Untapped existing liability base for cross selling

Threats

- Rising competition from bigger banks in the hinterland
- Contraction in NIMs may throw challenges in improving operational efficiency
- Exposed to negative economic, political and social developments in Southern Region
- Data breaches

Management Discussion and Analysis

Mitigations for Weaknesses and Threats

Regional concentration & Low visibility beyond South and West markets

Bank will improve the digital penetration, increase the non-branch distribution channels and focus on lending through partnerships for acquiring customers in those markets. Bank is also mulling to improve its presence beyond these markets in potential centres and leveraging its presence in the niche markets to derive maximum advantage.

Bank has initiated improvements in the digital penetration and Co-lending through NBFC/Fintechs is helping the Bank in increasing its foot-print in other geographies where Bank's network is not deep.

Lower presence in the Retail segment

Bank has already opened an exclusive retail asset branch to grow the retail assets especially housing loans. Moreover, the Bank is also beefing up the non-branch distribution models (DSA, DST, FOS) to increase the sourcing of retail loan products. Furthermore, the Bank is also in the process of setting up Retail Assets Centres for faster processing of retail loans and improve the customer experience. Bank expects that the aforementioned measures would improve the Bank's presence in Retail segment.

Bank has also put in place an exclusive Sales Vertical for accelerated acquisition of NTB customers under Liabilities segment through ramp up of the Feet on Street (FOS). Bank has adopted a segmented approach through exclusive sales teams focussing on mass segment, HNIs, NRIs, Salary segment, Trade & Forex customers etc., Bank is also in the process of forging alliances through Corporate BC model to tap the hitherto untapped potential centres in Tamil Nadu, Andhra Pradesh, Telengana and Karnataka.

Rising competition from bigger banks in the hinterland

The Bank has a strong understanding of small & medium customers and has invested years of relationship and experience in offering appropriate and optimum banking solutions to these entities.

Bank is bracing itself to face the competition by benchmarking its products and pricing in line with the competition. Further, more focus will be directed towards retention of Existing-to-Bank (ETB) clients through roll-out of appropriate strategies by improving Products Per Customer and loyalty programmes.

Bank is adopting an omni-channel approach to improve the experience of its clients and to attract new clientele. Bank is enhancing its digital capabilities and continues to focus on improving the customer experience across all channels on an on-going basis by focusing on ease of banking with us.

Contraction in NIMs may throw challenges in improving operational efficiency

NIM stands at a comfortable level of 4.18% as at 31st March 2023. It is likely to contract in the current year on account of increase in costs of deposits. It may have a bearing on the NIM and to compensate the same, Bank is focusing on improving CASA deposits through separate acquisition team to penetrate corporate salary segments, TASC segment and Government Business segment. The credit verticals would also focus on high yielding assets without compromising on asset quality.

Exposed to negative economic, political and social developments in Southern Region

Bank continuously watches and assesses the potential risks arising due to socio-economic-political developments in Southern Region and works out appropriate mitigation measures, proactively.

Data breaches

Bank has implemented a number of mitigating controls to prevent or detect this threat. These controls include inter-alia, the following:

- Perimeter security controls such as network firewalls, web application firewalls, network intrusion prevention, network segregation and network behaviour analysis and anomaly detection systems.
- Privileged access management control with multi-factor authentication.
- Host based intrusion prevention systems to automatically detect and prevent known vulnerabilities.
- Data protection strategy comprising automated data classification and prevention of leakage of sensitive information.
- 24x7 security monitoring control to identify unusual security events in the Bank's IT environment; and take timely incident response actions.
- Periodic Management and Board oversight to review the control effectiveness and strengthen the controls.

Management Discussion and Analysis

Financial performance

KVB continued its robust performance during financial year 2022-2023 and comfortably strode past the Net Profit mark of ₹ 1,000 Crore, the highest ever post-tax profits in its history. The Bank reported a sustained and resilient performance in almost all the critical parameters and the total business moved to ₹ 1,40,806 Crore, a topline growth of 12.00% over financial year 2021-2022.

	FY 2021-22	FY 2022-23	% Change
Net Interest Income (1)	2,715	3,349	23
Other Income (2)	769	1,159	51
Total Income (1+2)#	3,484	4,508	29
Net Income from Advances and Others	2,498	3,313	32
Net Income from Treasury Operations	986	1,195	21
Operating Expenses	1,854	2,032	10
Operating Profit	1,630	2,476	52
Provisions	699	1,039	49
Profit Before Tax	931	1,437	54
Tax (net of DTA/DTL)	258	331	28
Net Profit	673	1,106	64

#Total Income is the sum of Net Interest Income and Other Income.

The Bank continued its focus on three major parameters - Growth, Profitability and Asset quality.

The growth in Total Income was contributed by decent increase in both the Net Interest Income and also the Other income. Bank significantly improved its performance under key metrics such as Return on Assets 1.27% (0.86% in financial year 2021-2022), Return on Equity to 13.13% (8.86% in financial year 2021-2022), Net Interest Margin 4.18% (3.72% in financial year 2021-2022) and reduced its Cost to Income Ratio to 45.08% (53.20% in financial year 2021-2022).

Asset quality

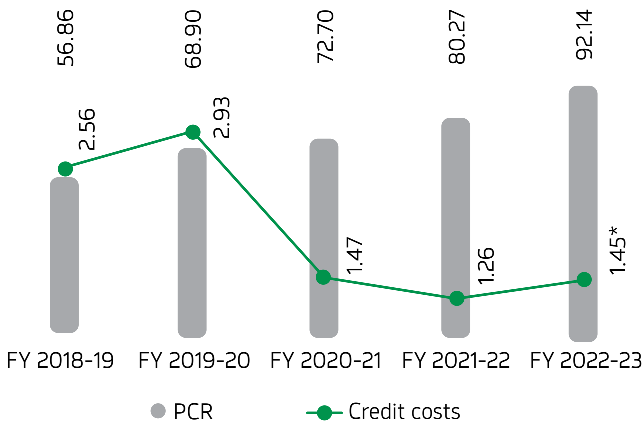
Bank has successfully maintained robust asset quality, underpinned by several key factors including portfolio diversification, rigorous credit approval processes, regular post-disbursement monitoring, remedial actions and enhanced recovery measures. These strategic measures have enabled the Bank to effectively manage risks and uphold a strong asset portfolio.

Bank also has dedicated Asset Recovery Branches (ARBs) for expediting recovery, in addition to recovery through Branch channels and Divisional Offices. Apart from monitoring the Early Warning Signals, Bank also verifies the RBI's CFR Portal and CRILC portal to check inclusion of any of Bank's customers (banking under MBA/ Consortium arrangement) in this list by other banks and regular review of account statements, stock statements, etc. are carried out every month to identify anomalies/abnormal operations in the accounts. Instances of frauds reported in News Media are monitored on daily basis.

The Bank's consistent efforts to curtail slippages, including the establishment of specialised collection teams, effective monitoring and data-driven analysis have significantly strengthened its ability to maintain a healthy asset portfolio. There is a notable downward trend in the Gross Non-Performing Assets (GNPAs) and Net Non-Performing Assets (NNPAs) of the Bank and the SMA 30+ stood at 0.56% of the Advances portfolio as of 31st March 2023.

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
GNPA (%)	8.87	8.78	7.94	6.03	2.27
NNPA (%)	5.03	3.96	3.45	2.30	0.74
PCR (%)	56.86	68.90	72.70	80.27	92.14

Management Discussion and Analysis



* Credit Cost has marginally increased during financial year 2023 as the Bank made certain prudent provisions

Balance sheet parameters

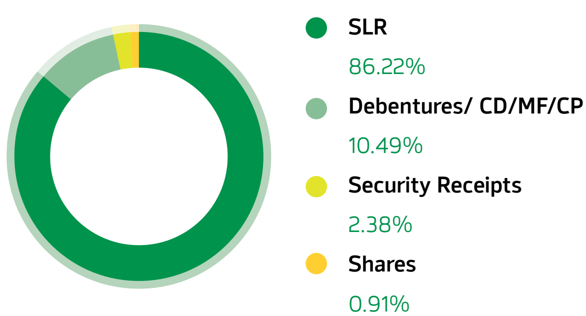
The Advances (before technical write-off) of the Bank grew by 16.00% YOY and the growth was equally contributed by all the credit verticals. Bank has proposed to impart special focus on growing its Retail segment and also small-ticket commercial advances, by establishing specialised units for the same.

₹ in Crore

Vertical	FY 2021-22	FY 2022-23	% Change
Commercial	18,656	21,445	15.00
Retail (Personal Banking)	12,957	15,054	16.00
Corporate	12,533	14,563	16.00
Agriculture	12,730	14,969	18.00
Advances (before Tech. W/off)	56,876	66,031	16.00

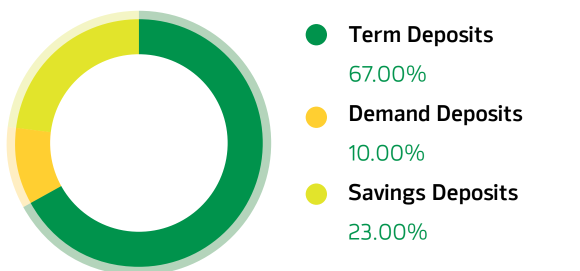
Investment composition

The Investment portfolio of the Bank increased to ₹ 19,411 Crore during the year, a growth of about 9.00%. The Yield on Investments grew by about 39 BPS over financial year 2021-2022 and the average duration of the portfolio is less than 3 years.



Deposit mix

The liability franchise of the Bank grew by 12.00% during the year, majorly attributed by growth in Term Deposits by 15.00% (YOY). The growth in Demand Deposits and Savings Bank Deposits stood at 8.00% and 6.00% respectively, despite partial conversion to Term Deposits. The deposits portfolio of the Bank is granular and predominantly retail deposits.

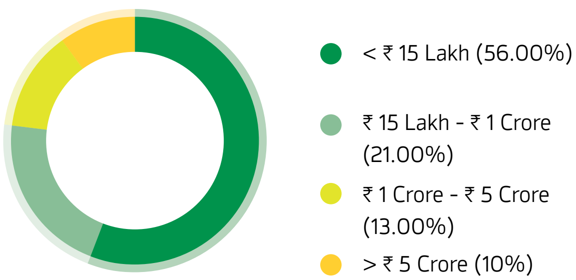


Management Discussion and Analysis

₹ in Crore

	FY 2021-22	FY 2022-23	% Change
Demand deposit	6,921	7,454	8.00
Saving deposit	16,983	17,995	6.00
CASA	23,904	25,449	6.00
CASA (%)	35	33	(6.00)#
Term deposit	44,582	51,189	15.00
Total deposit	**68,486**	**76,638**	**12.00**

the reduction in share of CASA out of Total deposits is due to increase in term deposits, notwithstanding the growth in CASA figures during the financial year 2022-2023.



90% of term deposits are < ₹ 5 Crore

Capital management

The Bank's capital position continues to be strong and the overall capital adequacy of the Bank stood at 18.56%, well above the minimum requirement of 11.50% stipulated by RBI. The Risk Weighted Assets (RWA) to Total Assets moved to 54% as at the end of financial year 2022-2023.

Financial and operating ratios

During the year, the key parameters such as Return on Assets, Return on Equity and Basic Earnings per Share improved significantly, on account of sustained performance in three parameters viz., Growth, Asset quality and Profitability.

	FY 2021-22	FY 2022-23	% Change
Return on asset (%)	0.86	1.27	48
Return on equity (%)	8.86	13.13	48
EPS (₹)	8.42	13.81	64

	FY 2021-22	FY 2022-23
Book value (₹)	94.95	105.03
Cost of deposits (%)	4.31	4.27
Yield on Advances (%)	8.56	8.93
Yield on Funds (%)	7.39	7.81
Cost of Funds (%)	4.33	4.30
Net Interest Margin (%)	3.72	4.18
Cost to Income (%)	53.20	45.08

Details of change in return on Net worth as compared to the immediately previous financial year and reasons thereof

The Return on Networth / Return on Equity grew from 8.86% as on 31st March 2022 to 13.13% as on 31st March 2023, owing to growth in Net Profits.

Reasons for significant changes (i.e. change of 25% or more as compared to the immediate previous financial year) in key financial ratios

The Operating Profits of the Bank for the financial year 2022-2023 has improved by 52% to ₹ 2,476 Crore from the previous year figure of ₹ 1,630 Crore and the Net Profits for the Financial Year 2022-2023 has increased by 64% to ₹ 1,106 Crore from ₹ 673 Crore registered during the previous financial year 2021-2022, due to higher business volumes and better margins. Hence, the growth is reflected in the Return on Assets (ROA), Return on Equity (ROE) and Earnings Per Share (EPS).

Outlook

The bank expects to sustain the growth momentum demonstrated during financial year 2022-2023 with specific focus on growing the overall business, improving profitability and maintaining asset quality. The Bank will achieve this by increasing the liabilities franchise, strengthening the 'Feet-on-Street' model, expanding the branch network in unexplored areas of West and South India, establishing dedicated branches for retail/home loans and enlarging the scope of co-lending/co-origination arrangements with NBFCs/Fintechs.

The bank will focus on increasing the avenues of fee/other income, increasing its lending to high-yielding assets and tracking cost optimisation for augmenting profits.

The bank also expects to continue the decent recovery performance made during the past years and to further downsize the GNPA/NNPA levels. Bank will prioritise to close the NPAs through OTS and also leverage the framework recently introduced by RBI for compromise settlements and technical write-offs. Bank has also been continuously strengthening its underwriting metrics to ensure a high-quality credit portfolio and the overall prospects for financial year 2023-2024 appears to be buoyant.

Management Discussion and Analysis

Review of business verticals

Commercial Banking Group (CBG)

The Bank has always envisioned MSME advances as its strategic priority, given the conversance in understanding the needs of small businesses. The commercial business segment witnessed a 15% growth over the previous year, reaching an overall portfolio size of ₹ 21,445 Crore as of March 31, 2023. Commercial Banking accounted for about 33% of the Bank's advances.

During financial year 2022-2023, CBG enhanced the Limits of the Small Business Group (SBG) segment from ₹ 2.00 Crore to ₹ 5.00 Crore to enlarge the business scope for the Branch channel. The credit processing has been decentralised to Divisional Office and CBG Clusters, to improve TAT and the Vertical imparted SME Business specific training to Strategic Branch Heads, Divisional Office team and Relationship Managers (RMs) at Business Banking Units (BBUs).

CBG formed a non-branch channel viz., KVB – SMART (Small and Medium Acquisition and Relationship Team) to source commercial business through Relationship Managers (RM's) under the Feet-on-Street model. Initially, KVB–SMART will function at Bangalore, Coimbatore, Chennai, Hyderabad and Madurai locations and will be subsequently expanded to other locations. CBG has been fully leveraging the digital capabilities of the Bank for improving TAT and also to enrich the customer experience.

Key highlights during Financial Year 23

- Introduced Drop-Line Overdraft (DLOD) to the customers wishing to diminish the overdraft balances or reduce the overdraft facilities within a stipulated timeline.
- Average ticket size of CBG portfolio granulated further to ₹ 36.50 Lakh as against ₹ 39.30 Lakh last year.
- As part of digital transformation, CERSAI API integration with LOS has been rolled out for SBG and BBU proposals.
- Deepened the tie-ups with NBFCs for co-lending.

Outlook

Bank expects the commercial advances to grow more than 15% in financial year 2024 by capitalising on the newly introduced sourcing channels viz., KVB – SMART, SBG RM Sales channels and also the BBUs and Clusters. With the best-in-the-class digital underwriting processes, we plan to offer pre-approved Business Term Loans for existing Current Accounts customers.

Consumer Banking Department (CBD)

In its quest to bring about accelerated growth in the Retail Business of the Bank, the Personal Banking vertical was revamped by merging the erstwhile Personal Banking Liabilities Group and Personal Banking Assets Group into a single Vertical viz., Consumer Banking Department. This revamp has given a fillip to the Retail Business of the Bank on the back of better synergies and this unified approach will enhance the stickiness of the customers with the Bank and also improve the customer experience across branch and digital channels.

Retail Assets

The Retail Loan portfolio of the Bank grew by about 16% during the year with net increase of about ₹ 2,097 Crore. The Retail Advances portfolio of the Bank reached ₹ 15,054 Crore, constituting about 23% of the Bank's total advances. The growth is the result of dedicated tracking of efficiency ratios and productivity metrics across different products. The consumer lending policies of the Bank have been benchmarked with the industry, by making suitable changes in line with the risk appetite of the Bank to improve business.

The Retail Assets team has partnered with an NBFC for co-lending in checkout finance (BNPL Loans) on the Amazon platform and is also engaging with various fintech/NBFCs for different consumer lending products and Credit Card segments to drive growth.

The following table will illustrate the performance of key products in Retail Assets during the year:

₹ in Crore

Product	Portfolio Size	Growth over FY22 (%)
Housing Loans	6,494	12
LAP	2,351	29
Gold Loans	2,101	14
Other Loans	2,479	34

Consumer Banking Department (Assets) forayed into the retail credit card business during the previous year and has consciously maintained a muted growth target, given its unsecured nature and Bank's limited experience in this segment. Presently, retail credit cards are issued to Existing to Bank (ETB) customers only based on their relationship and Bank's internal policies. However, the Vertical has sensed potential in this segment as the credit card penetration

Management Discussion and Analysis

is currently only in single digit in the country and intends to grow the credit card business in the coming years, primarily through partnerships (co-brands) and secured cards.

CBD (A) has also been offering Pre-approved Personal Loans to ETB customers where the selected customers can avail the disbursement in a couple of minutes with an end-to-end digital process and minimal documentation.

Key highlights during Financial Year 2022-2023

- CBD (A) has enlarged the distribution footprint by increasing the Direct Selling Agents (DSAs) and Direct Sales Teams (DSTs).
- Dedicated branch for sourcing retail loans – especially Home Loans – was opened during the year.
- Product offerings have been benchmarked with industry/peers to make them more competitive and relevant.

Outlook

The future plans of the Vertical are to expand open market sourcing channels by creating a separate distribution team for adding New To Bank (NTB) customers and setting up Retail Asset Centres for faster processing of loans. The Vertical will continue to focus on automated top-up programs, pre-approved and pre-qualified loans and credit card cross-sell and up-sell to ETB customers.

Retail Liabilities

Consumer Banking Department (Liabilities) has put in place exclusive sales teams to focus on NTB acquisitions. Concurrently, steps were taken to strengthen the Branch franchise for deepening the ETB relationships by addressing the needs of the customers.

The Vertical has also put in place an exclusive Government and Institutional Business team to focus on high-value CASA and term deposit segments. The Vertical has also been strengthening the product support functions to launch new products and tweak existing products, in order to make them competitive and meet the expectations of the customers.

Key highlights during Financial Year 2022-23

- Surpassed ₹ 75,000 Crore mark in Total Deposits, ₹ 50,000 Crore level in Term Deposits and ₹ 25,000 Crore in CASA Deposits.
- NTB incremental growth in Savings Accounts (SA) and Current Accounts (CA) was ₹ 1,067 Crore and ₹ 590 Crore respectively.
- Bank has built its own Payment Gateway and integration of UPI platform with the Payment Gateway is in process.
- The UPI-QR for merchants has been moved to live, which will help the Bank to onboard more merchants and also increase the UPI transaction in the acquirer side.

Digital push

Unified Payments Interface (UPI)

In terms of UPI transactions, Bank has surpassed a new benchmark of ₹ 1.90 Lakh Crore transaction value during financial year 2022-2023.

Point of Sale (PoS)

The income earned from POS business was ₹ 38.36 Crore and float income out of the accounts mapped to POS is estimated at ₹ 37.74 Crore during financial year 2022-2023.

FASTag

Bank has issued more than 5 Lakh FASTags since inception of the technology. The Income earned for financial year 2022-2023 stood at ₹ 7.76 Crore and the float funds of over ₹ 25 Crore is available with the Bank through FASTag float balances and security deposits.

Debit Cards

On the card front, Bank has issued 4,97,231 debit cards during financial year 2022-2023. During the year, 863.98 Lakh transactions amounting to ₹ 34,331.76 Crore were carried out through the debit cards issued by the Bank.

Demat Services

Bank has registered with National Securities Depository Limited as a Depository Participant (DP) and have been offering demat services to the participants in the security market. Bank has also partnered with M/s IDBI Capital Markets and Securities Ltd., M/s Religare Securities Ltd., and M/s SMC Global Securities Ltd., for providing trading accounts facility.

Government-sponsored and pension schemes

We offer various government-sponsored schemes (from Pension schemes to Insurance schemes) to cater to the needs of a wide range of people for social security.

Management Discussion and Analysis

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

The Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) is a one-year life insurance scheme, renewable from year to year, offering coverage for death due to any reason. This insurance scheme is available to people in the age group of 18 to 50 years (life cover-up to age 55) having a savings bank account and who give their consent to join and enable auto-debit. We have enrolled 81,755 customers under PMJJBY during financial year 2022-2023.

Pradhan Mantri Suraksha Bima Yojana (PMSBY)

Pradhan Mantri Suraksha Bima Yojana (PMSBY) is aimed at covering the population who are not covered in any insurance plans. This scheme is available at a highly affordable premium of just ₹20/- per year. The Scheme is available to people in the age group 18 to 70 years with a savings bank account and who give their consent to join and enable auto-debit on or before May 31, for the coverage period June 01, to May 31, on an annual renewal basis. We have enrolled 1,43,183 customers under this scheme.

Atal Pension Yojana (APY)

Atal Pension Yojana (APY) is a pension scheme for citizens of India. This scheme is primarily focused on benefitting the unorganised sector workers. Under this scheme, a guaranteed pension of ₹ 1,000/- to ₹ 5,000/- will be given to the subscriber at the age of 60 years. The pension amount depends on the contribution made by the subscriber. We have enrolled 1,261 customers under this scheme during financial year 2022-2023.

Sovereign Gold Bond Scheme (SGB)

Sovereign Gold Bond (SGB) is a government security denominated in grams of gold. It is a substitute for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity. The Bond is issued by RBI on behalf of the Government of India. Bank has sourced 30,849 grams of gold amounting to ₹ 16.50 Crore in 4 tranches with 855 applications.

National Pension System (NPS)

National Pension System (NPS) is a pension cum investment scheme launched by the Government of India to provide old age security to Citizens of India. It brings an attractive long-term saving avenue to effectively plan your retirement through safe and regulated market-based returns. The Scheme is regulated by Pension Fund Regulatory and Development Authority (PFRDA). National Pension System Trust (NPST) established by PFRDA is the registered owner of all assets under NPS. Bank is providing online NPS account openings through K-fintech (CRA) and has covered 715 customers as on March 31, 2023.

Outlook

Bank is all set to beef up its distribution model for accelerated NTB acquisition through exclusive Sales Vertical, Government & Institutional Business Vertical, alliances with Fintechs and partnering with Corporate Business Correspondents to penetrate areas where bank has a low presence. Bank is also aiming to bring about accelerated CASA growth and enhanced fee income through the distribution of third-party products.

Bank is in the process of putting in place a Relationship Management architecture for institutionalising continuous relationship management, right from on-boarding of the customer. To ensure retention of valued customers, Bank is focussing on cross-sell/ up-sell through its bouquet of products across deposit, credit and investment. The products per customer is expected to improve through deepening of relationships in ETB Books, leveraging analytics-driven data and cross-vertical co-ordination.

Corporate and Institutional Group (CIG)

CIG portfolio accounts for 22% of the Bank's total advances and has witnessed a growth of about 16% during the year. The growth in the CIG books can be attributed to the acquisition of new customers and the identification of borrowers pursuing capital expenditure plans, benefiting from improved cash flow availability and the ability to finance their expansion initiatives.

During financial year 2022-2023, the Vertical focused on sourcing fresh exposures with ticket size of less than ₹ 125 Crore, in order to granulize the portfolio. CIG focused more on emerging mid-corporate segments for fresh exposures and further, the asset quality of the portfolio has notably improved by maintaining the SMAs and minimal account slippages.

Key highlights during Financial Year 2022-2023

- Corporate portfolio grew to ₹ 14,563 Crore.
- Granular average ticket size of about ₹ 37 Crore.
- Supported the borrowers for their expansion plans/capacity additions in Manufacturing, Textile, NBFC, Automobiles and Renewable Energy.

Outlook

CIG follows a cautious approach for funding to the corporate segment, focusing primarily on rated corporates with minimum investment rating grade. The Vertical is looking to build the

Management Discussion and Analysis

portfolio by onboarding Loans and advances within a range of ₹ 25 Crore to ₹ 100 Crore and is identifying a value chain to participate in funding the forward/backward integration. The Government's "Make in India" programme would push the share of manufacturing in GDP and create more demand for bank credit and CIG will tap the emerging opportunities.

With technology playing a vital role and providing numerous opportunities for business growth, CIG is exploring the usage of tech platforms for the cash flow management of corporates through integration with Transaction Banking Group (TBG). The Vertical is also keeping a continuous vigil on the asset quality of the portfolio and will continue to weed out the stressed assets.

Agriculture Banking Group (ABG)

Agriculture credit remains a crucial pillar of the Indian economy and serves as the primary source of livelihood for a majority of people residing in rural areas. To ensure a sustainable increase in farmers' income, it is imperative to adopt a farmer-centric approach with a strong emphasis on agriculture and farmers' welfare.

The ABG loan books grew to ₹ 14,969 Crore during FY 2023, demonstrating 18% growth over previous year on the back of decent disbursements by way of CC and Shortterm loans to Agriculture and Allied activities and also through customized & innovative disbursement to farming community. ABG constitutes to about 22% of the Bank's total advances.

Bank achieved all the targets and sub-targets under Priority Sector Lending for all the quarters of financial year 2023. Further, the Vertical is actively participating in financial inclusion through strategic interventions, leveraging technology, and promoting financial literacy. ABG has successfully reached out to the underprivileged segments of society, bridging the gap and empowering communities with financial access.

Key highlights during Financial Year 2022-2023

- To diversify lending from Agri Gold loans, ABG has launched multiple products covering areas such as Micro finance (through partnerships), Agri Infrastructure, Agri Corporates etc.
- Vertical has embarked LOS journey for processing Warehouse Receipts Loans (farmers & traders), KCC Green Card and Joint Liability Groups (JLGs).
- Migration of Green card (KCC) renewal from manual to LOS platform.

Outlook

The performance of the Agriculture and Allied sector in the country has been resilient over the several years and it is expected to grow at a good pace. Ambitious efforts of Government and Regulators to increase the Institutional credit towards Agricultural Sector in recent years resulted in positive outcome.

Futurist areas with scope for credit lending includes viz., lending to Infrastructure facilities, fin-tech, on-lending to agriculture and lending to group/clusters (FPO/FPC's & JLGs.)

To align with the trend and to increase and diversify the agriculture portfolio, ABG has proposed to implement certain enablers viz. Fin-tech tie ups, financing Farmers' Producer Organisation (FPOs) and Farmers' Producer Companies (FPCs), digitalization of credit proposal processing to reduce TAT etc.

NEO

Upon inception of business four years ago, NEO devised a strategy centred around onboarding New to Bank customers, creating a quality book of HNI clients contributing to healthy yield through standalone non-branch distribution channels. To achieve this vision and establish a substantial book, NEO diligently built a robust and dependable framework. This framework rendered expected results during financial year 2022-2023, setting a solid foundation for the years to come.

NEO has expanded to new locations by employing a test-and-grow approach to explore and capitalise on potential markets. This expansion plan encompassed both metro cities and select Tier-2 cities, leveraging the opportunities presented by promising markets in respective states. By introducing the Branch Business model, NEO established a notable presence in Hyderabad and Bangalore, primarily focusing on the Home Loan product segment and providing personalised services through retail channels.

Furthermore, NEO emphasised on creating a strong partnership network to support book growth across various products managed through tie-ups. Collaboration with the partners allowed the Vertical to forge synergies, resulting in mutually beneficial growth, while maintaining high yields and a healthy book. Notably, co-lending tie-ups in the B2C space significantly enhanced customer onboarding, yields and growth in advance books. Additionally, NEO's tie-ups in the leasing sector provided an opportunity to serve large corporate clients with zero delinquencies and substantially higher yields.

Management Discussion and Analysis

Key highlights during Financial Year 2022-2023

- The incremental growth in loan books was about 73% and the portfolio reached ₹ 4,414 Crore. The loans sourced by NEO are included in the figures of CBG and CBD (A) Verticals, depending on the nature of loan.
- Expanded into new locations such as Kolkata, Indore and Jaipur.
- Significant insurance penetration has helped in maintaining high Product per Customer and growth in Other income.

Outlook:

NEO has planned to grow through geographical expansion, partnerships for Co-lending, Business Correspondent models and increasing Branch Channel Business. Locations in West Bengal, Uttar Pradesh, Madhya Pradesh, Rajasthan and Punjab would generate significant business during financial year 2023-2024. Setting up separate divisions for unsecured businesses will help in balancing portfolios, maintain high yields and to enter new segments with innovative products specific to markets.

Transaction Banking Group (TBG)

The Transaction Banking Group (TBG) specializes in Cash Management Services (CMS), providing collection and payment products for corporates of all sizes. Our electronic platform supports Virtual Accounts and bulk payments, streamlining financial operations.

TBG's comprehensive Supply Chain Finance programs cater to working capital needs within the supply chain, benefiting businesses across industries. We've formed strategic partnerships with top FinTech companies, expanding our reach and offering innovative financial services. Additionally, we are active in all three RBI licensed "TReDS platforms," reinforcing our commitment to excellence.

Key highlights during financial year 2022-2023

- The supply chain portfolio grew to ₹ 724.22 Crore as of March 31, 2023, a growth of 31.52% over financial year 2021-2022. The loans sourced by TBG are included in the figures of CBG and CIG Verticals, depending on the nature of loan.
- TBG has established relationships with several highly-rated companies to provide funding for their supply chain partners through dealer and vendor funding programs.
- Under Supply Chain Finance (SCF), electric vehicle funding has gained traction in both two-wheeler and four-wheeler segments.
- CMS products supported in sourcing Government accounts including those of state owned corporations / federations.

Outlook

Supply Chain Finance has become a popular financial solution, aiding companies in optimizing cash flows and fortifying supply chains. Embracing digital technology, TBG aims to leverage the partnerships with Fintechs to harness advancements and drive business growth. Additionally, TBG plans to expand the supply chain finance portfolio into various sectors like Agro Chemical, Agri Equipment, Chemicals, and Construction equipment.

Precious Metal Division (PMD)

Precious Metal Division (PMD) has witnessed a decent growth in bullion business turnover during financial year 2022-2023 and has been extending services in several states across India. PMD has specialised skillsets with adequate experience in handling bullion customers and the Vertical has also put in place robust system for managing the business.

With the increase in client base, demography and business turnover, PMD has generated positive revenues consistently during the last two years of full-fledged operations. The Bank is now recognised across India as one of reliable supplier amongst other Bullion Banks.

Key highlights during financial year 2023

- Bank has been conferred with the award of "Best Emerging Bullion Bank" at the India Gold Conference held at Chennai.
- Bank is the first to import gold under the new revised IGCR rule.
- Bank has started offering Gold to our clients holding Tariff Rate Quota (TRQ) for the import of Gold under the Comprehensive Economic Partnership Agreement (CEPA) signed between India and UAE government.

Outlook

Bank has good growth potential being a new entrant to this business, with an experienced team covering markets across the country and the USP of the Bank will be the strong business relationships

Management Discussion and Analysis

developed with the clients. PMD has been focusing on increasing the consignment supplies, market penetration, enhance customer base and turnover and to offer products to suit client needs within the regulatory framework.

Treasury

The scope of the Treasury Department encompasses a wide range of activities including investments in Central and State Government securities, Debt instruments of Banks, financial institutions, insurance companies, Certificate of Deposits, Equity Shares, Mutual Funds, Derivatives, Forex etc., The Vertical has understood the close connection between the business strategy and the goals of the organisation and ensures optimum performance consistent with the risks associated in the activities.

In the rising yield scenario, during the last financial year, a lower duration/minimal holding in the AFS portfolio enabled the Bank to manage interest rate volatility effectively. Further, there was no incremental growth in the provision for the depreciation of Investments.

Key highlights during financial year 2022-2023

- The investment portfolio of the Bank increased to ₹ 19,411 Crore, a YOY growth of 9.33%.
- The interest earned from the investments and portfolio yield increased decently during the year.
- Vertical explored investments in new products such as Liquid MF's, which gave higher returns.

Outlook

The low-duration strategy adopted by the Bank will ensure effective re-pricing of maturity investments, which will substantially increase the interest accruals during the next year. Also, the hike in short-term interest rates will generate decent returns on low-duration papers.

The broad scope of the Vertical includes deepening the relationship with Exporters/Importers Associations for lead generation, to offer forex products and solutions to ETB customers who presently do not route forex transactions through the Bank and also to explore opening of exclusive forex branches in major forex locations.

Collections

Protecting asset quality is of utmost importance for the Bank, in order to maintain financial stability and maximize profitability. Bank has implemented several measures to minimize slippages and enhance recovery, including implementation of proactive monitoring systems, offering timely restructuring options for stressed borrowers, collaborating with specialized recovery agencies, leveraging data analytics for Early Warning Signals and streamlining legal & recovery frameworks.

To have effective tracking of recovery position and to accelerate the recovery process, Bank has started systemization of recovery process through third party vendors. This has systemized the processing of data right from the day of stress in the account until upgradation/closure of the account and ensures proactive identification of potential defaults, prompt action for resolution and efficient recovery processes, thereby ultimately contributing to the reduction of slippages and improved recovery rates.

Key highlights during financial year 2022-2023

- The integration of technology has been extended to operational aspects as well, resulting in the migration of numerous task-specific technological platforms.
- Several new IT initiatives have been implemented to enhance the monitoring of legal cases in stressed accounts, with an aim to bolster the transparency & efficiency of the recovery process.

Outlook

In order to address the challenges posed by NPAs and to enhance the recovery process, it is imperative for the Bank to prioritize and focus on (a) strengthening NPA Prevention (b) accelerating NPA Recovery (c) proactive restructuring and rehabilitation (d) strengthening Legal & Recovery Frameworks through systemization and (e) focus on Data Analytics & Technology.

By placing a strong focus on these areas related to collections and recovery, the Bank can mitigate risks and enhance overall asset quality. Additionally, the Bank can reinforce its reputation as a proactive and reliable institution in managing NPAs and supporting borrowers in distress.

Management Discussion and Analysis

Going forward, Bank will focus on the following aspects, to improve collections:

- Enhanced communication with customers through personalized reminders, clear payment instructions and proactive follow-ups to address concerns.
- Implementing streamlined collection processes, leveraging automation and digital channels for efficient payment tracking and reminders.
- Providing on-going training to the recovery team on negotiation skills, customer empathy and effective dispute resolution to enhance their performance.
- Collaborating with the Credit verticals and collections team to align efforts, share customer insights and prevent future delinquencies through proactive account management.
- Regularly reviewing the collection performance, analysing trends and making necessary adjustments to optimize collection strategies and outcomes.

Marketing and branding

Top of mind recall is required for sustained growth of any business. This can be ensured only by way of constant presence and promotion in the various media. Though the Bank is a popular brand across the country, in order to keep our visibility on par with the other competing brands, a suitable branding strategy has been put in place. Bank has been positioning itself as a tech-savvy bank offering the best of digital products and services while at the same time standing firm on its traditional values of customer service. The Bank's DLite app and digital retail and corporate loans process flow are the best in class. Accordingly the DLite app and quick & paperless retail loans are promoted extensively in print and television media. The digital media, being a favourite among the Gen Z, Bank uses its social media handles to exclusively market the products with regular posts on almost a daily basis. Also the products are marketed through digital channels. MSME is another area of business that is promoted extensively by the Bank. (Read more on page 54)

Customer Service

Bank has a strong reputation for personalized customer service since its inception. The following measures have been implemented to enhance the customer experience and improve customer service:

- Integrated the Bank's net banking channel with Central Government's direct & indirect tax portals.
- Introduced WhatsApp banking and Re-KYC through Missed call facility.
- Enabled international (Singapore) UPI transactions (P2M) as per NPCI guidelines.

Review of operations verticals

Data centre – DRS functions

Bank has a Board approved Business Continuity and Disaster Recovery (BC & DR) Policy to provide uninterrupted banking service to customers. Both the Data Centre (DC) and Disaster Recovery Site (DRS) are equipped with latest infrastructure and are located in a different seismic zone. Bank has been maintaining a standby setup for all critical applications in DRS and the Bank can continue the business even in case of any disaster at either Data Centre / Disaster Recovery Site without any interruption to its customers.

Transformation of DC is one of the most important processes being undertaken by the Bank and the same is an ongoing process. Bank has implemented several new initiatives by leveraging new technologies including virtualisation, Cloud computing, image processing, Artificial intelligence, Open–API, ekyc, open-source platforms, VPN and storage-based backup solutions. New initiatives are being rolled out after ensuring compliance of all cyber security frame works as mandated by the regulator.

Bank has divided the entire IT team into three main pillars: IT Management, IT Application, and Technology to enhance project governance and professionalism. The Technology pillar oversees the Data Centre and Disaster Recovery Site, which are responsible for managing the technology infrastructure of the Bank.

The Data Centre's primary responsibility is to ensure application uptime and end-user availability, while the Disaster Recovery Site is dedicated to ensuring business continuity in the event of any unforeseen circumstances. Bank conducts regular Disaster Recovery drills to ensure its readiness for maintaining uninterrupted business operations.

Key highlights of financial year 2022-2023

- **Backup solution:** Replaced the conventional tape backup with a disk-based backup solution for rapid data recovery, ensuring business continuity during emergencies.
- **East-West network connectivity:** Sophisticated state of the art network connectivity between Data Centre (DC) and Disaster Recovery Site (DRS) to facilitate faster and more efficient data transfer.

Management Discussion and Analysis

- **SDWAN implementation:** Bank has deployed SDWAN technology to reduce overhead costs and improve network performance to offer better visibility and control over data transfer between locations.
- **Network monitoring:** A real-time network monitoring tool was implemented for enhancing the visibility of network bandwidth utilisation.
- **Application modernisation:** During the year, Bank has upgraded the platform infrastructure. The IMPS platform was specifically enhanced to be more scalable, secure, and future-ready, utilising customisable API-based XML messaging for faster modifications and introduction of new features.

Security related implementation and upgradation

The Bank has fortified its defence against security breaches, safeguard customer data, and maintain trust in the digital banking ecosystem by implementing the following security measures

- **Network HSM module upgrade:** The Bank has replaced old network Hardware Security Modules (HSM) with the latest modules to ensure the highest level of security. The new modules securely store cryptographic keys in hardware, providing a secure crypto foundation.
- **Data classification tool:** During the year, Bank has implemented a data classification tool to facilitate the identification and classification of data. This allows the bank to apply appropriate security controls based on data sensitivity.
- **Network behaviour analyser:** Introduced a network behaviour analyser tool to detect anomalies in network behaviour. This proactive approach enables prompt response and notifies security teams about potential security threats.
- **Extended detection and response (XDR):** Implemented an XDR solution to bolster threat detection capabilities and provide comprehensive protection against cyber-attacks, unauthorised access and misuse.
- **Vulnerability assessment tools:** The Bank assesses risks from both internal and external perspectives by utilising necessary vulnerability assessment tools. This provides comprehensive insights into cyber exposure, including vulnerabilities, misconfigurations, and other potential security threats.

Technology transforming the DC function

- **Application monitoring:** The Bank implemented an AI and ML-powered monitoring tool for critical applications to detect anomalies, rectify issues proactively and optimise resource capacity planning.
- **Hyperconverged infrastructure (HCI):** Migrated major workloads to HCI for simplified management, scalability, reliability, improved performance, agility and cost savings. Bank enabled encryption for data at rest and in transit and leverages the capacity dashboard to monitor CPU, Memory and Storage Performance.
- **Automation with bots:** Introduced bots to automate routine and mundane activities at the Data Centre, improving efficiency and reducing manual effort.

Outlook

Going forward, Bank will explore implementing data warehouse and visualisation tools along with automation for resource provisioning, data replication tool and code versioning tool. Bank will also use IoT devices for monitoring, analytical dashboard and integrating social media with call centres and chatbots. These advancements in technology will streamline the data management processes, improve decision-making capabilities through enhanced data visualisation, automate resource allocation and ensure data integrity.

Risk Management

A robust risk management system and continuous adoption of latest initiatives ensures long-term financial security and stability. The overall responsibility of setting our Bank's risk appetite and effective risk management rests with the Board / RM ALM Committee.

Governance - Board of Directors

The Board focuses on:

- Approving and reviewing our Risk Management Framework and policies annually.
- Assessing the effectiveness of the risk mitigation plan implemented by RMD.
- Providing strategic guidance on various initiatives undertaken / to be undertaken by our Bank towards the management and mitigation of various risks.
- Providing appropriate delegation to Top Management for planning and implementation of the Risk Management measures.

Management Discussion and Analysis

Risk Management and Asset Liability Management Committee, a committee of the Board, plays a supportive role to the Board, by carrying out inter alia the following functions:

- Review and oversee the development and implementation of the risk management framework, risk assessment methodologies/ processes and tools, including monitoring and reporting etc.
- Assessing future changes and threats and prioritising appropriate action.
- Setting and defining the Risk appetite of the Bank.
- Recommend suitable controls/mitigations for managing different risks.

Well-experienced risk management team with decades of relevant industry experience in varied segments of relevance to the bank and knowledge in various areas, handling the risk management functions.

The risk framework lays down the following components for effective risk management:

- An independent risk organisation and governance structure with a clear common framework of risk ownership and accountability.
- Governance standards and controls to identify, measure, monitor and manage risks.
- Policies to support and guide risk taking-activities across our Bank.
- Risk Appetite Statements.
- Periodic stress testing to assess the impact of adverse business conditions on earnings, capital and liquidity.

Governance Board of Directors

Audit Committee (ACB) / Special Committee for Fraud Monitoring (SCFM)

1. Fraud prevention and Management Cell (ACB/SCFM)
2. Risk Management Department (ACB)

RM ALM Committee

1. Credit Management Risk Committee (CRMC)
2. Market Risk Management Committee (MRMC)
3. Asset Management Liability committee (ALCO)
4. Operational Risk Management Committee (ORMC)

MD & CEO

Chief Risk Officer (CRO)

Group/cells reporting CRO

1. Information Security Group (ISG)
2. Fraud prevention and Management Cell (FPMC)
3. Retail Credit Risk
4. Technical Valuation cell
5. Analytics Team
6. Technology Quality Assurance (TQA)

Risk Management Dept

1. Asset liability Management
2. Risk Rating
3. Credit Risk
4. Market Risk
5. Operational Risk
6. Industry Research
7. Integrated Risk
8. Policies

Management Discussion and Analysis

Risk culture for our Bank

- A strong and consistent tone from the Board and Senior Management in respect of risk taking and risk mitigation in the Bank.
- A commitment to ethical principles – as reflected by ethical behaviour of the employees and application of ethics in business decisions.
- A clear enterprise-wide acceptance of the importance of Risk Management, including ownership and accountability of various risk areas.
- Timely flow of risk information in the organisation; Percolation of guidelines, regulations across the organisation alongside assessing its compliance.
- Encouragement for the reporting of risk events, including near misses, so that appropriate lessons could be drawn from them.
- Simplicity in processes which can be clearly understood by all the stakeholders and not to engage in any complex structural products/ business / activities; Excessive risk taking is not acceptable, even if it results in any benefit for the bank.
- Development of adequately resourced Risk Management function and recognising the values of Risk Management skills and knowledge.
- Allowing sufficient diversity of perspectives, values and beliefs to ensure that the status quo could be challenged without inhibition.
- Whistle Blower policy encourages employees, customers and vendors to communicate any information to the Top Management without fear of reprisal.

Bank has a dedicated Fraud Prevention and Management Cell (FPMC) for managing fraud risks and is reporting to Chief Risk Officer (CRO) of our Bank. FPMC submits reports to the Board and Senior Management Committees, periodically. Fraud detection, analysis, mitigation and prevention are a continuous process, and our Bank follows a structured approach as mentioned in Fraud Risk Management Policy and SOP.

Early Warning Signal (EWS): A number of Early Warning Signals (EWS) are studied regularly and the results are shared with concerned business verticals by the Credit Monitoring Vertical. Our Bank has installed specialised applications to fetch different EWS in an orderly manner. Online transactions are also monitored by specialised computer applications and processed until the logical end.

Red Flagged Accounts (RFA): Loan Accounts that exhibit a number of EWS are being red flagged and studied in detail for a period of six months, and appropriate decisions shall be taken, either to lift the account from RFA or to declare the account as fraud basis the performance. Bank follows the regulatory guidelines scrupulously in these matters.

Risk and Control Self-Assessment (RCSA): RCSA is a proactive tool in identifying lacuna, if any, in different products, processes, business activities, support functions, and operational units of our Bank. Different processes of our Bank are being studied for gaps (if any), controls available, adequacy of corresponding controls, lead and lag indicators etc. Corrective steps required are being initiated by the concerned stakeholder departments based on the RCSA.

Root Cause Analysis: Root cause analysis is comprehensively carried out to study the transactions to understand the weaknesses in the system and suggest additional controls to prevent a recurrence.

Key Risk Indicators – KRIs under key business and support functions are being identified and compared with the threshold levels on a quarterly basis. The threshold levels are reviewed/new KRIs are identified periodically besides reviewing breaches if any, facilitating for taking corrective actions.

Whistle Blower Policy

Bank encourages employees, customers and vendors to communicate any information they may come across about serious malpractices or impropriety/ abuse of powers etc. to the Top Management without fear of reprisal. The policy is popularised through various measures such as internal circulars, e-mail advisories, training sessions etc. to spot aberrations and deal with it at the earliest.

Bank weighs all new products, processes and outsourcing activities both financial and non-financial, the embedded options or enhancements of the existing products critically, by the designated committees of Executives drawn from business, technology, operations, risk, legal, audit and compliance functions before it is offered to the public to avoid systemic lacuna, if any.

Branches / Operating units are subject to several audits, and periodic visits of branches/ operating units by Divisional Heads, Divisional Operating Officers, and Central Office personnel for effective monitoring and continuous surveillance of all operations.

Management Discussion and Analysis

During financial year 2022-2023, Bank has reported 33 frauds amounting to ₹ 356.35 Crore. Of these, 24 are Credit-related frauds amounting to ₹ 356.26 Crore (93.27% of the amount falls under Consortium/Multiple Banking Arrangement) pertaining to corporate exposure. The major exposures i.e. ₹ 216.89 Crore were classified as NPA before September 2019 and the remaining before March 2022. There were 9 Operations related frauds amounting to ₹ 0.09 Crore.

The Bank also has a Fraud Risk Management Policy and standard operating procedures (a) to detect, control, monitor and report frauds to top management, regulator and other law enforcement agencies, (b) to ensure continuous surveillance to prevent frauds, besides managing the risk of loss arising from both internal and external fraudulent events. The macro-level guidance and directions on the above aspects are provided by the Board and committees of the Board.

RBI has created a Central Repository namely Central Payment Fraud Information Registry (CPFIR), for recording payment frauds. As per the guidelines, all payment related frauds, irrespective of value of the fraud, either reported by the customer to the Bank or detected by the bank shall be reported within 7 days from the date of reporting/ detection including attempted frauds.

During the financial year 2022-2023, Bank has reported 1,996 cases of payments frauds involving an amount of ₹ 159.51 Lakh to RBI through Electronic Data Submission Portal (EDSP)/DAKSH. Mostly Phishing/Vishing types of payment frauds were reported. In none of the cases, Bank incurred any liability. Customers shared their credentials with fraudsters in all the reported cases.

The bank is engaged continuously in enhancing the Risk Management Standards on par with the best practices in the banking sector. The Risk Management Process in our Bank is subjected to review by an external consulting agency to evaluate the level of effectiveness and to bring fresh perspectives to the Risk Management approach adopted by our Bank.

Role of Technology in Managing Risk CLS/LOS (Loan Origination System)

Credit processing system has been digitised end to end with automated bureau report checks, verification of account statements, GST data, income statements duly supported by well-designed score cards and a process flow document. Field visits, verification of veracity of the documents are handled effectively supported by a Fraud Control Unit (FCU). Improvements / enhancements are in place continuously to get complete benefit of the technology. This helps in minimising the manual intervention for its authenticity or genuineness. Further Internal Rating for proposals processed through LOS is arrived using a predefined Business Rule Engine (BRE) concept and is made as a pre-sanction exercise. In addition to the LOS rating, rating is undertaken in CRISIL ICON models and portfolio monitoring by appropriate applications.

Management Discussion and Analysis

Risks	Mitigation Steps
Credit Risk Macro factors including slowdown in major economies, geo political tensions in the neighbouring countries, stress in certain industries and micro level factors, underwriting process, recovery measures.	• Bank has a centralised credit risk management division, independent of our business functions, to manage credit risk supported by well-defined policies, caps on exposures to various industries, single and group borrowers, sensitive sectors, etc. • Appropriate credit underwriting standards, risk mitigation processes, post-disbursement monitoring, strong collection and recovery mechanism via call Centres and timely remedial actions ensure that credit risk is contained within acceptable levels. • Retail Credit Risk Team is responsible for retail credit portfolio and parameterised lending, basis product specific gating parameters and score cards. The parameters and gating conditions are being reviewed periodically. • Analytics team provides comprehensive reports with analysis and inferences to the top management, for taking appropriate policy and business decisions. • Divisional credit risk officers are placed in each divisional office to get a ground zero perspective of credit proposals. • Internal credit risk rating of proposals is mandatory for sanction of credit facilities with hurdle rating grades for new and take over exposures. Bank has deployed CRISIL ICON models and other models for rating our borrowers. • Bank has a system of monitoring the exposures periodically to ensure that those are within the Policy ceilings approved by the Board. • Portfolio studies, industry/sector analysis are carried out to capture up-to-date information. Periodic product and portfolio reviews facilitate course corrections and product / process flow changes. **Digitisation of credit underwriting:** LOS (Loan Origination System) has been designed and structured • to bring in better controls from a system perspective on TATs. • building better underwriting capability based on analytical feed and creating a digital workflow for risk mitigation. • better due diligence through system designs, sanity and automated bureau checks to minimise onboarding risks. • stipulation of gating conditions tested based on historical data of the Bank, eliminating subjectivity in the credit approval process. • well-designed score cards, as a part of decision making tools apart from gating conditions. • periodical review of performance of digital portfolio, both retail and commercial for initiating course corrective measures.

Management Discussion and Analysis

Risks	Mitigation Steps
	Other measures • Credit and risk related policies are drafted, and reviewed periodically as per the Bank's requirements within the ambit of regulations. • Comprehensive delegation of powers for various authorities with inbuilt matrix both for risk and non – risk deviations; spread policy takes care of the pricing mapped to scores / rating grades based on components such as Credit risk premium, business strategy premium, tenor premium. • Committee level approach to credit approval process promotes qualitative discussions and collective wisdom allowing 360 degree analysis of the credit proposals. • Clusters headed by Senior Executives are formed in select Centres with business potentials, for guiding the BBUs in the matters of credit dispensation, administration and monitoring. • PQI (Portfolio Quality Index) concept for monitoring the performance of the business units and relationship officers in an effective manner has been implemented. • RAROC (Risk Adjusted Return on Capital), as one of the performance measures towards business and profit optimisation has been in the process of implementation. • Bank's Model Risk Management Framework enables Bank to assess, measure, monitor and mitigate Model Risk. • Bank is also monitoring developments in neighboring/other countries to do required changes in the strategies / business activities pro-actively. • Bank has formulated ESG Policy for managing Climate Risk and caring for the Environment, Low-Carbon Transition, and Sustainable Operations.
Market Risk Market Risk arises largely from the Bank's trading activity in interest rate instruments, equity and forex market. We have well-developed framework, comprising of Board approved policies and established practices, for management of the market risk.	• Market Risk is managed through well-defined Board-approved Policies that caps risk in different trading desks or various securities through trading risk limits / triggers for effective and judicious management of investment funds. • Bank's investment portfolio majorly consists of Central and State Government Securities. • Bank has established an independent mid office as a risk control unit reporting to Chief Risk Officer, for Treasury and PMD activities. • Mid-Office monitors treasury operations from market and operational risk perspective and reports directly to RMD Central office. • Policies are in place for conduct of business exposed to market risk and liquidity risk with appropriate risk limits, stop loss limits etc. for effective management of all market related risks. • The policies and practices also take care of monitoring and controlling of liquidity risk arising out of its banking book, trading book and off-balance sheet exposures. • To measure and control market risk, interest rate risk, Equity price risk and forex risk, Bank has set various risk appetite limits. Bank is using various tools like stress testing, modified duration, PVBP, VaR, position limits, stop loss limits, NOOP limit, AGL etc to monitor market risk. Currently, capital charge for market risk is computed under the Standardised Duration Approach.

Management Discussion and Analysis

Risks	Mitigation Steps
Liquidity & Interest Rate Risk Liquidity risk is the potential inability to fund increase in assets, decrease in liabilities or meet obligations as they fall due, without incurring unacceptable losses. Interest rate risk is the risk where changes in market interest rates affect the Bank's earnings through changes in its net interest income (NII) and the market value of equity through changes in the economic value of its interest rate sensitive assets, liabilities and off-balance sheet positions	• Bank's Asset Liability Management policy provides framework for management of liquidity risk and interest rate risk. Bank has established risk appetite limits and other tolerance limits for both liquidity risk and interest rate risk. Further, our Bank also has necessary framework in place to manage and monitor intraday liquidity risk. • ALM of the Bank aims to strengthen the Balance sheet by pro-actively reviewing the market dynamics, capturing the signals emanating therefrom and ensuring value creation while conforming to the regulatory requirements. • Bank conducts various studies to assess the behavioural pattern of non-contractual assets and liabilities and embedded options available to customers. These results are being used in mapping and managing maturity gaps. • Our Bank's Asset Liability Committee (ALCO) is reviewing pricing of assets and liabilities on a monthly and even at early frequencies depending on the requirements, monitoring adherence to liquidity risk and interest rate risk limits. • While the maturity gap and stock ratio limits helps to identify liquidity risk, assessment of impact on the net interest income and economic value of equity helps to assess interest rate risk. This is complemented by stress testing frame work covering both liquidity and interest rate risk. • Liquidity Coverage Ratio (LCR), a global standard to assess organisation's ability to meet its payment obligations, is used to measure a Bank's liquidity position. LCR level ensures that the Bank has an adequate stock of unencumbered High-Quality Liquid Assets (HQLA) that can be converted into cash easily and immediately to meet its liquidity needs under a 30-day calendar liquidity stress scenario. • Net Stable Funding Ratio (NSFR) promotes resilience over a longer-term time horizon by requiring banks to fund their activities with more stable sources of funding on an ongoing basis. • Our Contingency Funding Plan (CFP) ensures that Bank has adequate liquid financial resources to meet our liabilities as they fall due. The CFP is reviewed quarterly by the ALCO and Board as a forward looking measure. • Country risk and Counter-party (Bank) exposure limits are reviewed periodically.
Operational Risk Risk arises from inadequate or failed internal processes, controls and systems, and procedures due to employee error or breach, fraud or external events or a combination of these factors	• Bank has developed and implemented an operational risk management framework that is fully integrated into the Bank's overall risk management system. Bank has put in place processes, systems and procedures to actively manage and mitigate operational risks and to optimise resources not only to protect the interests of the Bank but also to ensure return commensurate with the risk profile adopted. • Bank has a well-established internal control system, Books of instructions, internal circulars on policy matters and procedures, guidelines which include segregation of duties and responsibilities, systems and procedures, standardised operating procedures, clear lines of authority and reporting, among others. • Bank has adopted a structured internal audit mechanism carried out at pre-defined intervals based on well-designed parameters and existing ratings; apart from regular inspection, Bank also has Concurrent audit, Information Security Audit, Credit Audit, Revenue Audit and statutory audit. All the audits and inspections also help in understanding the working of the controls, breaches and the need for improving the controls and its effectiveness.

Management Discussion and Analysis

Risks	Mitigation Steps
	• Risk and control Self-Assessment exercise and Key Risk Indicators are in place as additional measures to improve the existing systems and controls. • Bank has a Business Continuity and Disaster Recovery (BCP and DR) policy to manage disruptions to our operations. • Product, process and outsourcing committees have representation from the risk department for their views besides suggesting mitigations for the identified risks in those products and process. • In order to ensure adequate and timely identification, measurement, monitoring, control and mitigation of reputation risk posed, a board approved reputation risk management policy is put in place. • Bank has implemented the Basel III capital framework and calculates the Capital to Risk Weighted Assets Ratio (CRAR) as per the guidelines laid down by the RBI.
Fraud Risk Financial institutions in general and Banks in particular are vulnerable and prone to several frauds perpetrated through internal and external forces. All the Banks are taking initiatives continuously to strengthen their internal control systems and procedures to guard against the frauds	• Bank has put in place a fraud risk management policy and standard operating procedure clearly defining the roles and responsibilities of all the related stake holders in the matters relating to detection / identification, classification and reporting of frauds to RBI, other regulatory bodies, Board of the Bank and Sub committees of the Board and the process of investigation, apart from recovery including insurance claims, provisioning, disciplinary action against the fraudsters, closure of fraud etc. • Reasons are analysed to study the transactions, understand the weaknesses in the system and suggest additional controls to prevent recurrence. A number of Early Warning Signals (EWS) are studied and the results are shared with concerned verticals. • Besides internal data, public domain data are also analysed as a preventive and monitoring mechanism. • On-line transactions are also monitored by specialised computer applications and processed until the logical end. • Some of the large loan accounts that exhibit a number of EWS are studied in detail for a period of six months, and appropriate decisions are taken based on the results of the study. • Special attention has been paid to the Whistle Blower Mechanism in the Bank and the staffs are encouraged to use the same to flag any issues/irregularities, including Operational Risk Events or Frauds when comes to their knowledge. • Gap analysis, root cause analysis is done to identify the critical factors contributing for the frauds and implement additional safe guards wherever required, to avoid recurrences of similar type of frauds. Many controls, change in processes, systems and products have been recommended and implemented to ensure systems and procedures are meeting the requirements.
Integrated risk management framework	• The objective of integrated risk management is to measure and manage risk and capital across a range of diverse business activities on a holistic basis in a centralized environment with the responsibility of identifying, measuring, monitoring and mitigating the risks in various functions. • Integrated risk management encompasses not only the Pillar I risks, but also Pillar II risks. The Bank has a separate ICAAP Policy to guide the entire process of preparation of ICAAP document annually to understand the present position as well as the future course of movements in business, risk weighted assets and capital in line with the projections.

Management Discussion and Analysis

Risks	Mitigation Steps
	• The advent of Basel III and the emphasis placed on the quality of capital, Bank shall strive to focus on common equity as a primary source of capital. Raising resources in form of Additional Tier I and Tier II shall also engage Bank's attention duly weighing the merits and related costs involved. • Integration of risk is also due to the interwoven nature of risks. There is a component of credit risk in Market risk and operational risk is existing on both credit and market risks. The impact of pillar II risks on the Pillar I risks cannot also be discounted. Operational risk is an all pervading factor in the banking business and is present in every activity undertaken by the Bank. Hence management of risk requires a well conceptualized integrated risk management. • Bank is following currently the basic approaches for capital computation in lines with regulatory guidelines.

Commodity Price Risks, Foreign Exchange Risks and hedging activities

Bank has Market Risk Management Policy, Integrated Treasury Policy and Precious Metals Division Policy approved by the Board specifying a risk control framework for undertaking any Commodity price risk and Foreign exchange risk. The Board of the Bank has defined the overall Net Overnight Open Position (NOOP) Limit, Stop Loss Limit, Aggregate Gap limit (AGL), and Value at Risk (VaR) limit to manage foreign exchange risk within its risk control framework. The Bank's policy stipulated margins for lending against commodities and has put in place a system of monitoring margins available / required with respect to ongoing commodity prices.

Bank is authorised by the Reserve Bank of India to import gold and silver. The bank imports Gold and silver on a consignment basis and sales are covered on back to back basis. Bank uses Forwards and Forex Swaps for hedging its currency and interest rate risk for its Foreign currency balance sheet items, customer cover, and for proprietary trading, within overall risk limits and control framework. The management of these products and businesses is governed by Board approved Policies of the Bank.

Risk Exposure and Assessment

The Bank is exposed to various types of risk such as Credit, Market, Operational, Liquidity, Interest Rate, Reputational, Legal and Strategic risk. The Bank has separate and independent Risk Management Department in place which oversees the management of all types of risks in an integrated fashion.

The objective of risk management is to have optimum balance between risk and return. It entails the identification, measurement and management of risks across the various businesses of the Bank. Risk is managed through framework defined in policies approved by the Board and supported by an independent risk management function which monitors and takes corrective action so that the Bank operates within its risk appetite. The risk management function attempts to anticipate vulnerabilities through quantitative or qualitative examination of the embedded risks in various activities. The Bank continues to focus on refining and improving its risk management systems. In addition to ensuring compliance with regulatory requirements, the Bank has developed robust internal systems for assessing capital requirements keeping in view the business objectives.

The Board of Directors (BOD) approves the strategies and policies for Risk Management, based on recommendations of the RM & ALM Committee of the Board set up to focus upon risk management issues. The RM & ALM Committee of the Board reviews various aspects of risk arising from the businesses undertaken by the Bank. Operating level risk committees comprising of senior management viz. Asset Liability Management Committee (ALCO), the Operational Risk Management Committee (ORMC), Market Risk Management Committee (MRMC) and the Credit Risk Management Committee (CRMC) oversee specific risk areas. These committees in turn provide inputs for review by the RM & ALM Committee of the Board.

Board Committees

Risk Management and Asset Liability Management Committee (RM & ALM)

This Committee shall put in place explicit procedures as per regulatory guidelines for managing enterprise-wide risk that the Bank is exposed. The Committee reviews and approves the development and implementation of risk assessment methodologies and tools, including assessments, reporting etc., foresee future changes and threats and prioritise action steps, monitor and oversee the implementation of the Risk Management Framework in the Bank etc.

Management Discussion and Analysis

The RM & ALM Committee shall recommend the policies to Board, strategy and methods for risk management, by evaluating the overall risks faced by the Bank in determining the acceptable level of risks. The committee inter-alia looks into the following aspects:

- Effectiveness of overall risk management framework in meeting sound corporate governance principles and identifying, managing and monitoring the key risks of the Bank.
- Oversee and monitor the Bank's compliance with regulatory requirements.
- Oversee functions of Credit Risk Management Committee (CRMC), Market Risk Management Committee (MRMC), Asset Liability Management Committee (ALCO) and Operational Risk Management Committee (ORMC).
- Reviewing and recommending the Internal Capital Adequacy Assessment Process (ICAAP) to Board.
- Discussion with CRO for ensuring the independence of risk functions.

The Committee ensures effective implementation of the risk management strategies and decides the policies and strategies for risk management in the Bank. In compliance with RBI circular guidelines, RM & ALM Committee is headed by non – executive member from the Board of the Bank.

Executive Level Committees:

Organisational setup and responsibilities of Executive level Management committees in implementing Board approved strategies and policies are as under.

Sl. No.	Committee	Focus Area	Chairman	Key Functions/ Responsibilities
1	Asset Liability Management Committee (ALCO)	All aspects of Asset Liability Management, Monitoring, Control, Interest rate review etc.	President and Chief Operating Officer	• Study all ALM related statements prescribed by RBI. • Provides framework for management of liquidity risk and interest rate risk. • Pricing for both deposits and advances. • Decide on the desired mix of incremental assets and liabilities. • Decide on the desired maturity profile of the incremental assets and liabilities and Contingency Funding plan. • Determine the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity positions. • Develop a view on future direction of interest rate movements and decide on funding mixes between fixed vs floating rate funds, wholesale vs retail deposits, money market vs capital market funding, domestic vs foreign currency funding, etc. • Any other matters related to market risk and liquidity risk.

Management Discussion and Analysis

Sl. No.	Committee	Focus Area	Chairman	Key Functions/ Responsibilities
2	Credit Risk Management Committee (CRMC)	All aspects of Credit Risk Management, Monitoring and Control	MD and CEO	• Recommend and review of Credit Policy, internal rating policy and other credit risk related policies. • Recommend for introduction of new internal rating models / score cards and review. • Review of exposures to various industries – exposure ceiling vis-à-vis actual. • Review of Stress Tests conducted on CRAR under different scenarios. • Discuss regulatory guidelines and the actions taken. • Peruse Credit related frauds and suggest mitigation measures. • Study concentration in advances portfolio. • Any other matters related to Credit risk.
3	Market Risk Management Committee (MRMC)	Aspects of Market Risk Management, Monitoring and Control.	Chief Financial Officer	• Setting guidelines for market risk measurement, management and reporting. • Ensuring that market risk management processes (including people, systems, operations, limits and controls) satisfy bank's Policy. • Reviewing and recommending market risk limits, including triggers or stop-losses for traded and accrual portfolios. • Monitoring of measuring and controlling mechanism for interest rate risk, Equity price risk and forex risk.
4	Operational Risk Management Committee (ORMC)	All aspects of Operational Risk Management, Monitoring and Control.	President and Chief Operating Officer	• Implement and monitor the Operational Risk Management Framework approved by the Board. • Develop policies, processes and procedures for managing various Operational Risk aspects in Bank's material products, activities, processes and systems. • Review and recommend the development and implementation of Operational Risk methodologies. • Review of Key Risk Indicators (KRI) and Risk and Control Self - Assessment (RCSA) are undertaken. • Perusal of frauds including cyber frauds, near miss events and related matters. • Discuss and study the impact of Loss data collected. • Any other matters related to Operational risk.

Management Discussion and Analysis

Human Capital

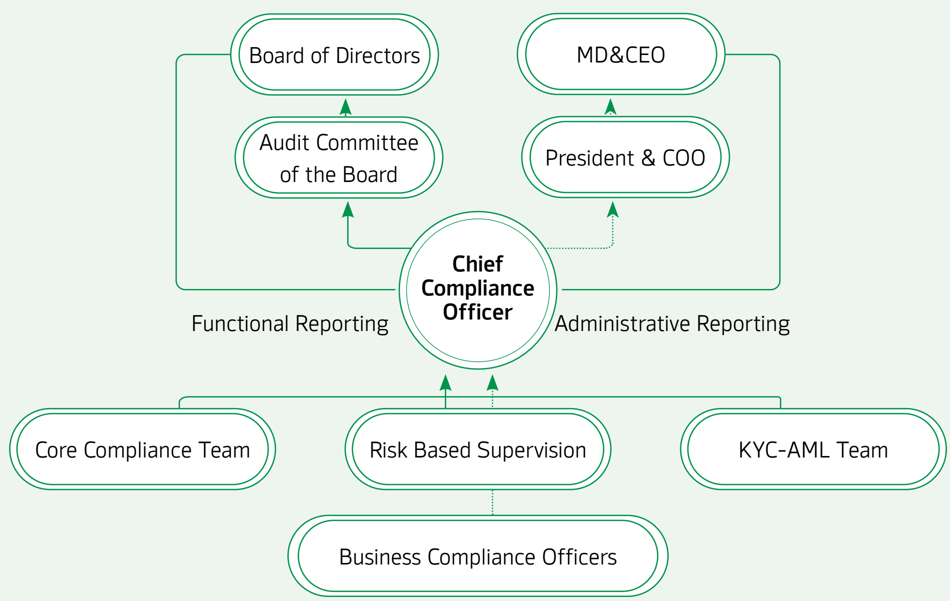
The human resource of the bank is instrumental in driving its success and acts as the primary distinguishing factor in a highly competitive sector. The bank is dedicated to creating a work environment that fosters growth for its employees and has implemented transparent and well-defined policies and practices that promote meritocracy in staff augmentation, deployment, and development. Furthermore, the bank has been consistently modernising its people and processes to enhance convenience for employees and ensure the efficiency of these processes.

(For more details, read page 42 of this report.)

Compliance

The bank has a transparent and comprehensive Compliance Policy and a robust KYC/AML/CFT Policy, duly approved by the Board and the same is subject to an annual review. Compliance, to us, is non-negotiable. The Compliance Department independently tracks, monitors, assesses and ensures that the bank meets regulatory guidelines and internal standards. The team works closely with the Compliance Coordinators of business/support teams and Divisional Offices. The Compliance Department is headed by the Chief Compliance Officer (CCO), who assists the Board, the Audit Committee of the Board and the Leadership Team in managing the compliance risk i.e. the risk of legal or regulatory sanctions, financial loss or reputational loss arising out of any failure to comply with the applicable laws, regulations or code of conduct applicable to Bank`s activities.

Department Structure



The Compliance team remains up to date with regulatory developments and acts swiftly to ensure timely adherence to guidelines by the respective business/support teams. It also participates in industry working groups that discuss evolving regulatory requirements. It imparts training on matters related to compliance to employees on an ongoing basis. The CCO is a member of various executive committees for the exchange of information. The Compliance team keeps the Management/Board/ACB informed about compliance-related matters through monthly, quarterly and annual compliance reviews. The Board and Leadership Team are committed to implementing, promoting and maintaining a robust compliance culture.

Management Discussion and Analysis

Strong governance oversight

- Process to ensure implementation of new regulations.
- Risk Assessment results - gaps in controls.
- Reporting of Compliance Breaches.
- Defining ownership/responsibility.
- Approach for fixing staff accountability on compliance failures.

Good compliance culture

- Issuance of E-services/advisories.
- Providing training online / Classroom.
- Giving guidance and views through interactions and discussions etc.,

Comprehensive risk management practices through

- Compliance Risk Assessment.
- Robust ML-TF Risk Assessment.
- Key Compliance Indicators.
- Mystery Shopping Framework.

Information security group

The Board and Senior Management of your Bank have envisaged the risks associated with adoption of Information Technology and Digital Transformation initiatives to enhance customer service.

Your Bank has established an Information Security Group headed by Chief Information Security Officer (CISO) which is specialised in Information and Cyber Security risk management to protect the Bank's Information Assets.

Your Bank has understood the importance of Cyber Security and the enhanced control requirements in the connected world. In order to protect the Information Assets in accordance with the determined risk profile of the assets, your Bank has approved appropriate policies and procedures in line with global standards and regulatory guidelines.

The Information Security Group designs, develops, implements, maintains and monitors the Information Security Management System (ISMS) comprising these policies and procedures, systems and processes with the objective of prompt detection, prevention and response to the continuously evolving cyber security threats.

Your Bank's ISMS reinforces not only the Confidentiality, Integrity and Availability of information; but also other security principles such as Authenticity, Non-Repudiation and Accountability. Thus, your Bank's ISMS ensures the following objectives:

- Safety and privacy of sensitive customer and Bank information.
- Prevent IT Assets and Information System from Unauthorized Access.
- Protect the Data / IT Systems from threats such as Phishing, Ransomware and other malware, malicious actors targeting cloud services and integrated systems in multiple locations over the Internet and zero-day attacks.
- Timely availability of Data / IT Systems to the authorised users.

Your Bank has established a fully functional state-of-the-art Security Operations Centre (SOC) to monitor the Bank's IT environment on a 24x7x365 basis, to protect the Bank's Information from undesirable events. Your Bank has also invested in Artificial Intelligence & Machine Learning (AI & ML) based monitoring and defence systems to safeguard the Information. Apart from technology tools and solutions, your Bank contributes equally to upskill the awareness of employees about new cyber threats in the technology landscape.

Your Bank is compliant with ISO/IEC 27001, which is the international standard for Information Security, duly certified by M/s TUV SUD since 2018.

Key initiatives undertaken during Financial Year 2022-23

- As part of data protection strategy, your Bank has implemented a data classification solution.
- Continuous efforts are made to redefine the ISMS to match the latest security trends and requirements.
- In order to measure the overall effectiveness of security posture and continuous improvement, your Bank has defined Key Risk Indicators for regular review by the Board and Top Management.
- Providing cyber security awareness on cyber fraud risks to the customers via regular email and SMS based advisories and alerts.
- Enabling the Brand Indicator and Message Identification [BIMI] feature for the Bank's email Messages to Customers.

Management Discussion and Analysis

Outlook

- In pursuit of taking proactive measures in threat handling and response, a leading XDR solution (Extended Detection and Response) is being onboarded.
- Continuous enhancement of data security measures including Information/Data Rights Management.
- Enabling the Brand Identification for the Bank's SMS Messages to Customers.

Internal control systems and their adequacy

Inspection and Audit (IAD) has put in place an independent inspection and audit mechanism cutting across various functions, processes and products of the bank to ensure adequate internal control in the day-to-day functioning, in line with Regulatory and Internal guidelines. The audit functionary is reporting to MD & CEO. The Audit Committee of the Board continuously provides macro-level guidance to the Inspection and Audit Department (IAD) and also periodically reviews its functioning. It also has an Internal Audit Policy approved by the Board. IAD is equipped with adequate skilled manpower and technical support to ensure effective audit process. Audit functions also support its efforts in fostering asset quality.

Risk Based Internal Audit (RBIA) as envisaged under Risk Based Supervision of the regulator is one of the major activities undertaken by IAD. It covers Branches/Business Units (BUs) and other Back Offices (BOs). RBIA focuses on the assessment and measuring of risks on the basis of inherent business risks and control gaps in major areas like Credit, Operations and Market risks. RBIA also identifies triggers/early detection of alerts, enforceability of loan documents and monitors security/charges created in favour of the Bank. At the most possible ways, the Vertical is utilising the Technical services (IT, Analytics etc) for the purpose of the audit program. In the entire RBIA process, right from the identification of branches/ business units to be inspected, inspection/audit process, follow up & compliance, arriving risk categorisation and upto review placed to ACB, it makes effective use of the analytic and technical capabilities of the Bank. It has conducted the RBIA of all the branches and BUs and BOs identified as eligible for financial year 2022-2023. IAD is also ensuring the genuineness of compliance submitted by the branches for RBIA report by conducting Compliance Audit at the branches by a separate team.

The bank has also ventured into strengthening and sharpening of audit process after shifting to digitalised lending process taking cognisance of the various requirements borne out of digitalisation. The off-site audit mechanism and monitoring process is being explored and enhanced, with the objective to complete the activities on a near real-time basis. Selective post-sanction activities are being monitored on a continuous basis through RADAR (Real-time Automated Data Audit and Resolution) platform and audit preparedness has been given due importance. This helps in reducing the credit risk to the bank and will also be helpful in reducing the number of remarks in RBIA. The "First Time Right" approach is being insisted on at all levels to ensure that the actions/process carried out by the respective team shall be in full and complete without gaps. This has considerably reduced TAT for file closure and also improved compliance culture at BUs.

The concurrent audit covers Branches, Business Units and other Back Offices. Service of experienced external auditors is used for conducting concurrent audits as per the Auditor Appointment policy of the bank approved by the Board. During financial year 2022-2023, 154 branches were covered under Concurrent Audit. Besides this all Corporate Business Units (CBU), all Business Banking Units (BBU), Treasury, TBG etc & Centralised units like COC, CFPC, EMC, Tax cell, Demat Cell etc were also subjected to Concurrent Audit. Credit Audit is carried out for large credit exposures as part of the loan review mechanism stipulated as per regulatory requirements. IAD has a system of re-appraisal of jewels pledged under the Jewel Loan portfolio at least once a year covering all jewel loan lending branches. During financial year 2022-2023, 858 re-appraisals including surprise re-appraisal were conducted. Further, during RBIA inspection, the purity of jewels is verified on a random basis. As a part of preventive measure, the bank is conducting Jewel Loan Mystery Shopping.

SWIFT audit, transaction monitoring, Gold Loan monitoring, selected GL heads monitoring, spurt in business etc. are brought under off-site surveillance. Surprise verification, Re-appraisal of Jewel Loans etc., was initiated from the triggers received from off-site surveillance. These initiatives helped the bank in restricting frauds/attempted frauds. IAD undertakes audits of co-lending activities, pool buyouts, Management audits of central office verticals/business units, inspection of currency chests in line with RBI guidelines. Special audits like NPA audits as per regulatory requirements are taken through external auditors.

During the year, Bank has conducted Process Audit on selected processes for examining their effectiveness and efficiency. Examination of business and operational key risks, controls established to mitigate those risks, including compliance with regulations and established policy, and procedures have been carried out in this activity. The audit is conducted to provide an insight on both the design and control effectiveness of the process.

Management Discussion and Analysis

Bank is having Board approved IS Audit Policy which was reviewed during financial year 2022-2023. Macro-level guidance for IS audit is provided by the IT Strategy and Digital Transaction Monitoring Committee of the Board and the Audit Committee of the Board. Information System Audit is conducted once in a year covering critical applications, Technical Centres and back offices. During financial year 2022-2023, we have conducted IS audits across 477 branches, 30 offices and 18 other specialised audits. IAD has a team of qualified executives/ officers to conduct/manage various IS audits, VAPT, Continuous IS Audit of Data Centers, DRS, Alternative Channel Cells and vendor audit etc. External expertise, preferably through Cert-in empanelled firms, is utilised for the audit, wherever required.

Key highlights of Financial Year 2022-2023

- RBIA for 477 branches and all other Business Units identified for inspection for the financial year 2022-2023 is completed. RBIA reports of all 477 branches were closed and risk rating was also finalised. Improvement has been brought in audit report closure and overall branch risk rating.
- Implementation of Tamper Proof cover for Title documents.
- Identifying Critical/unique risks and sharing the same with stakeholders for mitigation.
- Introduction of Mystery Shopping and Offsite Jewel Image Verification.
- Conducted Study on repeated audit remarks – Initiating action to address the root cause.
- IS audit - Risk assessment methodology for Applications, Technical Centres and Vendors was defined.
- Concurrent Audit, covering 52.70% of the total deposit and 65.94% of the total advance of the Bank business.
- Offsite surveillance areas strengthened by including new areas under near real-time monitoring.
- To reduce credit risk and improve compliance culture, “RADAR monitoring” was implemented covering selected areas.

Outlook

- IAD has proposed new initiatives for continuous near real-time audit and risk evaluation. IAD will use digital data for 100% coverage under continuous offsite audit.
- The audit will focus both ex post (After the event) and ex ante (Before the event) and encourage “First Time Approach” and “Rapid Response” to mitigate the risk.
- IAD will leverage technology at all levels of audit function to enhance the coverage of off-site surveillance and off-site audit tools.
- Analytic inputs will be used as a tool and the audit program (Selection, audit, Follow-up, Review) will be system driven.
- IAD will carry out more process audits to ensure proper system behaviour and adequacy of controls to be put in place.
- The focus of RBIA shall be on picking up triggers of risk, EWS, Gaps in controls and processes, identifying operational risk etc.
- Collaborating with Risk, Compliance and Business Verticals to give assurance to management that adequate control is in place in the banking environment.

Medium and long-term strategy of the bank

While discussing the bank’s strategy not only for the current financial year but also the next five years, the Bank is clear that it needs:

1. To put the customer at the centre of any decision.
2. A wide offerings basket across different segments.
3. To become more digital.
4. To grow our presence in the underpenetrated markets given the advantage of having 54% of our branches in semi-urban and rural areas.

Management Discussion and Analysis

The bank will pursue its strategy by utilising the following means:

People

- Nurturing in house talent.
- Induct fresh talent, where required, to complement in house capacity.
- Continuous capacity building of human resources in specialised areas such as Credit, Treasury, Forex, Risk Management, Collections and Recovery.
- Digital enablers to sales force at the field level.
- Talent acquisition through lateral hires wherever required.
- Talent management through appropriate retention measures.

Processes

- Digital adoption of processes to ensure that entire customer journey is through technology for delivering seamless personalised customer centric experience with minimum lead time.
- Improved decision making and operational excellence by leveraging data, business intelligence and advanced analytics.
- Study the changes in consumption patterns of customers, with customisation of financial products to suit the requirement of every profession/segment dominant in our command area.
- Adoption of technologies including Robotic Process Automation and Artificial Intelligence.

Practices

- Strong Governance and oversight.
- Developing a good compliance culture.
- Zero tolerance for non-adherence to process and compliance.
- Comprehensive risk management practices.
- Concentrating on Niche areas for growth.
- Focussing more in the southern states of Tamilnadu, Telangana and Andhra Pradesh for improvement in market share.

Planning

- Optimise use of financial resources.
- Improved efficiency of capital deployment.
- Ensuring adequate funding at competitive rates.

Partnerships

- Co-lending partnerships with NBFCs.
- Fintech partnerships for sourcing to provide customers with delightful experience across multiple channels.
- Meeting entire financial requirements of customers by having all the required tie ups and ensure one stop solution for all our customers.

Management Discussion and Analysis

The Bank's strategy is to deliver consistent financial performance, by providing superior services to the targeted group. The Bank will:

1. Offer our clients financial solutions/ products/ services, with continuous focus on southern and western markets and target retail and commercial business customers.

2. Provide efficient and competitive services leveraging digital channels with a focus to improve the market share of the Bank and follow policies to attract young customers and to sustain the granular growth by optimising the balance sheet, improving CASA to 40%, and improve ROA to 1.50%.

Disclosure of Accounting Treatment

The financial statements are prepared on a going concern concept, on a historical cost basis, and conform to the Generally Accepted Accounting Principles (GAAP) in India which encompasses applicable statutory provisions, regulatory norms prescribed by the Reserve Bank of India (RBI) from time to time, notified Accounting Standards (AS) issued under Section 133 of the Companies Act, 2013 read together with paragraph 7 of the Companies (Accounts) Rules, 2014 to the extent applicable to banks and current practices prevailing in the banking sector in India. Income and Expenditure are generally accounted on an accrual basis, unless otherwise stated and comply with requirements as per RBI guidelines and the provisions of the Banking Regulation Act, 1949. Accounting Policies adopted in the preparation of financial statements are consistent with those followed in the previous year.

Cautionary statement

Certain statements in the 'Management discussion and analysis' describing our objectives, estimates and expectations may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ substantially from those expressed or implied. These statements are subject to risks and uncertainties, including the effect of economic and political conditions in India and outside India, volatility in interest rates and in the securities market, new regulations and government policies that may impact our businesses as well as our ability to implement the strategy. We do not undertake to update these statements. Figures for the previous year have been regrouped wherever necessary to conform to the current year's presentation. Important factors that could make a difference include economic conditions in the domestic and overseas markets, changes in laws/ regulations and other incidental facts. This document also does not constitute an offer or recommendation to buy or sell any financial products offered by KVB.