MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC OVERVIEW

Global economy

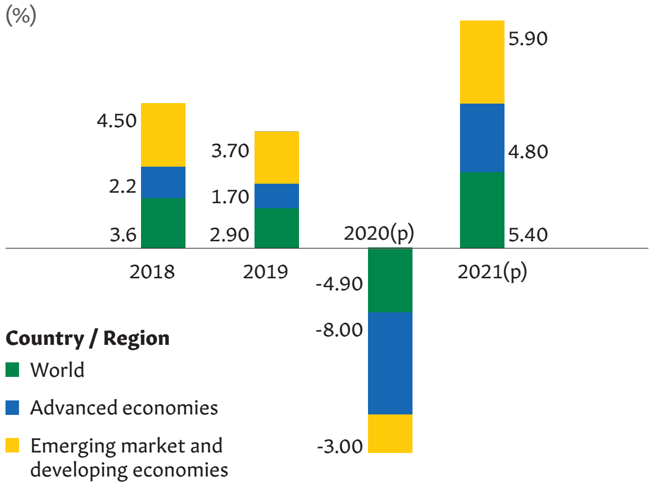
FY 2019-20 was a challenging year with most economies around the world slowing down during the first three quarters. Uncertainty over the US-China trade war, and the attendant value chain impacts thereof, were the key pressure points that affected manufacturing and trade, resulting in lowered investments. The phase 1 of US-China trade deal temporarily resolved this issue, leading to a spurt of activity in December and January mainly due to increased consumption and business investments, but the COVID-19 outbreak in China caused conditions to weaken again. This resulted in multiple value chain disruptions and took activity metrics sharply lower across the board, beginning with China, and quickly turning into a global pandemic. Most central banks around the globe adopted an accommodative policy stance and implemented multiple monetary policy measures, keeping in mind the benign inflation and aiming to propel economic growth.

Outlook

Lockdown measures enforced in major countries are likely to keep the growth in negative horizon for FY 2020-21, as a whole. Authorities have reacted swiftly, using several monetary and fiscal support tools. These will likely remain for some time, with the recovery in growth also likely to be slower and more interrupted than initially anticipated. The IMF's latest World Economic Outlook projects a contraction of global growth in CY20 at -4.9%, and that of advanced economies declining by 8.0%.

GLOBAL GROWTH

(%)



Source: International Monetary Fund (IMF), June 2020 World Economic Outlook p: projections

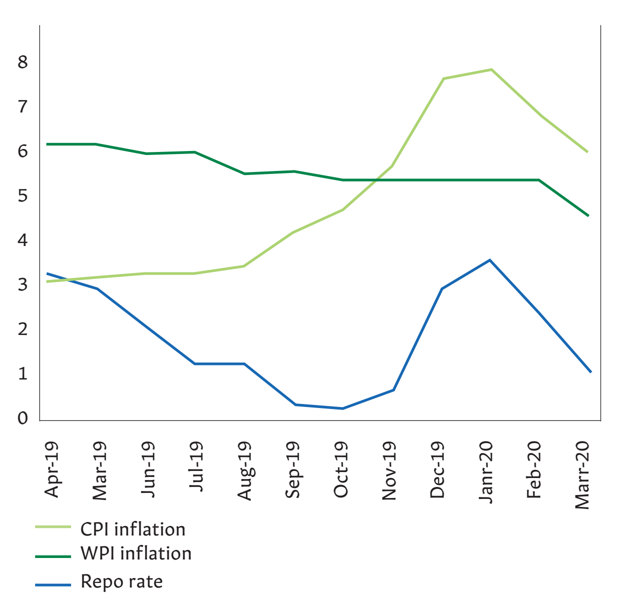
Indian economy

India's macro fundamentals deteriorated in FY 2019-20, with growth conditions continuing to worsen, while inflation – long managed through government's good food price management – rose sharply in the second half. India's GDP growth touched a decadal low of 4.2% in FY 2019-20. The government invoked the escape clause available under the Fiscal Responsibility and Budget Management (FRBM) Act to exceed its budgeted FY 2019-20 fiscal deficit by 0.5% of GDP (to 3.8%).

Growth and fiscal metrics deteriorated sharply in the last quarter of the year, given the focus on containing the COVID-19 pandemic and the ensuing fiscal policy measures. Consumption demand too, remained muted. Current inflation trends remain elevated, driven by higher food prices around the start of the calendar year. A good monsoon and high levels of sowing bode well for agri output, though unseasonal rains and unavailability of labour pose risks to this. However, weak conditions are likely to keep inflation subdued in the medium term, allowing RBI to continue and further its accommodative stance as and when required. The fall in crude oil prices is once again fortuitous for India, but the direct impact will be offset by weaker exports, reduced remittance inflows, as well as higher interest outflows given the heavy borrowing carried out in FY 2019-20.

REPO RATE AND INFLATION TRENDS

(%)



Source: RBI

Outlook

Given the evolving situation, it is currently difficult to assess the exact impact of the COVID-19 pandemic on growth in economic activity. Stimulative measures announced by the RBI and the government should help counter the impact on growth to a certain extent. Further, this combination of a weak near-term growth, liquidity easing and low commodity prices bode well for global rates and inflation, which may remain lower for an extended period and may also result in lower yields in India.

While the immediate impact of disruption is negative for India in the near term, once the spread is contained, India stands to benefit in this environment. Disruption in global supply chains caused by this event has highlighted the risk of overdependence on a single country. Thus, over the medium to long term, many global MNCs are likely to consider diversifying their manufacturing operations from China, and India could be a likely beneficiary, given the low corporate tax rate, skilled population, relatively low wages and a large domestic market.

SECTOR OVERVIEW

Indian banking sector

The sector grappled with multiple pressures during the last financial year, including slowdown in GDP growth, continued liquidity stress in NBFCs, subdued private sector capex, crisis in a new private sector bank and emergence of the pandemic towards the end of the year.

The government too announced several measures in the budget to aid the prospects of the banking sector.

In this scenario, the RBI acted proactively and kept announcing measures to support the stability of the sector and inspire growth. Some of these measures included:

- Lowering risk weights for retail loans (excluding credit card loans) from 125% to 100%
- Ensuring transmission of lower policy rates to the end borrowers – by making it compulsory for banks to link all new floating rate personal or retail loans, Micro, Small and Medium Enterprises(MSMEs) loans to an external benchmark
- Easing the CRR requirements partly in the short term
- Relaxation of Non-Performing Assets (NPA) recognition for loans
- Conducting Long-Term Repo Operations (LTROs) helped reduce funding costs in corporate bond markets to 10-year low levels
- Restructuring of a troubled private sector bank

Key measures for the financial sector

Proposals	Impact
Increased deposit insurance coverage from the current ₹1 Lakh to ₹5 Lakh per depositor.	Positive for overall stability of banking system.
Extended tax holiday by one year to March 31, 2021 for affordable housing projects. Tax holiday is provided on the profits earned by developers of affordable housing projects.	Beneficial for affordable housing finance segment.
Extended MSME restructuring scheme. The extant scheme for restructuring of MSME loans was up to March 31, 2020; which is extended to March 31, 2021.	Provides interim relief to struggling MSMEs, which have been impacted by the slowdown in economic activity.
An overall economic package worth ₹20 lakh crore (US$280 billion) was announced.	This package includes the government's previous packages (₹1.7 lakh crore) as well as the RBI decisions (₹5-6 lakh crore) and will benefit small businesses, migrants, farmers, agricultural & allied sectors, among others.
Government announced the Atmanirbhar Bharat programme.	Beneficial for MSMEs, is boosting scope for private participation in numerous sectors and increasing FDI in the defence sector.

Overall, bank credit grew 6.4% (y-o-y) in Q4FY20, with private sector banks continuing to outpace their public sector counterparts. This was another year of solid credit demand from the retail segment, while the non-retail segment continued to remain under pressure.

Credit and deposit trends (y-o-y growth in %)

	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Aggregate deposits	10.1	10.1	10.0	9.5
Bank credit	11.7	8.9	7.4	6.4
Credit-deposit ratio*	76.7	75.6	75.7	76.0
Private sector banks				
Aggregate deposits	16.3	16.9	14.0	10.4
Bank credit	17.5	14.4	13.1	9.3
Public sector banks				
Aggregate deposits	6.7	6.6	7.8	8.2
Bank credit	8.7	5.2	3.7	4.2

Source: RBI
*Actual ratio

Asset quality pressures remained elevated during the year, with the lockdown adding to the woes of borrowers in both retail as well as non-retail segments.

Outlook

As the pandemic situation is still evolving, it is extremely difficult to forecast growth estimates for the next couple of years. While the lockdown is a pre-requisite to contain the spread of the virus, it has a significant impact on the economy and the Banking sector, particularly in the short term. However, there are some opportunities even in these trying times. One opportunity is in the agriculture sector. The government has implemented several measures to address issues in procurement, warehousing and to formalise the micro-food processing segment. This will attract more private participation and benefit the food processing industry. As the pandemic pressures persist, focus on healthcare will boost the growth prospects of pharmaceutical and medical equipment segments. On the other hand, the slowing economy would have a bearing on both credit demand as well as asset quality. Thus, banks will have to tread with caution during these times and take prudent, well-calculated initiatives to boost growth.

KARUR VYSYA BANK (KVB): SWOT ANALYSIS

Strengths

- Diverse suite of products
- Customer-centric approach
- Best-in-class digital platforms and offerings
- Strong presence in India's Southern hinterlands
- Well experienced management team
- Robust risk management framework

Weaknesses

- Relatively low presence in the retail segment

Opportunities

- Rapid digitalisation of the banking sector
- Immense growth potential of retail (housing, vehicle, personal loans, gold loans) and MSME segments
- Wide experience in semi-urban and rural markets – well placed to target this huge underserved sector

Threats

- Intensifying competition in most product categories
- Longer-than-expected slowdown in the economy

FINANCIAL PERFORMANCE HIGHLIGHTS FY 2019-20

Revenue

- Interest income increased by ₹174 Crore to ₹5,990 Crore.
- Interest expenditure stood at ₹3,642 Crore as against ₹3,453 Crore in FY 2018-19.
- Net interest income remained flat at ₹2,348 Crore.
- Non-interest income grew 19.9% y-o-y to ₹1,155 Crore.

Profitability

- Operating profit increased 2.9% y-o-y to ₹1,761 Crore.
- Operating expenses increased 7.9% y-o-y to ₹1,742 Crore; establishment expenditure registered an increase of 13% from ₹761 Crore to ₹857 Crore; other operating expenses increased to ₹885 Crore (4%) from ₹854 Crore.
- Net interest margin fell 23 basis points y-o-y to 3.44%.
- Net profit grew 11.4% y-o-y to ₹235 Crore.
- Earnings Per Share (EPS) and Book Value per share stood at ₹2.94 (versus ₹2.64 in FY 2018-19) and ₹82.57 (versus ₹79.56 in FY 2018-19), respectively.
- Return on Assets inched up from 0.31% in FY 2018-19 to 0.32% in FY 2019-20
- Return on Equity improved to 3.56% from 3.28%
- Net owned funds grew 3.7% y-o-y to ₹6,600 Crore on account of plough back of profits during the year

Disclosure of accounting treatment

The financial statements are prepared on a going concern concept, on 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 Banking Regulation Act, 1949. Accounting Policies adopted in the preparation of financial statements are consistent with those followed in the previous year.

Asset quality

- Despite the weak operating environment, we managed to improve our asset quality, which reflects the robust underwriting practices and credit risk appraisal processes, combined with focus on recoveries.
- Gross NPA and Net NPA fell to 8.68% and 3.92% from 8.79% and 4.98%, respectively.
- Provision Coverage Ratio (including technical write-offs) improved to 68.90% from 56.86%.

Key financial ratios (%)

Particulars	FY 2019-20	FY 2018-19
CRAR	17.17	16.00
Tier I Capital	15.27	14.28
Tier II Capital	1.90	1.72
Gross NPA	8.68	8.79
Net NPA	3.92	4.98
ROA	0.32	0.31
NIM	3.44	3.67
Interest Income as a % to Working Funds	8.17	8.45
Operating Profit as a % to Working Funds	2.40	2.49
Leverage Ratio	8.95	8.53
Book Value Per Share (₹)	82.57	79.56
Earnings Per Share (₹)	2.94	2.64

Strictures and penalties

There were no instances of non-compliance by our Bank; no penalties or strictures were imposed by the stock exchanges or SEBI or any statutory authority, on any matter related to capital markets in the last three years.

During the year under review, the RBI imposed a penalty of ₹3,92,950, pertaining to the deficiencies found in Specified Bank Notes (SBNs) and soiled notes remittance by our currency chests to the central bank.

OUTLOOK

We will pursue growth in select, relatively low risk segments and will continue to run down our exposures in riskier segment within our corporate business. Our endeavour is to fine tune our practices around underwriting, recovery and asset quality to maintain stress within reasonable levels. We will continue our efforts to recover from NPA accounts, and closely monitor the assets to keep fresh slippages under check.

Though our new initiatives have hit the slow lane due to the pandemic, the long-term story remains intact. We remain cautiously optimistic and will ramp up these offerings gradually.

Digitalisation will remain a prominent focus area for us. Our priorities will be:

- Upgrading our credit risk management platform;
- Further reducing our loan processing time;
- Increasing the use of advanced analytical models to drive efficient decision making;
- Deeper data mining and tie-ups with Fintech companies

BUSINESS-WISE REVIEW

Corporate and Institutional Group (CIG)

Highlights of FY 2019-20	Segment-wise review	Impact of the lockdown	Road ahead
• Accounted for 26% of total advances and the Portfolio de-grew by 9.9% y-o-y • Decline in the loan book was largely due to our conscious decision to reduce exposure to select large corporate accounts • Slowdown in textiles sector and weak market sentiments also contributed to the decline	• Telecom, infrastructure, iron & steel and automobile segments were found to be witnessing high pressure on demand as well as delay in collection of dues	• With businesses virtually closed, cashflows came under severe stress • Travel restrictions affecting tourism, aviation and hospitality sectors severely • Export demand is under pressure owing to worldwide weakening of economic growth We supported our borrowers by: • Extending term loan moratorium and postponing interest for working capital limits • Extending due dates for the bills discounted and packing credit limits • Relaxing margin on stocks and book debts • Sanctioning working capital term loans under Guaranteed Emergency Credit Line scheme to eligible borrowers	• Stepped up focus on customer engagement; looking to add quality customers • Pressures on asset quality likely to persist in the foreseeable future; improving recoveries to be our top priorities

Commercial Banking Group (CBG)

Highlights of FY 2019-20	Segment-wise review	Impact of the lockdown	Road ahead
• This segment accounted for 32% of total advances and registered a decline of 8.42% y-o-y. • Formed Business Banking Units (BBU) at 15 centres to cater to MSME customers across India and are handled by trained and experienced officers capable of addressing the entire gamut of financials products required by customers. • Introduced the early warning signal monitoring tool for tracking the performance of working capital accounts. • Proposals upto ₹2.00 Crore to the Micro and Small units were exclusively handled at respective Divisional Offices with shortest TAT by serving the clients digitally.	• This division comprises Small Business group (SBG) which focuses on enterprises requiring working capital limit up to ₹2.00 Crore and Business Banking Unit (BBU) which focuses on meeting working capital limit up to ₹15.00 Crore. • SBG advances stood at ₹8,929 Crore as on March 31, 2020 forming 65% of the total CBG Advances. • BBU advances were ₹4,808 Crore as on March 31, 2020 constituting 35% of the total CBG advances. • Outstanding advances to MSMEs as on March 31, 2020 stood at ₹7,822 Crore forming 58% share of total CBG advances.	• Cashflows of MSMEs were impacted. • MSMEs' turnover reduced by more than 25% in the first quarter. • We have sanctioned ₹994 Crore from May 29,2020 to August 23, 2020 to MSMEs under the government stimulus package (emergency credit line) to limit the impact on MSMEs. • We are also providing immediate solutions by way of additional funds to meet their unforeseen requirements during this pandemic.	• Adopt cluster-based approach to tap the MSME market especially in agro-based industries (Mandi, APMC markets, among others), retail, pharmaceuticals & health care, FMCG and more. • Appoint product managers/ specialists in credit sales to understand market dynamics and drive our CBG products.

Karur Vysya Bank
Smart way to bank

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<tr><th colspan="4">Commercial Banking Group (CBG)</th></tr>
<tr><th>Highlights of FY 2019-20</th><th>Segment-wise review</th><th>Impact of the lockdown</th><th>Road ahead</th></tr>
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• Corporate Credit Card offering was fine-tuned to meet the emerging business needs of MSMEs and small traders, facilitating them in controlling their expenses more effectively with a revolving credit period of upto 45 days.
• Our Corporate Credit Card is backed by highly secure technology and offer convenience to Proprietors, Partners, Directors and Employees of business enterprises.
• As on March 31,2020, we had issued 2,889 cards to various customers with a total portfolio of ₹83.34 Crore.
• Conducted customer awareness programmes and SME meet at Coimbatore, Karur, Madurai and business campaigns at various parts of the country.
New offerings introduced include:
• General Business OD for a maximum of ₹2.00 Crore.
• Under the e-vendor Finance System through Fintech companies, we have entered into agreements with M/s EPI money and M/s Flexi loan technologies private limited for referral arrangements. We are discounting vendor bills of M/s Flipkart India Private Limited.
• Implemented the MSME restructuring package as announced by the RBI, effective until March 31, 2021.
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• We are extending the tenor of the Export Finance to our clients, providing extension of tenor for Usance Bills, offering adhoc facilities to minimise the adverse impacts of economy.
• We also provided interest moratorium to all the customers by giving 'opt out' option.
• We are the first Bank to disburse the Loan under WCTL – ECLG within the shortest TAT of just five days from the announcement by the Government (NGCTC). We have extensively contacted our customers for highlighting the scheme features and rolled out the product digitally to ensure seamless disbursements. We also proactively coordinated with NGCTC authorities to maximise the client coverage and ensure timely sanction of financial assistance to needy MSMEs.
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New offerings planned include:
• Specialised products like flexi overdraft, gold overdraft, pre-approved loans for current account customers and more to meet the needs of MSMEs.
• A specialised product for financing Commercial Vehicles and Construction Equipment under co-lending arrangement with a blue chip NBFC.
• More business under CGTMSE guarantee.
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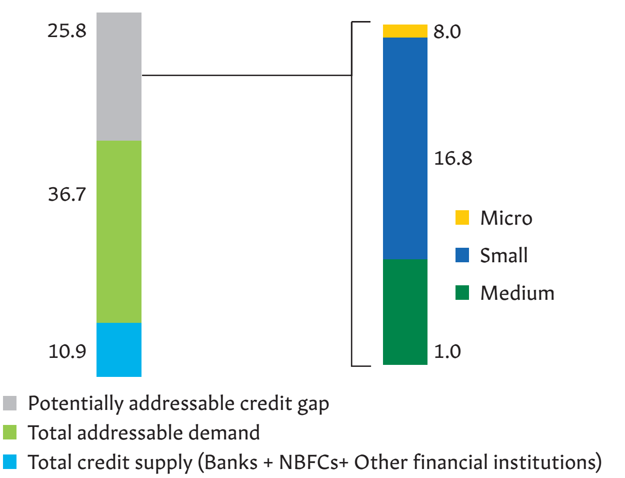
The opportunity landscape

In FY 2018-19, MSMEs accounted for 30% of nominal GDP (as per the Annual Report of the Ministry of MSME) and employs over 11 Crore people (97% working with micro enterprises). Development of this sector is critical to the macroeconomic growth of the country. The central government continues to announce multiple measures to support this sector and is looking to increase its contribution to the GDP to over 50% in the next few years.

With limited documentation around income proof and lack of collaterals, this segment is perceived to be riskier for banks and there is a wide gap in the demand and supply of credit to this segment. As per an IFC study, the addressable credit gap in this segment stood at ₹25.8 Lakh Crore or more than 2.5 times the current cumulative formal credit lent to MSMEs. In the past few years, select mid-sized banks have stepped up lending to this segment and have built feasible lending models for it. Given the high unsatiated credit demand from MSMEs, this segment offers immense potential for growth.

MSME SECTOR IN INDIA: DEMAND-SUPPLY TRENDS

(₹ in Lakh Crore)



Source: IFC Report - Nov 2018

Personal Banking Group (PBG)

Highlights of FY 2019-20	Segment-wise review	Impact of the lockdown	Road ahead
• This segment accounted for 23% of total advances and registered 16% y-o-y growth (excluding IBPC) • All the products in this segment are now available on our digital platforms • We have launched a first-of-its-kind online gold loan product wherein customers can pledge gold ornaments in the branch and take a sanctioned limit which is valid for three years. Loans can be drawn in multiple tranches and closed by customers on-the-go. • Robust digital platforms capable of giving loan sanction to customers in 15 minutes and complete disbursements in a day.	• Housing loan portfolio grew to ₹929 Crore, (y-o-y increase of 25.67%); 42.10% of the loans disbursed during the year were in bureau score slab of 751-800. • Jewel loans (₹270 Crore, 43% y-o-y growth) • Personal loans (₹137 Crore, 32.31% y-o-y growth) • Vehicle loan segment and Loan against Property did not grow as expected, registering de-growth of 5.26% and 1.69%, respectively • In terms of average balance, we have reached a current account level of ₹5,830 Crore and saving accounts level of ₹12,308 Crore as on 31.03.2020 taking the CASA base of our bank to ₹18,138 Crore. Incremental growth in average CASA during the year was 8.00% .	• Business was subdued during the months of April and May 2020 owing to the lockdown • We have provided moratorium to customers opting for it • CASA new customer acquisition got affected during the months of April and May 2020 owing to the lockdown; Signs of business revival are seen since June 2020	• Immediate priority for FY 2020-21 is to improve collections and drive gold loan business • Drive growth of vehicle loan product by partnering more OEMs viz., Maruti Suzuki to roll out new schemes on car loans and Tata Motors to launch new schemes on select vehicles • We see significant scope to grow personal loan and vehicle loan products, post resolution of the pandemic crisis • Gold and personal loan products are also likely to witness good uptake • We endeavour to open specialised gold loan branches in important towns, exclusively for sourcing and disbursing gold loans. The first of such branches was opened at Madurai during July 2020. • For our existing customer base , we intend to offer pre - approved car loans for High-end vehicles.

Personal Banking Group (PBG)

Highlights of FY 2019-20	Segment-wise review	Impact of the lockdown	Road ahead
• We sanctioned loans worth over ₹3,500 Crore through digital platform. • During the year, new scheme viz., co-orgination of personal loan with Home Credit India Private Limited, has been introduced. We deepened our existing relationships for co-origination/ co-lending and other tie ups: • Orange Retail: For two-wheeler loans • Centrum Housing Finance Limited: For home loan and mortgage loans • Purchased retail portfolio with good credit score, seasoning and more through direct assignments of loan receivables from NBFCs and HFCs • Strengthened our tie-up with Rupeek Fintech Private Limited as our business correspondent for sourcing gold loans at customer doorsteps in select cities. • Collaborated with corporate direct sales agents for sourcing retail loan products	• 1,90,085 FASTags were issued during FY 2019-20, a y-o-y growth of 420.13% • 1,11,609 new customers were signed in for net banking facility and 3,79,728 were signed in for mobile banking, which was a growth of 24.82% over the previous fiscal • Sourced new business premium of ₹109.84 Crore under life insurance, non-life insurance and health insurance products • 1,429 new credit cards (co-branded with SBI) were sourced during the year • Added 10,109 new SIPs during this year with AUM of ₹90.80 Crore		New product launches lined up in FY 2020-21: • Retail credit cards • Loan against sovereign gold bonds

Agricultural Banking Group (ABG)

An overview

We provide a diversified portfolio of products for agriculture & allied activities and also extend specialised products for horticulture as well.

Performance highlights FY 2019-20

We were comfortably ahead of the RBI's mandate on lending to priority sector, agriculture, small and marginal farmers and economically weaker sections.

₹ in Crore

	FY 2019-20	% growth y-o-y	Share of adjusted net bank credit (%)
Priority Sector Advances (Net of PSLC)	21,026.39	6.82%	42.49
Agricultural advances	9,127.31	12.50	18.75
Advances to weaker sections	5,159.31	(-)0.67%	10.50

The opportunity landscape

A promising future for the agriculture sector in India

- Recent farm sector reforms to develop and scale up location specific, cost effective and climate resilient technology will enhance agricultural output & productivity and enable the government to achieve its target of doubling farmers' income by 2024
- Adoption of state-specific developmental strategies in horticulture, livestock, fisheries, and post-harvest processing sectors for increasing farmers income
- Post-production reforms enabling producers to get better remunerative prices, and simultaneously adopting new technology and management practices for higher productivity
- Increase in MSPs of major food crops and oil seeds
- Launch of a new pan-India Agri-Infrastructure Fund (₹1 Lakh Crore) to provide medium- to long-term debt financing facility for investments in viable projects for post-harvest management infrastructure and community farming assets.

Road ahead

Demand for agricultural credit depends on forecast such as monsoon, availability of labour, government policies, network and financial strength of the credit institution, among others.

The India Meteorological Department (IMD) forecast a normal monsoon in FY 2020-21. The country has witnessed above normal rainfall in Jul 2020, though the distribution has not been uniform. Agriculture and allied activities are expected to grow 2-3% in FY 2020-21, after a 4% expansion in FY 2019-20. Further, due to the pandemic, millions of migrant workers have returned to their native places and turned to farming for sustenance. Timely monsoon and ample availability of farm labourers have led to a significant increase in the planted acreage under various kharif crops.

We are now pursuing a more diversified rural lending strategy, moving away from providing simple farm credit. We have adopted a community-based lending model for small farmers and communities, thereby generating additional employment opportunities in the local area.

We are equipped to handle all the major schemes in agricultural credit which have enormous potential over the next two to three years.

- Rural warehouse construction
- Nursery scheme
- Hi-tech floriculture
- Dairy farming
- Tissue culture banana
- Poly house cultivation
- Milk processing
- Farm infrastructure
- Poultry – broiler/layer
- Flower/vegetable grading
- Seed/cotton/turmeric/chilly/coconut processing unit
- Spices trading

Our new digital gold loan product, designed to meet the immediate financial needs of farmers for agriculture and allied activities, is showing a healthy demand.

We plan to launch a new KCC agri gold loan product for crop cultivation purposes. We also have plans to digitalise the other agriculture products making our processes more simple and convenient.

We derive a strategic advantage from our strong presence in semi-urban, rural and unbanked areas of three major agrarian states – Andhra Pradesh, Telangana and Tamil Nadu – which is a key future growth enabler for the ABG business. About a fifth of our total branches are located near the fertile, riverine plains of the Southern states – Cauvery (63 branches), Vaigai and Thamirabarani (42 branches),and Krishna and Godavari (41 branches).

Transaction Banking Group (TBG)

Through this segment, we offer Cash Management Services (CMS) products, namely collection and payment via an electronic platform. We provide our corporate customers with customised MIS and Customer Business Exchange (CBX) portal for front-end services. We also offer Supply Chain Finance (SCF) products to fund vendors and dealers of larger corporates operating in different industries including automobile, engineering and agriculture equipment sectors. Our Bank is active across all the three 'TReDS (Trade Receivable Discounting System) platforms' for financing MSME vendors. TReDS platforms are witnessing a healthy momentum due to the government's initiative to make it mandatory for all companies registered under the Companies Act, 2013 with a turnover of more than ₹500 Crore and all Central Public Sector Enterprises to register on this platform.

Highlights of FY 2019-20	Segment-wise review	Impact of the lockdown	Road ahead
• Added 28 counter parties through our different supply chain programmes • Upgraded the supply chain finance software to meet specific requirements of our customers • Leveraged the virtual account feature to enhance the current accounts portfolio • Joined hands with a couple of Fintech companies to drive growth of supply chain finance products	• Disbursals under the TReDS platform crossed ₹500 Crore level in FY 2019-20. • No delinquencies in loans sourced through TReDS platform • Approved limits for 34 buyer companies operating on the TReDS platform	• There has been an increase in the working capital needs of MSMEs We support them with the following facilities: • Funding them under vendor finance programme • Funding them via all three TReDS platforms	• We will focus on partnering with larger corporates to fund both vendors as well as dealers across the supply chain • Fortify our relationships with Fintech companies to on-board more counter parties • Upgrade our cash management services platform to provide greater utility and value to customers • Exploring the strategies to shift our credit underwriting process to a digital platform

Precious Metals Division (PMD)

We entered the Precious Metals business to directly cater to the bullion requirements of our clients in the gem and jewellery sector, as a bank authorised by RBI to import Bullion. Our foray into the business is guided by our significant client-base in existing jewellery business across the country to whom we have been providing working capital facilities for sourcing gold from other banks. The focus moved towards specialised service to clients in this sector and garner higher market share by being the supplier of Gold and Silver directly to them.

It is well recognised that this segment holds immense potential given that India is the second-largest gold importer in the world. We now have set up dedicated infrastructure with customised systems, processes and a team of professionals with decades of relevant industry experience. We have also engaged with leading overseas bullion suppliers for competitive and smooth operations across the supply chain. Our primary focus is to build the bullion loan portfolio with jewellers across India and offer products for the domestic as well as export requirements.

The precious metals business commenced in February 2020 with the import of our first gold consignments into Chennai and Coimbatore. Currently, our bullion services are offered in Tamil Nadu, West Bengal, Delhi, Maharashtra, Gujarat, Kerala and Andhra Pradesh. We are in the process of securing the registrations for Telangana and Karnataka. We are working to leverage our relationships with jewellers across India, to grow this business and be amongst the top bullion banks in India. The outbreak of the pandemic and the subsequent imposition of various containment measures led to a pause to this business. However, given gold's safe haven status and special place in India's culture, business is expected to pick up as soon as the pandemic subsides and customers start visiting Jewellery stores for their purchases. We are well positioned to offer all products and services and are being competitive to establish ourselves as a long term service provider in this business vertical.

DIGITALISATION

We implemented our digital initiatives through the Digital Transformation Project Cell (DTPC) and made significant progress in FY 2019-20 towards becoming a truly digital organisation (End to End Paperless Automated/System based Sanction Process). Besides making a few more products available online, we also formed strategic partnerships with e-commerce players and Fintech companies.

Introduction to Tab based assisted mode of lending to customer has given a substantial growth in the respective business verticals. This has improved the customer experience by allowing our bank to reach the customer conveniently at customer locations. System (Score) based Sanction has drastically improved the selection of good

Our foray into the business is guided by our significant client-base in existing jewellery business across the country to whom we have been providing working capital facilities for sourcing gold from other banks.

customer with automatic processing and sanction without clerical or authoriser errors. This has enabled a good remarkable change in the process of lending. Our Pre-Approved Personal loan has shown significant improvement and with reduced TAT of 5 to 10 minutes. We are improvising the product consistently and providing the best in class technology and services to meet the customer needs in time.

Performance of key digital products in FY 2019-20

Digital product	Total applications	Disbursements
Home loans	44,510	₹1,408 Crore
LAP	17,404	₹314 Crore
Unsecured personal loans	78,517	₹216.7 Crore
Two wheeler loans	7,647	₹13.43 Crore
Two wheeler no income proof	2,884	₹1.36 Crore
Four wheeler loans	15,927	₹284.49 Crore
Four wheeler no income proof	2,610	₹9.91 Crore
SME renewals	33,790	₹6,714 Crore
SME new loans	9,976	₹1,448 Crore

Projects undertaken from April to June 2020

- New product development in digital segment using Agile methodologies.
- COVID loan implementation as per the RBI guidelines.
- Education loan automation using vidhyalakshmi portal. (System based Sanction)
- Pre-Approved loan processing for existing customer implemented for Vehicle Loan and Personal Loan.
- CIBIL V 3.0 Score card implementation to have better loan outlook of a customer.
- We integrated our digital platform with new bancassurance partners to give better options for customers to choose health insurance products.
- API Based online mandate registration through internet banking to recover the installment/collections on due date automatically from other bank accounts.
- New co-lending Tie-up with 7 partners for both retail and SME segment.

COLLECTIONS

Given the current environment, it is critical to maintain financial discipline and focus on recoveries to maintain asset quality at comfortable levels. Our bank intitated several measures to minimise slippages and enhance recovery prospects.

- Sale of assets under SARFAESI Provisions, leading to quick, hassle free and undisputed realisation of sale of securitised assets.
- Vigorous recovery follow-ups through field staff on a daily basis and also through call center to reduce special mention accounts (SMA).
- Special focus on recoveries through one-time settlement scheme for NPA accounts.
- Set up Commodity Monitoring Cell to follow up with warehouse loan defaulters to pay out/clear the outstanding on a daily basis.

Steps taken to protect asset quality

- Redefined the scope of Credit Monitoring Department to handle wide range of monitoring functions and further strengthened the recovery and legal group by posting a GM cadre Executive to steer its functions and to keep stressed assets under check
- Initiated multiple special NPA recovery drives
- Conducted one-time settlement (OTS) adalats to expedite recovery process
- Empowered branch heads to take quick decisions on OTS
- Created a separate NCLT cell to focus on corporate accounts
- Periodic reviews of NPA accounts of over ₹1 Crore by the top management
- Leveraging technology for constant upgradation of our credit underwriting system

Road ahead

We are proactively looking out for early signals about potential NPAs in the initial stages itself. There is significant scope to deploy Artificial Intelligence (AI) tools in implementing superior credit filters, taking appropriate credit decisions, and avoiding fresh slippages. We will also craft product-wise recovery strategies and decentralise the decision-making process.

PROJECT NEO

Overview

During the year under review, we successfully launched project NEO aimed at expanding our operations through non-branch outlets. NEO focuses on the key pillars of People, Process and Technology with the intent of catapulting our customer acquisition capabilities to the best in the sector. It is led by a core team with a cumulative banking experience of 70+ years and a proven track record of setting up successful business units in the financial services sector.

NEO has laid the foundation to drive our next phase of growth. It offers superior digital capabilities to establish new channels of distribution, leading to increased productivity of the channel and insights-driven underwriting practices. It can also develop new business models with other financial services players with similar interests. NEO has built a one-of-a-kind open API platform, which allows for quick and seamless integration with our lending partners across the secured and unsecured space to digitally acquire, underwrite and disburse for both Retail and SME customers. The platform has the flexibility to accommodate any lending or liability product.

Performance highlights FY 2019-20

- Established fully functional Neo Direct (Direct Sales Team) offices in eight locations
- Recruited and trained specialists in core functions – sales, credit, technology, data sciences and operations
- Partnered with over 300 direct sales agents
- Operational in 15+ locations with average productivity of more than ₹3 Crore per employee
- Co-lending partnerships with Amazon Pay, Capital Float went live
- Launched new products in secured as well as unsecured lending

Road ahead

NEO will continue to explore new channels of distribution to optimise our digital capabilities and offer superior banking experience to our customers. During FY 2020-21, there will be enhanced focus on improving collections and maintaining repayment discipline to protect our Bank's asset quality. We will continue to form strategic, mutually beneficial partnerships under the co-lending model. Our endeavour is to enhance NEO's footprint to 12 locations in India from 8 currently as well as improve cross-sell and up-sell activities with existing customers.

MARKETING AND BRANDING

Brand KVB reflects our strong technology capabilities. In 1993, we were one of the early movers to deploy our proprietary software across our branches. In 2005, we migrated the core banking solutions platform ahead of most of our peers.

We advertise across several media including print, television, radio and out-of-home. Our branches are provided with posters and banners periodically for display at the counters and ATMs. Details of all products and services are available on our website – www.kvb.co.in. We also conduct roadshows and events at our branches. Our Bank sponsors several events to enhance brand visibility. We regularly send SMS to promote our products and services to existing and potential customers.

In FY 2020-21, we will set up our official Facebook, Twitter, YouTube and LinkedIn profiles to effectively engage with existing customers and reach out to a vast universe of prospects.

Our branding campaigns are largely concentrated in our primary markets of Tamil Nadu, Andhra Pradesh, Telangana and Karnataka. During FY 2019-20, we ran a radio campaign to promote our DLite app and digital retail loans. Recently, we produced two TVCs to promote our DLite app and launch of jewel loans through the DLite app. During the campaign period, we could see a spike in the number of accounts opened through the app from the regular 100 per day to 600+.

CUSTOMER SERVICE

We are committed to provide our customers a superior experience every time they engage with us. We highlight some of the prominent initiatives in this direction.

- We implemented a 'single window' system at all branches in metro, urban and selected semi-urban centres. This system facilitates delivery of all banking services at a single counter, leading to reduced waiting and processing times. It will be rolled out across all our branches in phases.
- All our branches are equipped with 'May I Help You' counters to provide the necessary assistance to our customers in carrying out their banking transactions seamlessly.
- For our senior citizen and differently-abled customers, we provide our services at their doorsteps to ensure the highest level of convenience.
- We train our staff regularly on various aspects of banking to enhance their soft skills so that they can serve our customers in the best possible manner.
- We have partnered with premier external training institutes like SIBSTC, NIBM, CRISIL, IMAGE, NIRB, ASCI, Manipal Institute, among others to upskill our people continuously.
- To promote best practices, every year we award "best customer service branch" to branches that excel in customer service. Branches are evaluated on the key parameters of promptness, maintenance of infrastructure, display of information, staff approach, among others.
- Every year, our branches conduct two structured meets, apart from monthly customer meeting by inviting feedback from customers across segments on areas of improvement in customer service.
- Our Divisional Managers/Divisional Operating Officers visit the branches under their control periodically to assess the efficacy of customer services and suggest corrective actions.
- Our customer service committee of the Board interacts with customers once in every six months to get their feedback. Similarly, C.O. Executive level standing committee meetings are conducted every quarter wherein members of the committee engage with customers of all divisions across the country.
- Most of our banking services are enabled through various channels like mobile banking, internet banking and available to the customers on a 24 x 7 basis.
- We have dedicated Call Centre functioning to cater to the needs of the customers on various products and services including handling customer claims / grievances.
- We have put in place a comprehensive and well-defined mechanism to address customer complaints in a swift and efficient manner. All customer complaints are resolved within the respective regulatory timeframe.
- Our bank is also conducting customer awareness programme on Code of Bank's Commitment to customers across the country to make the customers aware about banking services and their rights.
- We have put in place robust customer grievance redressal mechanism enabling customers to lodge their grievances through various channels like website, mail, call centre, apart from physical letters.
- We have also implemented Internal Ombudsman Scheme for satisfactory and timely redressal of customer grievances.

TREASURY

An overview

Our treasury portfolio includes investments in Central and State Government securities, debt instruments of banks, financial institutions, insurance companies, PSUs and corporates, certificate of deposits, equity shares, mutual funds, security receipts, forward contracts, derivatives and foreign exchange operations on proprietary account and for customers, including trading in these instruments as well as borrowing and lending operations.

Our treasury income is primarily generated through interest earned on investments, forex income as well as income from securities trading, while expenditure includes interest on funds borrowed and other allocated overheads. We undertook a substantial restructuring of our treasury portfolio during FY 2019-20 to reduce overall risk and volatility.

Segmental Performance highlights during FY 2019-20

₹ in Crore

	FY 2018-19	FY 2019-20	% Growth (y-o-y)
Treasury gross Result	345.90	578.25	67.17%
Treasury gross Revenue	1,307.25	1,668.96	27.66%
Treasury Gross assets	15,604.18	17,386.69	11.42%

Effective investment and reinvestment strategies based on timely market positioning and riding of the yield curve enabled increased returns despite maintaining low duration of the investment book.

Key focus areas

Our treasury segment focuses on the following key areas:

- Liquidity and contingency planning
- Maintaining all required statutory requirements including CRR and SLR
- Aligning investment portfolio in line with our Bank's ALM
- Minimising interest rate risk and volatility by maintaining a low duration of the overall investment book
- Managing surplus funds
- De-risking of the investment book by reducing illiquid securities
- Balance sheet management and pricing of bulk deposits

RISK MANAGEMENT

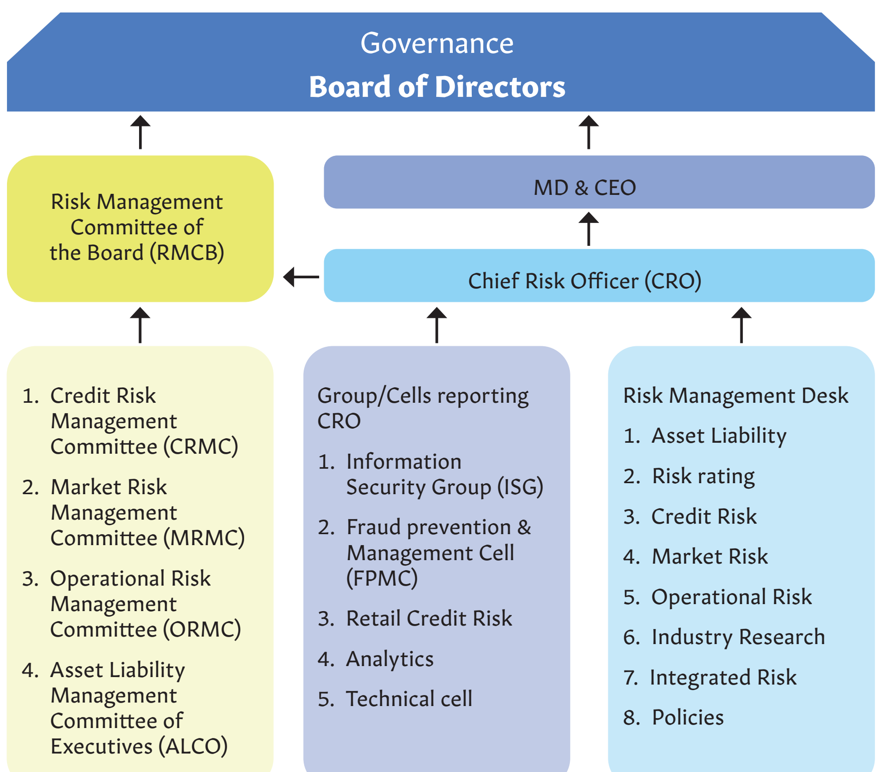
An overview

A robust risk management system 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 and leadership team.

The Board focuses on:

- Approving and reviewing our Risk Management Framework annually
- Assessing the effectiveness of risk mitigation plan implemented by RMD
- Providing strategic guidance on various initiatives undertaken/to be undertaken by our Bank towards management and mitigation of various risks

Our risk management framework



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

We have well-defined, Board-approved policies for identification, measurement and management of major risks – liquidity risk, market risk, credit risk and operational risk. The effectiveness of these policies are regularly assessed, and the policies are refined in accordance with the dynamic business environment and emerging risks.

We also have a dedicated Fraud Prevention and Management Cell (FPMC) for managing fraud risk which reports 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 for the same as furnished below.

Early Warning Signal (EWS): A number of Early Warning Signals (EWS) are studied daily and the results are shared with concerned business verticals. Besides internal data, public domain data are also analysed as a preventive and monitoring mechanism. Our Bank has installed specialised computer applications to fetch both internal and external data and to present different EWS in an orderly manner. On-line transactions are also monitored by specialised computer applications and processed until the logical end.

Red Flagged Accounts (RFA): Some of the Large Borrowal accounts that emanate 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.

Risk and Control Self-Assessment (RCSA): RCSA is a proactive tool in identifying lacuna, if any, in different processes 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 recurrence.

Whistle Blower Policy: We encourage 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.

Our Bank weighs all new products and processes, the embedded options or enhancements of the existing products critically before it is offered to the public as a preventive measure to avoid systemic lacuna, if any.

Besides the above, our Bank is subject to several audits, periodic visits by Divisional Heads, Divisional Operating Officers, and Central Office personnel for effective monitoring and continuous surveillance of all operations.

During the FY 2019-20, our Bank has reported 42 frauds amounting to ₹495.28 Crore. Broadly, the nature of the frauds are 31 Credit related frauds amounting to ₹493.16 Crore, and 11 Operations related frauds amounting to ₹2.12 Crore.

Of the credit related frauds reported, 68% fall under Consortium/Multiple Banking Arrangement and the balance 32% being Sole Banking. The nature of frauds under Consortium/Multiple Banking Arrangement includes cancellation of coal mines allocation by the Honourable Supreme Court of India, diversion of funds, related party transactions and fraudulent removal of plant and machinery etc. In the case of Sole Banking, frauds mainly relate to Warehouse Loans, inflated stock statements and diversion of funds.

Root cause analysis of the Warehouse Loan frauds reveals that the employees of the Collateral Managers, in collusion with Godown Owners and Borrowers perpetrated the fraud involving clandestine removal of stocks from the godowns and replacing the same with inferior commodity. Our Bank is taking serious measures in recovery process and ensuring proper systems are put in place to avert recurrance of such instances in future.

Our Bank has put in place a Fraud Risk Management Policy to detect, control and monitor frauds and 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 is provided by the Board and different Board Committees.

Our Bank continues to be engaged 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 an annual review by an external consulting agency to evaluate the level of effectiveness and to bring fresh perspectives to the Risk Management approach adopted by us.

Prominent risks and mitigation steps

Risks	Mitigation steps
Credit risk	
Macro factors including slowdown in economic growth, imbalances in the economy, stress in certain industries and micro level factors including deficiencies in underwriting standards, weak recovery mechanism that could adversely impact our performance.	We have a centralised credit risk management division, independent of our business functions, to manage credit risk. 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. We monitor our exposures periodically to ensure that those are within the ceilings fixed by the Board. A research unit functions within the risk department for conducting portfolio studies, industry/sector analysis and to capture up-to-date information. Internal credit risk rating of proposals is mandatory for sanction of credit facilities. We deploy risk scoring models and several Board-approved credit risk rating models for rating our borrowers. We are stepping up digitalisation to: • Improve the credit underwriting process by placing various gating conditions tested based on the historical database of our Bank and thus eliminating subjectivity in the credit approval process • Ensure better due diligence through system designs, sanity and bureau checks to minimise onboarding risks We have divisional credit risk officers in each division who evaluate credit proposals before approval.
Market risk	
We invest and trade in securities market instruments, for our customers and on a proprietary basis. The potential loss in value of financial instruments held by us due to adverse market movements constitutes market risk.	We have put in place well-defined and comprehensive policies, framework and practices to monitor and manage this risk. We deploy tools like stress testing, duration, modified duration, VaR, among others to measure and mitigate market-related risks. We have established an independent mid-office, as part of the market risk division, which reports directly to the risk management department and functions as the risk control unit for our treasury operations. The mid-office scrutinises the treasury deals and transactions.
Liquidity risk and 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 our 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.	Our Asset Liability Management (ALM) policy covers management of liquidity risk and interest rate risk. Our Board has approved several limits, namely, maturity gap limits, limits on stock ratios and liquidity coverage ratio for liquidity risk management, and limits on the impact of adverse movement in interest rates on net interest income and market value of its equity. These risks are identified, measured and monitored by the ALCO through the prescribed statements, namely, Statement of Structural Liquidity, Liquidity Coverage Ratio Statement, among others. ALCO discusses these statements in detail and takes corrective action wherever necessary. Interest rates for various types of deposits and advances are discussed and decided by the ALCO on a monthly basis as per RBI guidelines. Our Contingency Funding Plan (CFP) ensures that we have adequate liquid financial resources to meet our liabilities as they fall due. The CFP is reviewed quarterly by the ALCO.

Risks	Mitigation steps
Operational risk	
This 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.	We have a well-established internal control system, which includes segregation of duties, standardised operating procedures, clear lines of authority and reporting, among others. We have adopted a structured internal audit mechanism. We have a Business Continuity and Disaster Recovery (BCP & DR) policy to manage disruptions to our operations. Product, process and outsourcing committees have representation from the risk department for recording their views, besides suggesting mitigations for the identified risks in those products and process. We have implemented the Basel III capital framework and calculate the Capital to Risk Weighted Assets Ratio (CRAR)as per the guidelines laid down by the RBI.
Cyber risk	
Banks and financial institutions are more prone to cyber-attacks due to highly interconnected networks and the inherent nature of the business. Our Bank's systems face cyber risks in the form of hacking, phishing, ransomware and other means, resulting in disruption of our services or theft or leak of sensitive internal data or customer information.	Our cyber security policy mandates, inter alia, requirements such as network security, advanced real-time threat defence, vulnerability management, cyber security awareness and compliance. We have invested in best-in-class security technologies such as network and web application firewalls with intrusion prevention, advanced threat protection, privileged access control, vulnerability assessment, among others. Our Security Operations Centre (SOC) operates 24x7 by leveraging all the above mentioned security technologies, to identify threats and undertake timely remedial response measures. While we monitor this risk closely and take corrective actions when needed, to cover the eventuality of any miss, we have also taken cyber security risk insurance policy.
Fraud risk	
Banks and financial institutions are vulnerable to several frauds occurring both at external and internal levels.	We have put in place a fraud risk management policy to detect, control and monitor frauds and ensure continuous surveillance to prevent frauds, besides managing the risk of loss arising from both internal and external fraudulent events. A number of Early Warning Signals (EWS) are studied daily and the results are shared with concerned verticals. Besides internal data, public domain data are also analysed as a preventive and monitoring mechanism. We have installed specialised computer applications to fetch both internal and external data and to present different EWS in an orderly manner. On-line transactions are also monitored by specialised computer applications and processed until the logical end. Some of the Large loan accounts that emanate 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. Root cause analysis is comprehensively carried out to study the transactions to understand the weaknesses in the system and suggest additional controls to prevent recurrence. We weigh all new products and processes, the embedded options or enhancements of the existing products critically before it is offered to the public as a preventive measure to avoid systemic lacuna, if any.
COVID-19 pandemic	
It poses additional risks for our Bank, both directly as well as indirectly through the global and domestic macroeconomic factors, and external operating environment.	We undertook a comprehensive study to identify industries / sectors that are likely to be affected seriously by the pandemic. Credit flow to these industries / sectors were monitored (and continue to be monitored) to avoid any concentration risks, while ensuring that viable businesses under temporary financial stress were extended necessary credit facilities within the risk appetite of our Bank. The advances portfolio of our Bank is under close monitoring, both at the portfolio level as well as at individual borrower / account level, to ensure that it stays healthy.

Leveraging technology to strengthen risk management

Our dedicated risk analytics team in Chennai generates and provides key reports on performance of different portfolios, products, verticals, divisions, geographies, customer constitution, income levels and delinquency trends from the perspective of risk. It also suggests changes to the scoring models depending on the performance of the credit rating models.

A technology-driven solution provides early warning signals and is utilised by the RMD, Credit Monitoring Group (CMG) and the wholesale business groups, CIG and CBG. Technology also enables us to monitor various breaches by instituting suitable threshold limits for daylight limit, overnight limit, overseas borrowing limits, net open position, limit validity, online monitoring, activating data centre, disaster recovery site from remote location without physically attending the office, unusual transaction pattern, system security breaches, to mention a few.

Actioning our business continuity policy (BCP) during the lockdown

The primary objective of our business continuity and disaster recovery policy (BC & DR) is to ensure that business operations continue within an acceptable period of time and at an acceptable level without being critically affected by unforeseen disruptions or disasters. This policy also ensures swift normalisation of our operations during such crisis.

This policy is applicable to all our branches, administrative/service units and employees engaged in developing or creating, maintaining, using data in electronic form in relation to various IT applications and system running in our Bank.

During the lockdown, our branches are operating in line with the directions issued by the district administration. All our employees as well as customers entering the branch premises are made aware about the precautions to be taken to stay safe. Our branch premises are sanitised and sanitisers are provided. We have ensured that only front office/counter staff operated from our branches, and that too on rotation. Our back-offices and other functions are conducted by enabling our people to work from home. We have extended VPN connection and provided table-top PCs to the teams to ensure seamless operations. In a bid to strengthen remote working, we increased the existing internet bandwidth and added a new connection, besides installing additional firewalls.

Further, we continue to monitor our liquidity position on a daily basis and have maintained a comfortable liquidity position, well above the threshold set by the RBI.

INFORMATION TECHNOLOGY

Technology has been a key differentiator in the banking sector. We have been constantly embracing the best available technologies, which enables us to respond quickly to the rapidly changing market dynamics. Information Technology (IT) enables sophisticated product development, better market infrastructure, implementation of reliable techniques for control of risks and helps the financial intermediaries to reach geographically distant and diversified markets. We have been upgrading our IT infrastructure and implementing new technologies, systems and products for enhanced customer experience and to ensure the safety and integrity of the institution.

We have adopted robotic process automation to minimise human interventions in some processes and improve efficiency. We have implemented the Intelligent Character Recognition and Optical Character Recognition technologies to increase speed and accuracy. Digital transformation has given a new dimension to lending, simplifying the entire process for better TAT and identification of the right customer. The D-Lite mobile application offers a wide range of features (Transfer Funds, Term Deposit, e-ASBA, Card Control, Demat, FASTag, Bill Payment, Reward Programme and so on) for our retail customers in managing their finances in a better way.

Our Bank has transitioned to the cloud platform to achieve the immediate availability and scalability of applications.

We have made strategic investments in Information Security and implementing the best standards for safeguarding information assets. We have received ISO 27001 certification for establishing a framework of policies and procedures, including all legal, physical and technical controls involved in the organisation's information risk management process.

Our primary data centre is in Chennai. The secondary centre is in Hyderabad, acting as a backup for the applications and data available in the primary site. We have also invested in a host of customer touchpoints such as ATMs, Cash Recyclers, Debit Card, Credit Card, FASTag, Mobile Application, Internet Banking, and Electronic Payment Systems, among others, to make our products and services accessible anytime, anywhere.

We continuously upgrade our security measures as per regulatory compliance, such as installing the latest operating systems, voice guidance facility for differently-abled, EMV/ Biometric authentication, Talking ATM facility in all our cash dispensing machines. Our digital gold loan enables customers to avail credit facility several times by pledging the jewels once. Our Bank's account opening and lending applications are enabled on portable devices, so that such activities can be carried out at customer locations in a safe and secure manner.

ANALYTICS

Our Bank's analytics department was further strengthened during FY 2019-20. We employ traditional as well as advanced methods (Machine Learning) to identify growth opportunities, customer engagement, portfolio quality and collection strategies.

Highlights of FY 2019-20

- Delivered pre-approved products and targeted campaigns to improve customer engagement and cross-selling opportunities
- Designed and rolled out in-house predictive collections management system across retail and commercial portfolio
- Developed new scorecards to strengthen underwriting
- Robust portfolio quality monitoring framework put in place to identify trends with lead and lag indicators of delinquency and other KPIs

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

An overview

We have in place a well-established independent audit system and structure to ensure adequate internal control for safe and sound operations. Our Inspection and Audit Department (IAD) performs independent and objective assessment to monitor adequacy, effectiveness and adherence to internal control systems and procedures laid down by the management and extant regulations. This function supports our Bank's role in safeguarding its assets.

The macro level guidance and direction on the control aspects is provided by the Audit Committee of the Board (ACB). An efficient and sound internal audit provides high quality counsel to the management on the effectiveness of risk management practices and internal control mechanisms as also the regulatory compliance by our Bank.

Internal Audit is carried out under Risk Based Internal Audit (RBIA) as envisaged under Risk Based Supervision of RBI with focus on assessment of risks on the basis of inherent business/control risk and internal control mechanism. RBIA lays greater emphasis on the internal auditor's role in mitigating various risks while at the same time continuing the traditional risk management and control methods involving transaction testing, among others. RBIA not only offer suggestions to the management for mitigating current risks but also on potential future risks, thus playing a vital role in the risk management process of our Bank.

Under RBIA, branches have been categorised into five groups as per risk perception and are subject to varying degrees of audit. IAD reports to the MD & CEO for day-to-day activities and to the Audit Committee for audit planning and reporting.

The Department had conducted the RBIA and IS Audits of all the branches and divisional offices targeted for the year. We subject our operations to concurrent audit by various experienced audit firms to complement our internal audit function. Concurrent audit is conducted covering core activities such as Treasury operations, International Division, Regional Processing Centres, ATM cell, Demat Cell, Transaction Banking Group, Precious Metal Division, other operations and branches.

Concurrent Audit of select branches were carried out by external audit firms taking into account risk perception and business turnover. During FY 2019-20, 158 branches covering 51.16% of total deposits and 56.54% of total advances were subjected to concurrent audit. Besides, Corporate Business Units (CBU) and Business Banking Unit (BBU) were also subjected to concurrent audit. In addition to the regular inspection (RBIA) and concurrent audit, our bank officers also conducted surprise inspection at identified branches and extremely/very high risk rated branches as and when the need arose for such audits.

We have also ventured into strengthening the audit process by all audit activity under single software called e-Thic to enhance and provide focused attention in the audit mechanism taking cognisance of the various requirements borne out of experience. The department has also conducted SNAP audit in 724 branches to ensure that the compliance aspects in respect of internal control are followed at the branch level.

Further, the department has a system of re-appraisal of jewels pledged under the jewel loan portfolio once in a year covering all branches which have the portfolio. During FY 2019-20, re-appraisals including surprise re-appraisal totalling 779 were conducted. Further, during RBIA inspection, inspecting officials carry out verification of the purity of jewels on 10% of the outstanding jewel bags as of inspection date, subject to a minimum of 50 bags.

Currency chests of our Bank are subjected to inspection at periodical intervals as per extant guidelines of RBI. Inspections of all the seven currency chests of our Bank were covered during the year under review.

Information System Audit is conducted once in a year covering all branches, back offices, applications and critical process viz., Central Office, Divisional Offices, Data Centre Regional Processing Centres etc. During the year we have conducted IS Audit across 724 branches, 27 offices and 15 other specialised audits.

Bank has sharpened internal controls by instituting vigilance functions and a separate Staff Accountability Policy.

Credit Audit for advances with a fund based limits of ₹5 Crore and above or total exposure of ₹10 Crore and above including non-funded exposure, has been introduced from FY 2016-17 onwards with the objective of improving the quality of credit portfolio with resultant favourable impact on the profitability and reduce stressed assets.

We have conducted credit audit for 199 accounts for FY 2019-20. This audit will provide feedback to the Top Management of our Bank, based on the information gathered from reports of the various Credit Audits conducted, on the state of compliance with:

- Instructions / directives from the Government and Reserve Bank of India and;
- Bank's extant Credit Policy / procedures

Road ahead

Our Board and ACB continuously provide guidelines on setting up a robust internal audit ecosystem to meet the requirements of the changing times. Audit process is planned suitably to face the various challenges of the future. Leveraging the scope of technology, online monitoring is enhanced to overcome the challenges posed by travel restrictions.

A technically qualified team is set up to monitor IS related controls and audits. Considering the pace at which digital transactions are growing in volume and value, IAD has equipped itself to meet the challenges. A reputed external IS team and IS Auditors shall also be engaged for this purpose. We have a system of measuring risk profile of front line offices and back offices. Periodicity of audits/inspection is formulated by the ACB according to risk perceptions and as approved by the ACB.

This way, the IAD ensures that a robust and effective monitoring and control mechanism is put in place to safeguard all assets of our Bank.

COMPLIANCE

We have a transparent and comprehensive compliance policy and a robust KYC/AML/CFT Policy, duly approved by the Board and subject to an annual review. Compliance, to us, is non-negotiable and our compliance department independently tracks, monitors, assesses and ensures that we meet regulatory guidelines and internal standards. This department works closely with the nodal compliance officers of the business and operations teams. The department is headed by the Chief Compliance Officer (CCO), who assists the Board, Audit Committee of the Board and leadership team in managing the compliance risk, that is, 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 our banking activities.

The team at the Compliance Department remains up-to-date about the regulatory developments and acts swiftly to ensure timely adherence by respective business/operation teams. We also participate in industry working groups that discuss evolving regulatory requirements and impart training on matters related to compliance to employees on an ongoing basis. The CCO is a member of various executive committees for exchange of information. The Compliance Department 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 and maintaining a robust compliance culture with integrity and ethical conduct in carrying out our business within the regulatory/internal frameworks set by our Bank.

HUMAN RESOURCES

Our people are the driving force behind our success and also a key differentiator in an intensely competitive sector. We are committed to providing them with a growth-oriented work environment and have put in place fair, transparent and well-defined people policy in place. These policies cover all aspects of the human resources function including recruitment, training, upskilling, retention and employee engagement. We have also been digitalising our people processes over the past few years to make our people practices more efficient and convenient.

For more details, read pages 24 of this report.

INFORMATION SECURITY GROUP (ISG)

An overview

Our Board and leadership team have instituted an Information Security function for designing, developing, implementing and maintaining an Information Security Management System (ISMS) to protect our information assets in accordance with the determined risk profile of the assets. The Chief Information Security Officer (CISO) is responsible for providing leadership and oversight in the effective implementation and operation of ISMS in our Bank in accordance with approved policies and procedures. The ISMS considers the nature of our Bank's business along with internal and external factors and is aligned with the overall objectives and policies. The ISMS promotes security awareness amongst staff members and service providers, aims to facilitate all the constituents such as IT Department (ITD), Data Centre (DC), Disaster Recovery Site (DRS), Branches and Offices to implement the controls and monitors its effectiveness. We accord top priority for regulatory compliance and within a record time of less than two years, most of the mandatory controls stipulated by RBI through Cyber Security Framework have been implemented.

We have invested in modern technology solutions for timely application of security patches in the IT systems, host based intrusion prevention, network segregation, privileged access control and firewalls for superior vulnerability management. Thus, vulnerabilities in the IT systems are prevented from being exploited across the network and hence are minimal. Notwithstanding these preventive control measures, we have a reliable Vulnerability Assessment (VA) and Penetration Testing (PT) process to assess the IT systems periodically, detect vulnerabilities and undertake timely remediation measures.

Key activities FY 2019-20

- Maintained the ISO 27001:2013 certification by adhering to the standard processes.
- Used all the security solutions effectively to successfully prevent or detect and respond to security related alerts and events.
- Successfully implemented the cyber security framework recommended by the RBI

- Implemented CERT-In's Threat Intelligence client and it has been integrated with our Security Suite and other security systems for automatic blocking of threats.
- Undertook the red teaming exercise for the first time in our Bank to assess our preparedness for timely incident response.
- Strengthened privileged access management.
- Implemented enterprise fraud risk management solution to monitor select online channels and identify suspicious transactions.
- Undertook vulnerability assessments and penetrating exercises for the new IT initiatives to make the new system implementations on time as well as free from vulnerabilities.
- Implemented e-learning on cyber security and mandated all employees of our bank for self –awareness.
- Procured and implemented database activity monitoring (DAM) to identify and report instances of unauthorised database manipulations.

The onset of the COVID-19 pandemic led to increased origination of 'Covid-19', 'Corona-Virus' themed Cyber Security threat vectors, along with the existing attack vectors such as Malwares, Ransomwares and Banking Trojans.

Some prominent measures undertaken in this scenario:

- Threat Intelligence Data provided by regulators and other partners through Advisories, Incidents, Phishing Campaigns, Malware Campaigns, Advanced Persistent Threat Campaigns and Ransomware Campaigns were promptly reviewed and the Indicators of Compromise (IOCs) were blocked to protect our Bank's IT environment from threat vectors and ensure compliance.
- We implemented timely measures to increase employee and customer awareness on cyber security, in particular, 'COVID-19 themed cyber-attacks' and other security risks, to stay vigilant against cyber security attackers and ensure safety.
- After a proper assessment of security vulnerability, we scaled up the work-from-home facility to allow back-office staff to work remotely and securely.
- Cyber security audits were performed securely and remotely without any deferral to ensure that our Bank remains secure and compliant. Regulatory submissions were ensured promptly.
- We utilised the lockdown to strengthen our endpoint security with the best of breed solutions.

Leveraging technology

With increasing role of several technologies such as Internet of Things (IoT), cloud environments, Artificial Intelligence (AI), Machine Learning (ML), Big data analytics, there are now more potential cyber threats than ever before, and attacks are becoming more sophisticated. Protecting against these threats requires a proactive, continuously integrated and automated approach to cyber security. These challenges and opportunities have also led the Information Security functions to use emerging technologies such as security orchestration, automation, Artificial Intelligence, Machine Learning and predictive analytics to ensure cyber resilience.

We have implemented the following initiatives to enhance cyber security:

- Adoption of information security in the early stages of application development lifecycle
- Provide continuous training to staff on cyber security
- Perform regular vulnerability assessment and penetration testing
- Integration of new and existing security systems and automation of security response measures
- Subscribe to threat intelligence feeds and taking timely action to block them in our Bank's IT environment

Road ahead

Our focus will remain on strengthening our ability for timely detection of security incidents, immediate counter response measures to contain the risks and minimise the impacts, and implementation of proper prevention techniques to ensure better cyber resilience. We are looking at leveraging AI/ML technologies for prevention of cyber security risks. Regulatory compliance will remain a high priority area for us.

SAFE HARBOUR

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