



Management Discussion and Analysis

GLOBAL ECONOMIC SCENARIO

We have crossed one year since the pronouncement of COVID-19 as a global pandemic. It not only produced a distinctive recession in 2020 but also resulted in terrible loss of lives and livelihoods. Countries across the world braved a multifaceted crisis which included health shock, disruption of the domestic economy, capital flow reversals, collapse of commodity prices and slump in foreign demand. The contact-intensive services sectors were hit disproportionately hard, causing uneven distribution of losses.

As per the estimates of United Nations Department of Economic and Social Affairs, the world output shrank by 4.3% in 2020. This is over three times the impact witnessed during the global financial crisis of 2008-09. With an estimated output decline of 5.6%, the pandemic hit the developed economies the hardest, owing to the strict and prolonged lockdown measures that were imposed during the outbreak in many of the European countries and some parts of the United States. The contraction was milder in the developing countries compared to the developed countries, with output shrinking by 2.5%. The least developed countries saw their GDP contract by 1.3% in 2020.

The pandemic also resulted in severe employment crisis worldwide. As per the International Labour Organisation, full or partial lockdown measures had affected almost 2.7 billion workers by April 2020, representing about 81% of the global workforce. In spite of some improvement later in the year, unemployment rates in most countries still remained well above the pre-crisis levels. Job and income losses pushed an estimated 131 million additional people into poverty in 2020. The fast pace of digitalization, automation and robotization, further reduced labour demand in the medium term. While productivity is expected to experience some growth in economic sectors embracing automation, the average productivity growth is likely to falter. This coupled with declining investments in fixed capital and lower labour force participation rates are expected to weigh on potential output going forward.

The COVID-19 crisis has resulted in a significant shock to trade, restricting cross-border travel, disrupting international production networks and impacting demand worldwide. As per UN reports, global trade in goods and services contracted by an estimated 7.6% in 2020. Global merchandise trade has however been recovering since mid 2020 on the back of strong demand for electric and electronic equipment, pharmaceuticals and, especially, personal protective equipment. Massive stimulus measures amounting to USD 12.7 trillion prevented a total collapse of the world economy. However, stark differences in the size of the stimulus packages between developed and developing countries have put them

on different trajectories of recovery. The stimulus spending per capita by the developed countries has been nearly 580 times higher than that of the least developed countries, whereas the average per capita income of the developed countries is only 30 times higher than that of the least developed countries. The fiscal measures have been complemented by unprecedented monetary rejoinders. 92 Central Banks have cut policy rates, a total of 241 times from March 2020 to February 2021. Many central banks implemented additional monetary and prudential measures to boost liquidity and ensure financial stability. A number of monetary authorities also announced changes in their monetary policy frameworks to enhance policy flexibility and improve monetary transmission.

Of all the alphabetical letters used to describe the path of recovery, the K-shape stands out. It signifies the crucial feature of this crisis: the burden borne by less-skilled workers, youth, women, small businesses and lower-income countries. It also signifies how high-income earners and large companies have benefitted the most from the massive rally in equity markets, fuelled by the unprecedented monetary policy accommodation. All this has polarised economies worldwide and has left wider scope for growth in the future.

Even with high uncertainty about the path of the pandemic, a way out of this is increasingly visible. Thanks to the inventiveness of the scientific community, multiple vaccines that can reduce the severity and frequency of infections are now available. In parallel, adaptation to pandemic life has enabled the global economy to do well despite passive overall mobility, leading to a stronger-than-anticipated rebound, on average, across regions.

As per many global research firms, there remains high albeit moderating uncertainty about the evolution of the COVID-19 pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization is the sole way to re-establish the normalcy of social and economic activities.

IMF is projecting a stronger recovery in 2021 and 2022 for the global economy compared to their previous forecast, with growth projected to be 6% in 2021 and 4.4% in 2022. Nonetheless, the outlook presents daunting challenges related to divergences in the speed of recovery, both across and within countries as well as the potential for persistent economic damage from the crisis.

INDIAN SCENARIO

The year 2020 started on a weak note as India's GDP growth rate hit a six-year low in 2019 and then gradually decelerated

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further. The challenges in the domestic financial sector and other global headwinds were key contributors to it. Despite this, the fundamentals of Indian economy remained strong and GDP growth was expected to rebound from the first quarter of 2020-21. To revive demand and boost economic growth, the Union Budget for FY 2020-21 tried to take a calibrated path. The Budget's economic strategy was designed with the underlying assumption that the Indian economy appears to have bottomed out and is expected to pick up in 2020-21. It is at this moment that the COVID-19 pandemic struck the nation. As India went into a nationwide lockdown to control the pandemic, Government announced the initial set of measures to limit the damage. By the end of April 2020, it was clear that without immediate additional assistance from the government, the Indian economy could be looking at widespread financial ruin. Eventually, on May 12, 2020, the Hon'ble Prime Minister of India announced the Atmanirbhar Bharat Abhiyan package, with special focus on the MSME sector.

The economy registered a record contraction of 24.4% in Q1-FY21 and recovered marginally with a negative growth of 7.3% in Q2- FY21. The retrieval in Q2 demonstrates the resilience of the Indian Economy, albeit partially. Since the unlocking, there was a renewal in the economic activity, though the pace and extent of the same has been wavering. Some parameters have been witnessing progressive, albeit gradual advances, while for some segments, the improvements have been dropping steam, which can be attributed to the easing of pent up demand and restocking of inventories. The signs of recovery further strengthened since November 2020 as a higher number of sectors saw normalized economic activities. The economy registered a GDP growth (YoY) of 0.4% in Q3 FY21, after recording negative growth in the previous two quarters. The positive growth during the third quarter of FY 2020-21 was indicative of slow resumption of economic activities, higher consumption and activity across sectors.

Looking ahead at CY 2021, various government and international institutions initially projected a sharp "V shaped recovery" for the Indian economy. The Economic Survey 2020-21 estimated a robust double-digit growth of 11% in FY 2021-22, albeit over a lower base, backed by revitalisation of consumption and investment demand amid a mega-vaccination drive. The International Monetary Fund (IMF) projected the economy to grow by 11.5% (further raising it to 12.5% later) and reclaim its status of the fastest growing economy. RBI estimated the economic growth at 10.5% (further revising to 9.5%) in FY 2021-22, supported by sustained improvement in financial resources and strong push provided by the Union Budget for revival of key sectors. Through the landmark union budget for FY 2021-22, the Government explicitly made on growth and

crucial expenditure was targeted towards capex and health. The Budget also supplemented its infrastructure focus plans with innovative financing tools, which included raising resources from monetization of government owned assets and providing a thrust to privatization. The Budget has been iced with some far-reaching reforms announced in terms of disinvestment.

Looking at the impact of the pandemic induced disruptions, various sectors in the Indian economy have been affected in diverse proportions and the recovery across them has been uneven. While we saw resilience in agriculture, technology and pharmaceuticals sectors and the recovery in manufacturing, auto, and power has been faster than expected, contact-intensive services sectors such as tourism, recreation, aviation, manufacturing and construction continue to grapple with the challenges of the pandemic. Economists now expect a 'K Shaped' recovery for India instead of a 'V Shaped Recovery', as estimated earlier. While the earlier growth rate forecasts were done based on the large string of fiscal and monetary support, the new surge in COVID-19 cases in the second wave have raised fears of renewed restriction, crippling the economy and once again making it solely reliant on domestic consumption.

One possible reason for the second surge in COVID-19 cases might be the optimism surrounding the availability of vaccines, which may have caused people to lower their guard, enabling the rapid spread of virus. The change in attitude towards the virus amongst the masses was also reflected through the sudden rise in mobility since mid January. Going forward, the steepness of the curve should sound as an alarm for people to limit their movements to prevent the virus from spreading. Irrespective of how and when the restrictions are imposed, whether they are voluntary or mandatory, they are expected to hamper the economic growth of India in the first half of FY 2021-22.

INDIAN BANKING INDUSTRY

Like any other sector, the disruption caused by COVID-19 and subsequent lockdowns in the country saw material pressure on multiple fronts in the banking sector. The uncertainty arising out of its direct impact on banks with consequent impact on debt servicing ability of borrowers and asset quality woes has adversely impacted the risk appetite of lenders, thereby impacting the credit uptick. During the critical phase of the pandemic, Indian Banks focused on maintaining adequate staff at the branches, deployed mobile ATMs and implemented door step banking for senior citizens to ensure the much-needed service to customers. Several Banks which had already made significant investments in technology and digital transformation were supporting the customer requirements through various digital innovations.





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Government of India and Reserve Bank of India made many regulatory interventions to protect the health of Indian Financial System. This included providing relief to the Banks as well as borrowers by offering the option of availing moratorium on loan repayments, restructuring of loans, slashing the repo rates to record low and opening up special credit lines to encourage the banks to lend more, especially to the MSME segments. These steps gave critical and momentary relief to India's banking system.

The first half of this fiscal witnessed a contraction in bank credit owing to the pandemic which forced both borrowers and lenders to tread cautiously. Since lifting of lockdowns in the country, there was faster-than-expected uptick in economic activities, which was further supported by the pent-up demand, fuelled by the festive season. The bank credit growth stood at 5.6% YoY for the fortnight ended March 26, 2021 as compared with last year's level of 6.1%. The growth figures of the fortnight have the benefit of lower base of the previous year-end since the time denotes initial period of lockdown in the country.

Subdued growth was witnessed in Industrial credit with low single digit growth recorded since fiscal 2016 due to increasing asset quality issues. Industrial credit was up by ~7% majorly driven by lending to infrastructure in fiscal 2019. In fiscal 2020, the private capex was soft, thereby resulting in a growth rate of ~1% in industrial credit. The overall industry credit growth was further dragged down by the economic effects of the pandemic and muted demand, impacting various sectors including engineering, infrastructure and construction. Retail credit, which led the pack till fiscal 2020, registered weak growth in the first half of fiscal 2021. However it bounced back in the second half and is expected to grow further in fiscal 2022, as the economy picks up.

With the slowdown in economic growth, deposits grew at a moderate rate of ~8% in fiscal 2020. The pandemic influenced customers to start conserving their money and reduce their private consumption. This reflected in the Year-on-Year deposits growth range of 9.5%-12%, April 2020 onwards, despite the declining deposit rates. The FY 2020- 21 saw the deposits growth crossing 10% and register 11.4% Year on Year growth (fortnight ended March 26, 2021). Moreover, the liquidity surplus in the banking system stood at Rs.3.8 Lakh Crore as on March 26, 2021 and the bank CD's reduced by over 70.0% on Y-o-Y basis on account of such surplus. Time deposits account for 87.7% of aggregate deposits (88.1% share as on March 27, 2020) and grew at a slower pace compared to the demand deposits, which accounted for the balance 12.3% (11.9% share as on March 27, 2020).

In FY 2021-22, given the growth in the economy and the base effect coming into play, bank credit is likely to increase. Based on the report of many research firms, a higher deposit growth is expected in the range of 9-11% in FY 2021-22 to support credit growth of 8-10% in the said period. However, a sub-normal monsoon and another surge in COVID-19 cases leading to localised or partial lockdowns in key states may impact the industrial as well as the service segments and pose downside risks to deposit and credit growth in FY 2021-22. Though, systemic support from RBI and the Government at various levels could give the much needed fillip for growth.

BUSINESS STRATEGY

During FY 2020-21, COVID-19 emerged as the black swan event of the century and had significant macro-economic impact. In this background, your Bank continued with the resolve to perform and demonstrated robust operating performance during the financial year, driven by the identified priorities.

With the onset of the pandemic, your Bank invoked business continuity plans and higher priority was accorded to ensure that customers were supported, while maintaining business continuity and reinforcing organisational fitness. Your Bank further initiated an analysis of the situation from different slants, with various stress testing for capital, liquidity and asset quality. Since the extent of the pandemic was still unknown, the strategy adopted for FY 2020-21 was to be nimble yet flexible to deal with the dynamic and ever-changing environment. The pandemic induced a shift in the business strategy of your Bank with focus on creating value through resilient growth. Sensing the change & reshaping business strategy along with it, the growth mantra of your Bank during this phase revolved around the core themes of Preserve, Conserve and Innovate.

The near term focus of your Bank was in creating flexible plans to deal with the dynamic environment. Analytics and decision engines were continuously used to identify potential risk areas. Relentless emphasis was given to digital migration and digitization of internal processes. Your Bank ensured continuous traction in relatively higher margin business. With the deposit franchise becoming stronger and granular, a tight vigil was kept on possible slippages and focus was placed to strengthen the balance sheet. Robust operating performance helped your Bank to increase the coverage ratios and set aside higher provisions for what could potentially need a higher requirement with the passage of time, should the environment continue to be fraught with risks. Despite many disruptions caused by the pandemic, your Bank continued to grow low-cost deposits as much as gold loan business. Business banking and retail segments, which are

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heavily synchronized with and dependent on physical branches, have also started seeing good traction. On the digital end, it was a very special year for your Bank as we not only made significant progress in our digital journey and utilised the digital route to conduct our daily tasks but also made momentous internal strides. Therefore, from all aspects, your Bank made meaningful progress during the financial year and ticked all the right boxes through a strategic, well-thought approach.

Though the pandemic has altered our outlook on certain near term business strategies, your Bank’s commitment to pursue the credo of becoming the “FIRST CHOICE” Bank for all the stakeholders remains intact. It is not just confined to business growth, but spreads across the entire range of attributes that concerns a stakeholder, be it products, processes, value creation, compliance, controls or innovation. Your Bank commands a prominent leadership position in the Home Market (Kerala). The strategy remains to convert this commanding prominence to complete dominance. Going forward, your Bank will continue to

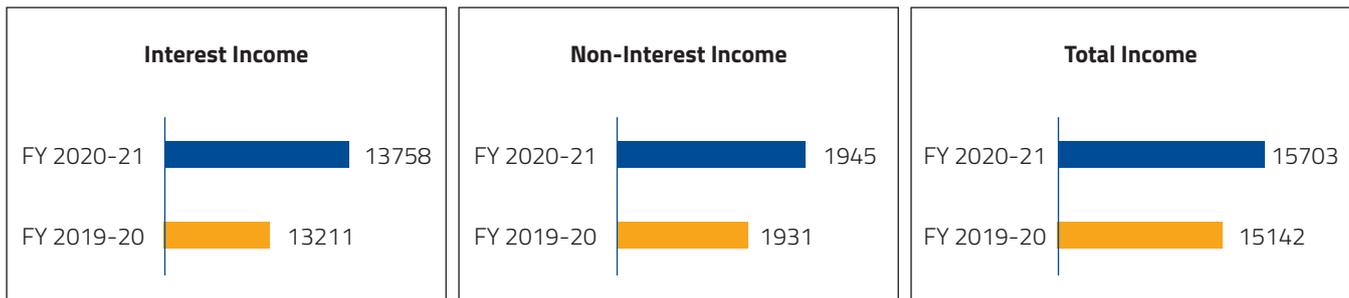
pursue initiatives, which will enhance the status from Presence to Prominence in ‘Rest of India’.

With stability and predictability in performance, best in class liability franchise, improved operating metrics, shift in credit mix towards granular retail , top tier asset quality and robust coverage ratios, your Bank believes that it has now earned the “ Right to Grow”. With the right tools and a robust strategy, we aim to scale up to the next level of growth across all business segments, and eventually achieve the “Right to Win” in the next three to four years. The growth rates will be calibrated to the economic realities and emphasis will continue on sustained earnings during this period. As technology and digital take center stage, your Bank will continue to work towards ensuring customer convenience and be a front runner in launching various innovations with the objective to bring a positive influence in the way of doing business. Committed to compliance and ever-improving risk management practices, your Bank is fully poised for high-quality performance and growth.

OVERVIEW OF PERFORMANCE (STANDALONE)

Income

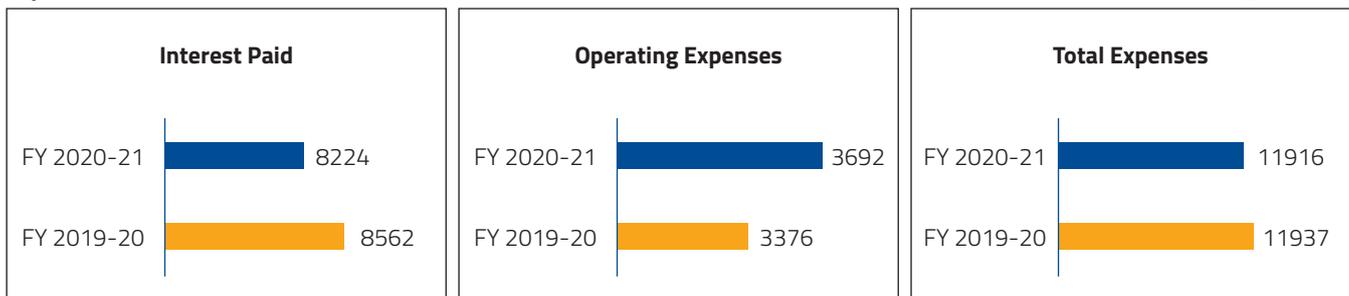
(₹ in Crore)



During the financial year, the yield on average advances (gross) stood at 8.75% and the yield on investments (excluding trading gain) stood at 6.57%. The interest/discount on advances/bills improved to ₹ 10,795 Crore (March 31, 2021) from ₹ 10,671 Crore (March 31, 2020), interest on investments improved to ₹ 2,349 Crore (March 31, 2021) from ₹ 2,184 Crore (March 31, 2020) and other interest including interest on balances with RBI / other interbank funds improved to ₹ 614 Crore (March 31, 2021) from ₹ 356 Crore (March 31, 2020).The share of interest income of your Bank to total income stood at 88%.

Expenditure

(₹ in Crore)





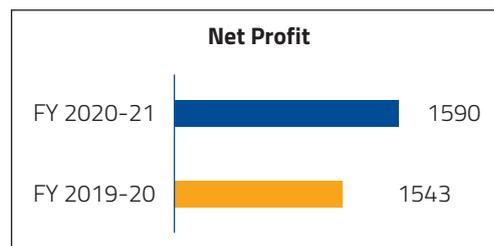
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During the financial year, the average cost of deposits of your Bank dropped to 5.00% from 5.88% as on March 31, 2020. The interest paid on deposit stood at ₹ 7,805 Crore with YoY drop of 4% and other interest expenses stood at ₹ 420 Crore with a YoY drop of 9%. The staff opex increased by 15% and other operating expenses increased by 3% translating to 9% increase in operating expenses.

Operating Performance

(₹ in Crore)

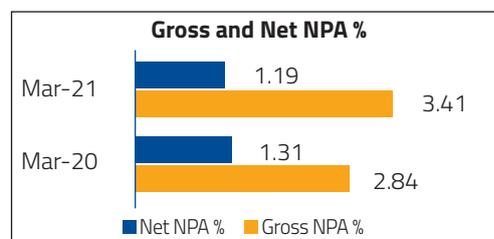
Particulars	March 31, 2021	March 31, 2020
Net Interest Income	5,534	4,649
Non-Interest Income	1,945	1,931
Net Total Income	7,479	6,580
Operating Expenses	3,692	3,376
Operating Profit	3,787	3,205



The net interest income of your Bank registered a robust 19% growth even with the net credit growth of 8%, enabled by the granular deposit franchise and the improvement of credit profile towards granular retail. During the financial year, your Bank's spread on advances (gross) improved to 3.75% and spread on investments (gross) improved to 3.28%. Even with the disruptions caused by the pandemic, operating profit rose by 18%. Net profit registered 3% growth even with 41% increase in provisions (to improve coverage) excluding tax.

Asset Quality Parameters

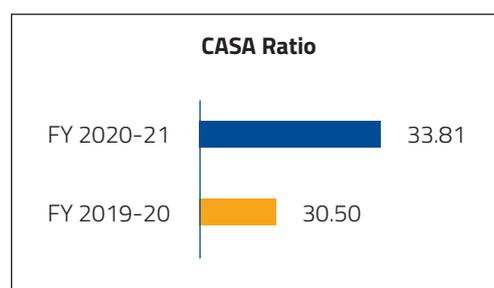
Particulars	March 31, 2021	March 31, 2020
GNPA(₹ in Crore)	4,602	3,531
NNPA (₹ in Crore)	1,569	1,607
Provision Coverage Ratio (%)	65.14	53.39
Provision Coverage Ratio (%) (Inc TWO)	77.65	72.48



Even with the high economic impact of the pandemic, Bank reported almost flattish slippages. The Gross NPA of your Bank as on March 31, 2021 stood at ₹ 4,602 Crore Gross NPA as a percentage to Gross Advances is at 3.41%. The Net NPA stood at ₹ 1,569 Crore and this as a percentage to Net Advances is at 1.19%. The Provision Coverage Ratio (including technical write-offs) stood at 77.65%, an improvement of 517 bps. Provisions (excl TWO) improved by 1175 bps to reach 65.14%.

Key Ratios

Particulars	March 31, 2021	March 31, 2020
Return on Average Total Assets	0.85	0.94
Return on Average Equity	10.38	11.10
Cost to Income Ratio	49.36	51.30
Net interest margin	3.16	3.05
Earnings per Share (EPS) ₹ (Annualised)	7.97	7.76
Book value per share (end period) ₹	80.77	72.86



Return on assets and return on equity slightly deteriorated during the year owing to the economic impact of pandemic and stood at 0.85% and 10.38% respectively. Earnings per share improved to ₹ 7.97 from ₹ 7.76, while book value per share increased to ₹ 80.77 from ₹ 72.86. CASA ratio improved by 331 bps supported by robust traction in savings book and current deposits. Various cost control initiatives of your Bank helped to bring down the cost to income ratio from 51.30% to 49.36%.

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Balance Sheet parameters

(₹ in Crore)

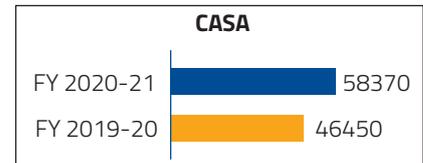
Particulars	March 31, 2021	March 31, 2020	% Change
Liabilities			
Capital	399	399	0.2
Reserves & surplus	15,724	14,119	11.4
Deposits	172,644	152,290	13.4
Borrowings	9,069	10,372	-12.6
Other Liabilities & provisions	3,531	3,458	2.1
Total	201,367	180,638	11.5
Assets			
Cash & balances with RBI	7,647	6,175	23.8
Balance with Banks & Money at call	11,944	6,400	86.6
Investments	37,186	35,893	3.6
Advances	131,879	122,268	7.9
Fixed Assets	491	480	2.3
Other Assets	12,220	9,423	29.7
Total	201,367	180,638	11.5

Total assets increased by 11.48% to ₹ 2,01,367 Crore as on March 31, 2021 from ₹ 1,80,638 Crore on March 31, 2020, driven by 7.86% growth in net advances, 86.64% increase in the balance with Banks and Money at call and 29.68% increase in other assets.

Deposits

(₹ in Crore)

Particulars	March 31, 2021	March 31, 2020	% Change
Customer Deposits	163,609	145,650	12
Certificates of Deposit	5,985	4,449	35
Interbank deposits	3,050	2,191	39
Total Deposits	172,644	152,290	13

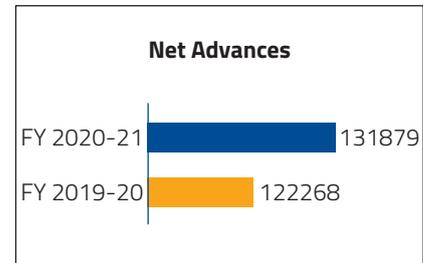


Deposits growth held up well for your Bank during FY 2020-21 with overall deposits increasing by 13% YoY. Retail deposits make up 90% of overall deposits and core deposits constitutes 98% of the total deposits. Retail deposits grew by 14% YoY and NR deposits, which constitute 39% of total deposit, grew by 12% YoY.

Advances

(₹ in Crore)

Particulars	March 31, 2021	March 31, 2020	% Change
Retail Advances	44,910	37,878	19
Business Banking	11,890	10,529	13
Agri Advances	16,076	13,051	23
Gold Loans	15,816	9,301	70
Commercial Banking	13,262	11,970	11
Corporate Banking	48,738	50,725	-4
Gross Advances	134,877	124,153	9



The overall advances stood at ₹ 1,34,877 Crore led by a broad based growth (except corporate loans). Retail loans remained one of the fastest growing segment at 19% YoY growth along with agri advances at 23% YoY. Gold loan growth was sharp at 70% YoY with the loan book crossing ₹ 15,000 Crore majorly driven by the branch network. Your Bank further reshaped the credit book; Retail to Wholesale Ratio improved to 54: 46 from 50:50 (March 2020).





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Capital Management (₹ in Crore)

Particulars	March 31, 2021	March 31, 2020
Common Equity Tier-1 Capital	15,455	14,057
Additional Tier-1 Capital	0	0
Total Tier-1 Capital	15,455	14,057
Tier-2 Capital	868	1,118
Total Capital	16,323	15,175
Common Equity Tier-1 Ratio (%)	13.85	13.29
Total Tier-1 Capital Ratio (%)	13.85	13.29
Tier-2 Capital (%)	0.77	1.06
Total Capital Ratio (%)	14.62	14.35

Capital Adequacy Ratio and Tier – 1/ CET – 1 Ratio of your Bank computed as per Basel III guidelines for the financial year increased by 27 bps and 56 bps respectively. Increase in profit and growth in lower risk weighted assets helped in improving the CRAR. Capital Adequacy Ratio at 14.62% stood well above the regulatory minimum requirement of 10.875%, including a Capital Conservation buffer of 1.875%.

OPPORTUNITIES AND THREATS

The second wave of COVID-19 in the country has led to localised restrictions in various states. The financial institutions fear that any restrictions placed locally or across the country may hamper the economic progress and lead to economic losses which may further increase the loan defaults. Already hit by a big wave of loan defaults even before the pandemic, the Banks in the country cannot afford any more stress in the financial system. If there is a continued surge of COVID-19 cases in the country, it will either impact the growth rates of the Banks or impact the credit cost at varying degrees, based on the nature of the asset book and strength of the Balance Sheet. Going forward, the smaller players in the market may have higher risk of deteriorating credit cost while with an improving balance sheet and stable asset quality, your Bank will have the opportunity to gain further market share in select segments. A further resurgence of COVID-19 may see delayed economic recovery leading to lower ability to leverage and consume credit in the corporate segment, as the companies would restrict borrowings.

Business Overview

CORPORATE AND INSTITUTIONAL BANKING

Corporate and Institutional Banking division offers a comprehensive suite of banking products and services, both locally and overseas. It caters to Large Business Houses and Corporates, MNCs, Capital Market clients, PSUs and Financial

Institutions. This division of your Bank offers customized products and services across working capital, term funding, structured finance, cash management, trade finance and forex management backed by comprehensive electronic banking solutions, which provide easy day to day operations for your Bank's clients. During FY 2020-21, this business moderated to closing total asset of ₹ 50,910 Crore. The focus of wholesale banking continues to be the preferred banking partner to its clients, with a well-designed client selection strategy and a robust credit underwriting process. Customer engagement under this division has been further strengthened through tailor made and differentiated solutions that caters to the client's banking requirements, enabling your Bank to be the preferred choice for multi-product relationship.

The distribution continues to expand through the Relationship Management structure at numerous locations and touch points, catering to the entire value chain across business verticals. This approach has helped your Bank in tapping various Retail, SME and cross-sell opportunities. Most of your Bank's clients have moved to digital platform of the Bank, "Fed E Biz" and all products are being offered and serviced through this platform, in line with the philosophy of "Digital at the Fore, Human at the Core".

COMMERCIAL BANKING

Commercial Banking division focuses on providing end-to-end financing solutions to Mid-Market and MSMEs. Your Bank's offerings in this segment include working capital, term loan, trade finance and advisory services, cash management, supply chain finance, foreign exchange services, structured offerings, gold metal loan and liability products. Your Bank could leverage upon its relationship structure, branch network, digital platform and multiple product offerings to add many New to Bank clients as well as increase its wallet share of business with existing clients. During FY 2020-21, this business scaled up further with a closing advance position of ₹ 13,262 Crore as against ₹ 11,970 Crore in FY 2019-20. The business continues to have a diversified and granular portfolio in terms of sectors and geography. Your Bank's focus in Commercial Banking will continue to be the "Bank of First Choice" for all its clients.

CV/CE BUSINESS

The CV/CE Division finances single unit owners, fleet operators and strategic clients for their purchase of new and used Commercial Vehicles and Construction Equipments. Your Bank commenced this business in FY 2018-19 in the states of Tamil Nadu and Kerala in view of strong presence in these regions and during last two years, gradually expanded the reach to cover Southern and Western India.

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During last year, your Bank further consolidated its teams in business acquisition, credit underwriting and collections. Despite industry challenges in the form of economic slowdown and COVID-19, the division grew by 58% to reach ₹ 912 Crore of advances with a good mix of new and used vehicles spread across different user groups in strategic client segments, while ensuring robust asset quality. Your Bank could on-board a large number of new clients with significant cross sell and fee income opportunities. It also signed MOUs with Commercial & vehicle OEMs like Tata Motor, Daimler India and Mahindra Truck & Buses to be a preferred financier for them.

GOVERNMENT BUSINESS

Government Business vertical focuses on providing end to end solution to the Government departments and entities. With an objective to further augment the liability book and tap the potentials of these Government departments and entities in building CASA and Term Deposits, your Bank started this Business in FY 2018-19. This vertical of your Bank is managed through Relationship Managers posted across numerous locations and touch points to canvass deposits from Central & State budgetary allocations and Local and State Government offices like Panchayats, Municipalities etc. Federal Bank offers bespoke CASA products exclusively designed to suit the needs of Government & related entities. The vertical actively engages with Government Departments to digitalize various operations for the Government functioning. Total deposits of this vertical grew by 17% on YoY basis.

BUSINESS BANKING

Business Banking, comprising of business loans up to ₹ 5 Crore, mainly to Micro, Small and Medium Enterprises. The segment registered a growth of 13%, disbursing 11,000+ loans (excluding GECL and FITL) during FY 2020-21, of which 22% loans were disbursed to New To Bank customers.

Business banking vertical focused on granular growth through neighbourhood banking and remained one of the high yielding portfolios of your Bank in FY 2020-21. While the business vertical is mainly driven through the traditional strong hold branch network, Relationship Managers posted at potential centers across the country contributed in bringing good quality fresh customers to our fold. The DSA arrangement for sourcing from unexplored markets was initiated in FY 2020-21, for which your Bank expects to reap results in FY 2021-22.

Your Bank actively participated in the implementation of COVID-19 relief measures announced by the Government and could disburse an amount of ₹ 1,128 Crore by way of ECLGS 1.0 and 2.0. Your Bank, by implementing directive from Ministry of Finance on classification of MSME based on Udyam certificate

through an automated system, could improve MSME loans by 19% in the SME books and despite de-classification of traders from MSME, its contribution of MSME to total PSL has improved.

The vertical conducted extensive market study in FY 2020-21, benchmarked the competitive products along with customer requirements and introduced new products to keep up with the changing market requirements. The products were well appreciated and accepted. Business banking vertical of your Bank is actively moving towards digitization through implementation and improvisation of various digital channels for quick loan sanctions.

RETAIL BANKING

During FY 2020-21, your Bank could register a growth of 26% in CASA amidst various ongoing issues like the pandemic, recession threats etc. The total deposits grew by 13%. Retail deposits constituted 90% of the total deposit.

The prime focus of your Bank was to on-board new relationships through a dedicated team of Relationship Managers, ensuring acquisition of high-value savings accounts and corporate salary accounts, including salary accounts of State/ Central Government entities. Your Bank has also leveraged the salary account of the employees of its commercial / institutional banking clients' in a meaningful way. To equip the younger generation with the facilities of contactless banking, your Bank has launched a new Scheme viz. FedFirst Account for Minors.

Your Bank is focusing on more tie-ups with FinTech partners via API and Open Banking programmes, paving the way for greater access to the millennial segment, with special thrust on salaried clients. Your Bank is now one among the seven leading banks in the country, empanelled by NSE Clearing Limited, for submitting Fixed Deposit Receipts (FDRs) issued as collateral to clearing members in electronic form (e-FDRs). Your Bank has also introduced Video KYC based account opening - Federal 24 7, thereby providing an easy, convenient, and contactless way to open accounts.

Your Bank could grow its portfolio size in the Corporate Salary segment to ₹ 1,687 Crore. Thrust was given to deepen relationships with existing clients of Corporate and Commercial Banking and thereby increase the Corporate Salary accounts from the available universe.

With the added focus on HNI segment, CASA share from HNI segment to Bank's total CASA improved to 45.25% in FY 2020-21 as compared to 40.72% in FY 2019-20. Number of HNI profiled customers has reached 2.45 Lakhs in FY 2020-21, registering a 25% Y-o-Y growth in client count.





Management Discussion and Analysis (Contd...)

The launch of a special segment, devoted to High Net worth Individuals, was a key feature of the year under review. The Celesta segment, designed to cater to the special needs of this segment, comes with a 'Celesta' Savings account (for both Residents and NRs). This account is clubbed with the premium "Celesta" debit card variant and offers a host of exclusive offerings like family banking program, customized wealth management services and personalized offers and benefits including concierge services, dual RM support etc. The scheme was launched in October 2020 and has gained much popularity within a short period, adding 6500+ customers. Total Savings Account portfolio of Celesta reached ₹ 1,925+ Crore.

The retail loan book of your Bank grew by 19% reaching ₹ 44,910 Crore, forming 33% of the total advances of your Bank. The retail book has seen good traction across all its major products. Mortgage-backed Housing Loans and Retail Loan against Property (Retail LAP) continue to be the major components of the retail loan book with a combined share of 65%. During the year, the housing loan portfolio crossed ₹ 20,000 Crore, registering a growth of 10% and the auto loan portfolio grew by 12%, crossing ₹ 3,600 Crore in book size.

Your Bank had also introduced multiple digital capabilities which includes (a) e-NACH, a self-assisted journey for customers to register for a mandate that automates collection of EMI, (b) e-Sign, a digital signature process for document execution, (c) e-KYC through Aadhaar Based authentication process (d) online banking statement analysis, etc. All these capabilities are integrated in a new loan origination system for Auto Loans and have helped improve the delivery speed and productivity for the bank. Your Bank had also tied up with auto giants, M/s Maruti Suzuki India Ltd and M/s Hyundai India, to enhance its presence in the auto segment. During COVID-19, your Bank had also tightened the credit norms so as to ensure maintenance of quality of its Retail portfolio.

Your Bank's association with WMS (Wealth Management Services) partner M/s Equirus Wealth for FY 2020-21 witnessed significant boom in business, generating substantial growth in AUM (Assets under Management) and revenue. As part of the business outcome, your Bank has on boarded 5,000+ clients for WMS services in FY 2020-21, adding an incremental AUM of ₹ 800+ Crore and revenue of ₹ 4.70 Crore. Total AUM as on March 31, 2021 stands at ₹ 1,448 Crore. Your Bank is proud to report that while the Mutual Fund industry reported net negative sales for 8 months in the last FY, your Bank consistently registered a positive growth in sales during the same period, thereby gaining a considerable market share.

The Bank registered a business figure of ₹ 82 Crore in Para Banking Fee Income with the following initiatives/ outcomes:

- Bank entered into a strategic tie up with ICICI Securities to offer online trading services to customers
- Bagged 'IBA Most Innovative Product Award, FY 21' for Instant demat, where demat account can be opened in less 2 minutes
- Improved the penetration of 'Sovereign Gold Bond' with PAN India market share @ 1.11% through sale of 361 Kgs of Gold
- Insurance business has been the largest contributor to non-banking fee income totalling to ₹ 66.5 Crore. Your Bank partnered with Ageas Federal (Life Insurance JV), Max-Bupa, Bajaj-Allianz, HDFC-Ergo & TATA-AIG (non-life insurance) for insurance business and offers an array of insurance products which helps in protection & safety against various risks. Bank, through this association, has offered various products such as annuity plans, guaranteed wealth plans, hospital cash, medical insurance, credit insurance, travel insurance, etc.
- Bank obtained Tele marketing licence from IRDA for insurance sales and is now LIVE with 3 insurance partners in Tele Sales (HDFC Ergo, IDBI Federal & Max Bupa)
- With the support and coordination of all the stakeholders, your Bank introduced 15 new products in the insurance space in the current financial year

Cards and Payment Solutions

Your Bank has become the 5th largest private sector bank in the country in terms of monthly debit spends. During March 2021, monthly debit spends of your Bank has reached an all-time high at ₹ 1,120 Crore. Your Bank has partnered with leading e-com merchants in the country to conduct promotional campaigns. More than 75+ campaigns have been conducted across leading brands like Amazon, Flipkart, Myntra, INOX, BookMyShow, Indigo, Snapdeal, MMT, Big Basket, Swiggy and Reliance Digital. This has not only helped in enhancing your Bank's brand presence across leading e-commerce merchants but has also played a key role in increasing spends on debit cards. The number of customers using debit cards for spends on POS and E-Com has increased exponentially.

Your Bank expanded the Debit Card EMI (DC EMI) reach to leading e-com giants including Amazon and Flipkart. Affordability loans of more than ₹ 40 Crore have been disbursed during the FY through DC EMI, thus establishing consumer finance as a stable business

Management Discussion and Analysis (Contd...)

line contributing to a higher yield of the loan book. The capability is currently made available to the staff members of your Bank and will be launched to the customers soon.

Non- Resident Banking

NR franchise like yester years kept the Federal flag flying high through growth in portfolio, overseas presence, and digital efforts. FY 2020-21 was yet another stunning year for the NR portfolio of your Bank, despite the fact that the nation and whole world were impacted by the pandemic. The NR business of your Bank grew by 12% and NR CASA portfolio grew by 19%. Dominance in the remittance business with robust remittance engine and more than 110 remittance arrangements across the globe will synergize to further strengthen the NR franchise.

To reinforce the Relationship Model for NR business, your Bank has launched an exclusive video calling platform "Vmeet" where Relationship Managers can meet their customers in a virtual world and provide necessary assistance.

Personal Inward remittance business crossed the milestone figure of ₹ 1,00,000 Crore this FY and has registered 15% YoY growth as your Bank enjoyed close to 17.5% market share in this segment. Your Bank has commenced remittance tie up with new partners from three new geographies- MoneyGram USA, Orbit Remit New Zealand, Terra Pay UK, and is in the process of going live with 7 other remittance partners including two prominent Banks in UAE and Qatar. Your Bank has launched its outward remittance platform – 'Fed e Remit', which is an easy and convenient online outward remittance service offered to Resident Individuals and NRIs holding NRE accounts, to remit funds from India.

Given the opportunities and potential of NRI business segment, we expect it to continue serving as a key growth engine for your Bank in the coming years.

MICRO AND RURAL BANKING

Micro lending through Business Correspondents (BCs)

Reaching the unbanked to bring them under the financial umbrella has always been the priority of your Bank which is being effectively driven through its various financial inclusion programmes under Branch and Business Correspondent (BC) channel.

As permitted by RBI and in compliance with Bank's Board approved policy on engaging Business Correspondents, your Bank has a network of three Business Correspondents across selected geographies, exclusively for sourcing and servicing of Micro lending portfolio.

In FY 2020-21, in midst of the pandemic, your Bank could on-board 13,921 new customers with a total business of around ₹ 54 Crore through these Business Correspondent tie-ups.

Financial Inclusion

The objective of Financial Inclusion is to extend financial services to the large unserved population of the country and unlock their growth potential. It also strives to achieve more inclusive growth by making finance available to the poor in particular. Through methods like financial literacy, your Bank is committed to channelize the savings of the unserved population of the country and offer new lending avenues to this group.

Financial Literacy through Rural Branches and Financial Literacy Centers

Your Bank believes that business exists in the society and any business requires social sanction for its survival and growth. Thus, it is crucial for organisations to have a social commitment.

Financial literacy programmes intend to provide basic banking knowledge to people across various walks of life. The financial literacy classes are organised and conducted by our branches in rural areas to spread financial awareness amongst the masses. Currently 161 rural branches of your Bank are conducting financial literacy campaigns for general public and school children in these areas.

Federal Ashwas Financial Literacy Centers (FAFLCs) are your Bank's initiative to provide free, unbiased, fair and coordinated financial education through financial literacy classes and credit counselling and have proved to serve as effective financial literacy and credit counselling centers in rural and semi urban areas. The centers aim to create awareness and educate the targeted segments including farmers, micro & small entrepreneurs, self-help groups, senior citizens and school children about products from various banks, thus benefitting the entire industry. Other than this, the FLCs also organise 'Going Digital' camps for the rural populace.

During the financial year ended March 31, 2021, due to COVID-19 pandemic and consequent lock downs, only a few physical literacy classes could be conducted by the FLCs. However, online classes/session on financial literacy were conducted, wherever possible. Block Level Bankers' Committee (BLBC), District Level Review Committee (DLRC) and other meeting were also conducted by the lead bank through online Video Conference. Around 609 literacy camps (including 311 online sessions) and 332 counselling sessions (including Tele counselling) were undertaken by these centers during the FY 2020-21, benefitting more than 18,000 people.





Management Discussion and Analysis (Contd...)

Your Bank participated in the Financial Literacy Week (FLW) observed by RBI during February 08 to 12, 2021 across the country. The theme was “Developing Credit discipline and encourage availing credit from formal financial institutions as per requirement” and the focus was on the following topics, with a view to improve credit and reduce NPAs:

- Timely Repayment & Credit Score
- Borrowing from Formal Institutions only
- Responsible Borrowing

During the financial literacy week, your Bank conducted the following activities:

- Branches displayed posters on FLW theme at prominent places within the branch premises and distributed FLW leaflets to customers
- Displayed the FLW message on home page of your Bank’s website in English and Hindi
- Financial Literacy Centers (FLCs) of your Bank conducted special camps on each day of the FLW, while focusing on the key theme

Your Bank offers **Pradhan Mantri Jan Dhan Yojna (PMJDY)** accounts to the general public with an overdraft (OD) facility to eligible cases (mainly to weaker section & low income household groups), with OD facility of up to ₹ 10,000/- to eligible customers, with an objective to ensure access to financial services, namely savings & deposit accounts, remittance, credit, insurance, pension in an affordable manner. In FY 2019-20, Ministry of Finance, Government of India announced the continuation of Comprehensive Financial Inclusion Mission (Pradhan Mantri Jan Dhan Yojana – PMJDY) with change in focus of opening accounts from ‘every household’ to ‘every adult’. The main attraction of the scheme is zero-balance bank account with RuPay debit card and with free accidental insurance cover of Rs. 2 Lakhs. Till date, your Bank has opened more than 6.21 Lakhs accounts with an outstanding balance of ₹ 316.22 Crore. The average balance in PMJDY accounts as on March 31, 2021 is ₹ 5,094/- .

Aadhaar and mobile seeding in PMJDY accounts with your Bank is 83% and 96.5% respectively as on March 31, 2021.

Your Bank is also actively participating in the **PM’s social security schemes** (Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Atal Pension Yojana) launched by the Government of India. The PMSBY and PMJJBY schemes provide low cost insurance benefits to the

general public for death or disability due to accident and for death due to any reason respectively. Atal Pension Yojana (APY) is the Government backed pension scheme provided to unorganised sector.

Your Bank could help 411 families of our deceased customers who joined the low cost insurance schemes (PMJJBY and PMSBY) by settling claims amounting to ₹ 821 Lakhs.

In July 2020, your Bank implemented **PM Street Vendor’s Atmanirbhar Nidhi (PM SVA Nidhi)** scheme, announced by Ministry of Housing and Urban Affairs, Govt. of India (MoHUA), to address the challenges faced by street vendors in the light of COVID-19 pandemic and consequent lockdown. The Scheme is available to all street vendors engaged in vending in urban areas as on or before March 24, 2020. The vendors from rural or peri-urban areas vending in the geographical limit of the Urban Local Bodies (ULBs) are eligible for an amount up to ₹ 10,000/- (without any collateral security) to be repaid in 12 months as EMI, wherein MoHUA will provide subsidy @ 7% per annum to the beneficiaries on prompt repayment of the loan.

Your Bank also participated in **Pradhan Mantri Garib Kalyan Yojana (PMGKY)** scheme, a special package to women PMJDY account holders, announced by Govt. of India in the light of COVID-19 pandemic. Beneficiaries under the scheme have been centrally credited an amount of Rs 500 each for the months of April- June, 2020. The amount was credited to the beneficiaries account immediately on receipt of the fund from Govt. of India. As advised by DFS, Ministry of Finance, your Bank also sent SMS communication to the beneficiary account holders in English and in local languages, before and after the credit of amount each month.

Your Bank has implemented **MUDRA – Shishu Interest Subvention** Scheme which provides a 2% Interest subsidy on prompt repayment of Shishu loans under Pradhan Mantri Mudra Yojana (PMMY) for a period of 12 months. PMMY was announced by the Ministry of Finance, Govt. of India to aid the micro enterprise business segment. SIDBI is the administrative agency for the program. The interest subvention amount received from SIDBI is credited to eligible PMMY Shishu loan accounts.

Your Bank has implemented **Chief Minister’s Helping Hand Loan Scheme (CMHLS)**, launched by Govt. of Kerala to self-help Neighbour Hood Groups of M/s Kudumbashree Mission and provides immediate financial support in view of COVID-19 outbreak, continued lock down and related hardships faced by people working in the unorganised sector.

Management Discussion and Analysis (Contd...)

Considering the widespread havoc caused by the pandemic, Government of India had announced the **Emergency Credit Line Guarantee Scheme** to revamp the MSMEs/Business Enterprises. The scheme provides 100% guarantee coverage by NCGTC (National Credit Guarantee Trustee Company Limited). Your Bank implemented the scheme and the benefits have also been extended to PMMY loan account holders. The Scheme is offered as a pre-approved program and the eligible borrowers were informed through central SMS/ email campaigns.

Your Bank has implemented the following process refinement/ improvements in FY 2020-21 for operational convenience:

- **Automation of PMMY Working Capital Limit Renewal:** As a part of process improvement, your Bank has introduced automation of renewal process of working capital limits under PMMY (MUDRA) scheme through BPM portal. The process is auto initiated in BPM Portal, one month prior to the expiry date of the loan, and is made available to the branches for a period of up to 90 days from the due date. The process enables branches to renew OD/CC limits of a borrower in a quicker and hassle free manner.
- **Implemented Inter-bank shifting of APY account:** Through this initiative, the Atal Pension Yojana subscribers can shift their APY account from one bank to another, without redemption of unit & reinvesting.
- **Upgrade or Downgrade of APY Pension amount throughout the year-** In order to provide flexibility, as per the direction from PFRDA, your Bank has implemented a facility which allows APY subscribers to upgrade or downgrade their APY pension amount throughout the year instead of restricting it to the month of April every year.

AGRI BANKING

Agriculture, with its allied sectors, is unquestionably the largest livelihood provider in India, more so in the vast rural areas, even during this pandemic. It continues to contribute a significant figure to the Gross Domestic Product. Sustainable agriculture, in terms of food security, rural employment, and environmentally sustainable technologies such as soil conservation, sustainable natural resource management and biodiversity protection, are essential for holistic rural development. The increased presence of the Bank's branches in rural and semi-urban areas provides a great opportunity to your Bank for improving its exposure to Agriculture and Priority sector. Our unique set of products and competitive customer service enabled the Bank to meet farmer demands for better credit delivery and serve as their perfect banking partner during difficult times. High-calibre workforce of Development Officers and Agri Relationship Managers are

deployed across the network to cater to farmer clients of various genres. Agricultural advances of your Bank has registered a remarkable growth of 23% in FY 2020-21 despite all odds and stood at ₹ 16,076 Crore as on March 31, 2021 against the base figure of ₹ 13,051 Crore. Your Bank is committed to remain a perfect partner and a dominant player in agri financing portfolio in the years to come.

Your Bank also focussed on providing gold loans to borrowers as an easy source of finance to the needy with quick turnaround time. The Gold Loan segment is one of the major sectors that have registered impressive growth during the pandemic. Gold Loan advances registered a record growth of ₹ 6,515 Crore, 70 %, from the base figure of ₹ 9,301 Crore to ₹ 15,816 Crore in the FY 2020-21. Various new Gold Loan schemes like KCC gold were specifically offered to the customers to tide over difficult times. Tailor-made schemes such as Agricultural Gold Loans, Business Gold Loans, Overdraft Loans, EMI Gold Loans and Bullet Repayment Loans to suit the needs of various sections of the society were deployed. Your Bank also launched digitally-powered doorstep Gold Loan services in association with a Fintech company, to enhance the ease of availing such loans.

INTEGRATED TREASURY OPERATIONS

Your Bank's treasury operations involve Balance Sheet Management, Liquidity Management, maintenance of Statutory Reserve Requirements, trading in Money Market Instruments, Bonds and Debentures, Equity, Alternate Investment Instruments and Foreign Exchange. The Treasury & Forex dealing room is located in Mumbai and your Bank has dedicated and full-fledged dealing desks in the major segments namely; Foreign Exchange-Interbank and Merchant Forex, Derivatives-Currency Options / Cross Currency Swaps (on back to back basis), Currency Futures, Interest Rate Futures. Domestic - Money Market, Government Securities, Bonds and Debentures, Certificates of Deposit, Commercial Paper, Interest Rate Swaps and Equity. Your Bank is also providing a web-based trading platform and intraday trading facilities to clients in the G-Sec segment. The front office activities are further being augmented by a robust Front Office System which efficiently captures all the front end dealings of the Bank. This ensures total automation of the treasury activities and its seamless integration with your Bank's core banking system.

FOREIGN EXCHANGE BUSINESS

Foreign Exchange Business of your Bank has taken a leap in the past 3 years and the entire business model has been revamped to focus on the distribution of Forex and Interest Rate products, oriented towards the hedging needs of the clients. The Treasury Sales Team, with its taskforce of 23 members spread across the





Management Discussion and Analysis (Contd...)

country, is offering these hedging products to the Bank's clients. The team works closely with all the Relationship Managers of the Bank, covering the Large Corporate, SME and Retail segment of clients, for its Forex and Interest Rate product offerings. Seamless co-ordination between the Treasury Sales team spread across various centers and the team at the dealing room in Mumbai has resulted in enhanced distribution of these products to the customers. With the Derivatives Desk fully active this year, your Bank has significantly expanded its Treasury product basket, thereby adding a new revenue line. Besides adding a diversified revenue stream, this has significantly added value to the existing customer relationships. The extensive usage of data analytics in understanding customer business has also helped the Bank in increasing the Forex business through its branches.

Your Bank conducted regular one-on-one meetings with exporters/importers at the zonal level to strengthen relationships, assess the financial position of units, support additional credit requirements and acquire new relationships. Your Bank is closely associated with various trade bodies/ associations including Federation of Indian Exporters Organisations (FIEO), Engineering Export Promotion Council (EEPC) etc. for deepening relationships with exporter/importer communities and offering them apt guidance.

Your Bank has a dedicated Foreign Exchange Cell at Mumbai, catering to all the requirements of the clients / branches with respect to foreign exchange, trade finance, FDI/ODI/ECB and cross border transactions. The Bank has been giving thrust to the development of forex business and is continuously working to improve the operating skills of relevant personnel through meetings, interactions and training programmes. Your Bank is also on the forefront of conducting Foreign Exchange Dealers Association of India (FEDAI) training programmes for the banking fraternity. This enables the designated branches to improve their operating efficiency substantially. Further, your Bank periodically updates and codifies the RBI/ FEDAI instructions applicable for forex business in form of comprehensive directions/ circulars/ handbooks for the benefit of its operating staff.

Your Bank has published a citizen charter for forex facilities and publishes the exchange rates of various currencies on a daily basis on the Bank's website for the benefit of public. Your Bank is now a member of the Managing Committee of FEDAI.

Foreign exchange business of your Bank is conducted through two 'A' category branches and eighty eight (88) 'B' category branches/ offices and the IFSC Banking Unit (IBU) Branch in GIFT City (Gujarat International Financial Tec City). The entire foreign exchange / trade finance transactions are centralised to

extend timely and efficient service to forex clients and improve effectiveness of the branches. Your Bank has introduced the concept of Trade Hubs/Corporate Client Service Centers in all metro cities and other major centers to bring more efficiency in handling trade transactions. SWIFT operations are also centralized to ensure speed and reliability. Presently, all financial messages in SWIFT are generated only through Straight Through Process (STP), whereby contents of such messages flow directly from the accounting system (Core Banking Solutions) to SWIFT platform without any manual intervention. In the trade finance segment, export credit facilities are provided in both rupee and foreign currency for pre-shipment and post-shipment activities of the exporters. Non-fund based facilities, such as letter of credit, stand by letter of credit (SBLC), guarantees etc., including various structured products are also extended by your Bank.

FEDERAL BANK – IFSC BANKING UNIT (IBU)

Your Bank opened its IFSC Banking Unit (IBU) at India's first International Financial Service Center (IFSC) located at GIFT City (Gandhinagar, Gujarat) in November 2015. IFSC in GIFT City is conceptualized and designed at par with other global financial centers operating in various parts of the world viz. Hong Kong, Dubai, Singapore etc. The branch is like an overseas branch situated in an overseas jurisdiction, enabling your Bank to explore International business opportunities. IBU is regulated by International Financial Services Centers Authority (IFSCA) with effect from October 01, 2020, who is the uniform regulator for all financial institutions, including Banks in the IFSC.

Various products offered and activities handled from the Federal Bank IBU are:

- Credit facilities to Wholly Owned Subsidiaries (WOS)/Joint Ventures (JV) of Indian companies registered abroad
- Credit facilities to overseas companies
- Retail Lending to Qualified Individuals
- External Commercial Borrowings (ECB)
- Trade Finance Products
- Non-fund based facilities (Standby Letter of Credit/Bank Guarantee etc.)
- Acceptance of foreign currency deposits
- Treasury operations

With the opening of IBU, your Bank caters to both domestic and international clients for their various funded and non-funded investment requirements at multiple jurisdictions. IBU boosts the balance sheet of your Bank by empowering it to extend various foreign currency loans to eligible entities as well as qualified

Management Discussion and Analysis (Contd...)

Individuals across different foreign jurisdictions. Your Bank also participates and extends facility in foreign syndicated Loans to large corporates. It also extends facilities like External Commercial Borrowing (ECBs), Trade Credit facilities etc to resident entities. Federal Bank IBU has executed transactions in various segments like manufacturing, metals, media & entertainment, health care, electrical, food, construction, retail etc.

DIGITAL & TECHNOLOGY

Digital today has become a basic hygiene to be adopted by every industry in the world. A revolution in digital technology has been triggered by the spread of the pandemic, making it essential for survival in the changed socio-economic environment, forcing most industries to undergo a tremendous digital transformation.

Your Bank has always been a change leader in the industry. Products like FedBook and Selfie app to open accounts are testimony of your Bank's inclination towards digital innovation. Today, a prospective customer of your Bank can open a full-fledged account in less than 5 minutes, using the Video KYC services, facilitated by e-KYC services of UIDAI and the new regulations allowing the usage of Video calling service for completing customer due diligence. The technology enables them to open accounts as per their preferred scheme from the comfort of their office or any other Indian location.

With the pandemic came the need for social distancing in branches. Thus your Bank launched FedSwagat, an application that allows customers to book their appointments with their preferred branch at their preferred date and time. Along with this, your Bank also launched a video conferencing solution for Non-Resident customers, which helps them to connect with their Relationship Manager/Branch Manager face to face and remotely. This assisted many clients who were unable to come to India due to travel restrictions imposed under the lockdown.

Your Bank has always been a step ahead with respect to facilitating emergency services. Towards this end, it launched a solution that digitally enabled its customers to avail Guaranteed Emergency Credit Line (GECL) loans in less than 3 minutes.

Ensuring instant and effective customer service has also been a critical factor during the pandemic as several locations were locked down and the customer service centers ran on limited resources. Keeping the situation in view, your Bank launched an Artificial Intelligence (AI) based Personal Assistant 'Feddy' to provide suitable answers to customer queries. Feddy was made available to the customers through your Bank's Website, Whatsapp, Amazon Alexa & Google Assistant. Later, your Bank integrated Feddy in Google Business Messaging and became the

first Bank in India to do so. The development and deployment of Feddy is a farsighted step taken by your Bank, considering the importance that AI is gaining in the digital world.

Getting more number of customers activated across Digital Channels has been one of the key metrics of your Bank for the past 4 years and Mobile Banking was identified as one of the most important channel for achieving this mission. Considering the impact that can be created by the JAM trinity (Jandhan, Aadhaar and Mobile), your Bank has invested in enhancing the Mobile Banking platform and has launched a state of the art Mobile Banking application, an upgrade to FedMobile. This revamped version of FedMobile– Federal Bank's highly popular mobile banking application - comes with more user-friendly and advanced features than its predecessor, ensuring a richer and more pleasant experience for its users. Your Bank has combined Mobile Banking, FedBook and BHIM UPI into a single application, and along with that, added a host of new features and services to make it a one stop shop for all your banking needs. Enriched with new banking and payment features, this version of the app is a complete package, which enables users to access and manage their accounts from anywhere, anytime and enables them to undertake banking as well as non-banking transactions.

Bank as a new age digital platform

Over the year under review, your Bank continued to focus on empowering customers with digital products and services to ensure uninterrupted banking services. Starting with customer on-boarding through an instant account opening platform to Tab Banking and Selfie Mobile app, your Bank is ensuring digital services at all touch points. On March 31, 2021, nearly 90% of all eligible savings accounts were opened digitally, thereby, ensuring ultimate customer satisfaction and cost savings for your Bank.

Your Bank's digital platforms like FedNet, Lotza and FedBook for retail customers and FedCorp, Corporate FedNet, Paylite and Fed e-Biz for its corporate and SME customers underwent a series of updates and enhancements to improve customer experience and security. As on March 31, 2021, around 86% of your Bank's transactions were handled through its digital platforms. Around 92% of the retail individual transactions happened through Digital Channels, especially Mobile Banking, which accounted for 70% of all transactions.

In continuation of the digital journey, your Bank has also pioneered the use of Tab Banking in the sourcing of Auto Loans. The solution, GoNoGo, is designed for simplicity and speed and is used at the point of sale (i.e. the car dealer's location) to facilitate the approval and opening of car loans.





Management Discussion and Analysis (Contd...)

Open Banking shapes a new business and system architecture

Your Bank started investing in Open Banking since 2017, and today, Federal Bank is recognised as a strong player in API Banking with more than 83 APIs and 13 API bundles and 100+ partners connected to the platform. The open banking platform is a plug and play one where partners can look at the APIs and make best use of the Sandbox and documentation to build suitable products that they want to roll out.

Fostering new Partnerships in the Open Banking Era

Your Bank has partnered with many Fintechs in the country where the Fintechs make use of the technology capability and business knowhow of the Banks while contributing their share by bringing in innovation and enabling a better customer experience. A few partnerships that commenced in FY 2020-21 are:

1. **BharatPe:** A Fintech that provides a unified QR for merchant establishments. As on March 31, 2021, BharatPe has on boarded 37.66 Lakhs merchants on Federal Bank's UPI platform with 4.88 Crore transactions made by customers at these merchant locations through Federal Bank. Your Bank is BharatPe's number one partner bank as on March 31, 2021.
2. **DigiVirdhi Technologies:** Federal Bank has partnered with M/S DigiVirdhi Technologies (DGV) for automating payments in the GCMMF (Amul) milk collection ecosystem. M/S DGV has integrated with Federal Bank to provide Micro ATM services, end to end digital payments and settlement services for the milk societies who are members of GCMMF ecosystem. The partnership is in a Closed User Group Mode with just one Milk Society and a group of farmers in the current Fiscal while a formal launch is expected to happen in Q1 of FY 2021-22. The project is expected to reach 36 Lakhs farmers in Gujarat once fully implemented. The project aims to reduce cash in the economy and promote digital payments amongst the farmer community.
3. **EPIFI:** EPFIFI is a neo-banking platform that aims at providing hyper-personalised and frictionless savings and investment services to salaried millennials and working professionals. The partnership rides on the Open Banking capabilities of your Bank and helps acquisition of new customers for the Bank through the EPIFI mobile banking application. The project is currently under a Closed User Group mode for friends and family and is expected to launch in the first month of FY 2021-22 to one Lakh plus customers, who are already in the waitlist.

Major Launches in FY 2020-21

The Bank launched many initiatives during the year. Few of them are mentioned as below-

1. **Fed-e-Remit:** Fed-e-Remit is a digital platform for Outward Remittances. The outward remittance from India is growing heavily and under LRS, the projected outflow is around USD 18 Bn. Your Bank has launched an end-to-end online platform through which the customers can send money in all major currencies under LRS, in a completely digital and paperless manner.
2. **Branded contactless POS terminals:** Your Bank launched its own branded POS terminals with unique design and multiple features like Amazon Pay, Credit Card EMI, and Tap and Pay facility at very competitive rates.
3. **FedSwagat:** This is an appointment booking platform for customers, first in the industry, where customers can pre-book appointments with a preferred branch for a preferred service. This is aimed at providing safe and convenient banking services without any queues.
4. **Video KYC:** In the pandemic-driven situation, people no longer prefer to visit a branch to open an account with their preferred Bank. With the intention of allowing prospective customers to open accounts from anywhere in India, your Bank launched Federal 24 7, where they can start a relationship, with a combination of Aadhaar based e-KYC and Video KYC, in under three minutes. The state of the art facility make use of Advanced Artificial Intelligence capabilities, face recognition & geo tagging, using a video call, to open an account on all days of the year.
5. **vMeet:** It is a Video conferencing application where customers can request for video calls with their respective RMs/Branch Managers and video chat with them. They can get remote investment advices as well as support through this channel. This facility helps NRI customers, who are facing travel restrictions, to enjoy face to face video chat with the Bank officials.
6. **Federal Bank Cash Points:** All our POS terminals feature withdrawal of cash facility enabling people to withdraw cash through these terminals. This helps our customers to withdraw small amount of cash from merchant locations without having to visiting any branch or ATM and at the same time helps our Merchants to effectively recycle their cash. Merchants can subscribe for these services free of cost.
7. **Amazon Pay in POS terminal:** The millennial customers prefer convenience in payments. To promote safe and secure transactions, your Bank collaborated with Amazon Pay and integrated the facility in its POS terminals. This facilitates consumers to make contactless payments at merchant locations without the need for a debit card.

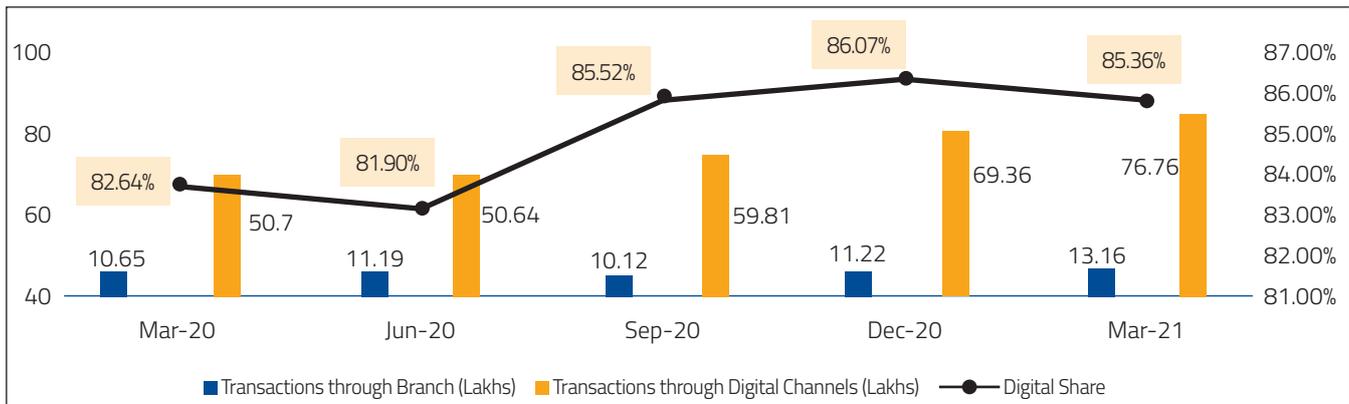
Management Discussion and Analysis (Contd...)

8. **Mini Digital Bank:** Making the whole gamut of financial services available to customers 24 x 7 is an endeavour of any player in BFSI. We have thus launched our Mini Digital Bank, a completely new Mobile Banking package- FedMobile. The new app provides a complete banking experience to our existing as well as prospective customers, starting from On boarding, Payments, Investments, Loans, Account services, Life Style services, UPI & FedBook .The app is a one-stop shop for every need of the customer and has eliminated the need for multiple applications.
9. **Feddy, our personal assistant:** Your Bank launched a personal assistant 'Feddy' to guide its customers through their queries. Our approach goes beyond the usual Q&A

training of a BOT to create an algorithm that can surface the most relevant information for any given context. Given the combination of human touch along with cutting edge machine learning, our assistant can answer questions with an incredible level of accuracy.

Digital Adoption & Merchant Acquisition

The digital share of transactions of your Bank crossed 85% for the Fiscal Year, of which Corporate Digital share of the Bank reached 73.50%. 92% transactions done by the Retail customers were through digital channels. The total number of digital users of your Bank stood at 27.83 Lakhs at the end of Fiscal Year. The total number of merchants reached 37.66 Lakhs at the end of the year.



The digital users grew by 21% YOY and the monthly Mobile Banking volumes crossed ₹ 10,000 Crore mark during the Fiscal Year to reach ₹ 10,645 Crore as on March 31, 2021.

MeitY Score Card

Your Bank is ranked 2nd in the DIGIDHAN dashboard published by MeitY as on January 2021 and is ranked number 1 in the category specific score card. Your Bank has achieved the target given by MeitY for digital transactions and merchant acquisition.

CREDIT HEALTH MANAGEMENT

Credit Administration Department ensures the health of credit portfolio (i.e. borrowers with aggregate exposure of ₹ 2 Crore and above) through meticulous compliance of pre and post-disbursal covenants of credit sanctions and error free documentation. The department prepares the documents as per sanction terms, verifies the executed documents once they are submitted for setting up of limit, and ensures creation of charge and perfection of securities within the stipulated timeframe. The department also ensures regular follow-up of compliance with covenants required by the credit policy and the Sanction Order. Further, the

department ensures sufficiency and protection of underlying assets, and also ensure that the securities are updated and re-valued at regular intervals. Further, the department constantly endeavours to ensure an excellent turnaround time.

The preservation of asset quality is of paramount importance for your Bank and the Credit Monitoring Department deploys various tools to closely monitor the credit health of the portfolio on an ongoing basis. The department has put in place defined systems, procedures and practices, and developed various tools for gathering and analysing data from internal as well as external sources. To stay sharp and relevant in the dynamic socio-economic environment, your Bank's Credit Monitoring Department is continuously upgrading the tools.

Identifying stress during the nascent stage and initiating prompt corrective actions based on the data analysis forms the crux of credit health management process. Thus, stressed situations are identified well in advance and corrective action plans are implemented wherever required. Asset quality and credit discipline with compliance culture on an ongoing basis is ensured





Management Discussion and Analysis (Contd...)

by the Bank through an end-to-end monitoring process by the Credit Monitoring Department.

STRESSED ASSET MANAGEMENT

Gross NPA as a percentage of Gross Advances of the Bank stood at 3.41% and Net NPA as a percentage of Net Advances of the Bank stood at 1.19%. The Provision Coverage Ratio (including technical write offs) stood at a healthy 77.65%.

Your Bank constantly improves its collection and recovery architecture to improve its asset quality. It also uses various analytics tools to predict the propensity to default and collection score of the borrowers. Collection strategies are formed based on these analytics driven reports. Your Bank has rolled out an end-to-end digital platform for settlement of low ticket loans, which resonates with its 'Digital at the Fore' philosophy.

Your Bank has utilised the relief packages provided by Reserve Bank of India, such as COVID Resolution and Moratorium, as a customer engagement program, where the impacted customers were provided with viable solutions to tide over their temporary financial difficulties. Your Bank strengthened the collection mechanism through increased team strength and improved partnerships. Enhanced use of digital tools and analytics has also helped your Bank to maintain one of the industry best collection efficiency, despite the challenges faced by the COVID-19 pandemic.

RISK MANAGEMENT

The Risk Management philosophy of your Bank is to take risk by choice rather than by chance. Your Bank seeks to build scalable and resilient businesses while operating within the guardrails of risk management. Your Bank is exposed to various risks that are inherent to any banking business. The major risks are credit risk, market risk including interest rate risk and liquidity risk, information and cyber security risk and other operational risks. Your Bank has a robust risk management framework in place, which covers the policies, procedures, methodologies and framework established to systematically manage the material risks.

- The Board of Directors oversee and approve the risk policies and strategies to establish an integrated risk management framework and control system in your Bank
- The Risk Management Committee (RMC) of the Board oversees the management of various risks associated with business, systems and processes
- Executive Level Committees ensure effective implementation of risk policies of credit, market and operational risks

- Integrated Risk Management Department headed by a Chief Risk Officer coordinates various risk management functions of your Bank
- An independent risk governance structure has been put in place, duly ensuring independence of risk measurement, monitoring and control functions

The risk management framework is subjected to review and up-gradation on an ongoing basis, in tune with regulatory guidelines and best practices in the industry. In order to focus on maximization of return on capital, your Bank has aligned its business strategies to a Risk Appetite Framework. A risk-based pricing framework has thus been implemented for pricing of loans to evaluate returns vis-a-vis risks taken.

Credit Risk Management

Macro factors such as slowdown in economic growth, imbalances in the economy, stress in certain industries etc and micro level factors such as poor underwriting standards, inadequate monitoring, weak collection and recovery mechanism etc are a few elements that contribute to the credit risk of a Bank.

Your Bank has a centralized credit risk management division independent of its business functions. It has strong credit appraisal and risk management practices in place for identification, measurement, monitoring and controlling credit risk. Further, your Bank has a distinct credit risk architecture, policies, processes and systems for managing credit risk in both its retail and wholesale businesses. Wholesale lending is managed on an individual as well as portfolio basis. In comparison, retail lending, due to the granularity of individual exposures, is managed largely on a portfolio basis across various products and customer segments. For both categories, there are robust follow up and monitoring mechanisms in place to ensure credit quality and minimise defaults. The factors considered while sanctioning retail loans include income, demographics, employment, credit history of the borrower and tenor of the loan. In wholesale loans, credit risk is managed by capping exposures on the basis of the borrower group, industry, credit rating grades and geography, amongst others.

Your Bank follows a policy of portfolio diversification and evaluates its total financing exposure to a particular industry in the light of its growth forecast and profitability. Your Bank's Credit Risk division monitors all major sectors of the economy and specifically tracks industries in which the Bank has credit exposures. Your Bank also has a framework for managing concentration risk with respect to single borrower and group exposures, based on the internal rating and track record of the borrowers. The exposure limits for lower-rated borrowers and

Management Discussion and Analysis (Contd...)

groups are substantially lower than the regulatory limits. Your Bank is continuously reviewing and validating the credit rating models / score cards for its appropriateness and predictiveness. Credit risk management in your Bank, through its various policies, risk assessing tools and risk mitigating measures, ensures robust credit growth with superior asset quality.

During challenging periods, like the current one triggered by the pandemic, where the economic activities become highly dynamic and volatile, your Bank conducts continuous stress testing of the portfolios and ensures necessary remedial actions.

Currently, credit risk capital is computed using the standardized approach. RBI guidelines on Basel III capital regulations have been implemented and your Bank is sufficiently capitalized as per the current requirements under Basel III.

Market Risk Management

Market Risk arises largely from the Bank's statutory reserve management and trading activity in interest rate instruments, equity and forex market. Your Bank has well-developed framework, comprising of Board approved policies and established practices, for management of the market risk. Your Bank has set risk appetite and Value at Risk (VaR) limits to measure and control interest rate risk, equity price risk, forex risk, liquidity risk and other market related risks. Your Bank is using various tools like stress testing, modified duration, PVBP, VaR, position limits, loss limits, NOOP limit, AGL etc to monitor and contain market risk. It has established an independent Mid Office at the floor of Treasury, as part of Market Risk Division, which reports directly to the Head of the Risk Department and functions as the risk control unit for the treasury activities. Your Bank's Market Risk Management division monitors key parameters on a periodic basis and recommends changes in policies, processes and methodologies. The Mid Office scrutinizes the treasury deals and transactions from both market risk and operational risk perspectives. Your Bank has put in place detailed policies for the conduct of business exposed to market risk and for effective management of all market risk exposures. 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.

Currently, capital charge for market risk is computed under the Standardized Duration Approach. Value at Risk (VaR) is the tool used for monitoring risk in Bank's trading portfolio. The VaR and Stressed VaR for market portfolios are monitored daily.

Liquidity Risk Management & Interest Rate Risk Management

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. Your Bank monitors Liquidity Risk through Liquidity Coverage Ratio (LCR), Structural Liquidity Gaps, Dynamic Liquidity monitoring, Liquidity Ratio analysis, prudential limits for negative gaps in various time buckets etc.

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. Interest Rate Risk on Trading Portfolios is monitored through Market Risk Measurement tools such as, VaR, PV01 etc on a daily basis.

The policy frameworks for management of liquidity risk and interest rate risk are established vide the Bank's Asset Liability Management policy. Your Bank has established appropriate risk appetite limits and other tolerance limits for both liquidity risk and interest rate risk. While the maturity gap and stock ratio limits help manage liquidity risk in your Bank, regular assessment of its impact on the NII and economic value help mitigate interest rate risk. This is complemented by a stress testing programme covering both liquidity and interest rate risk. Your Bank conducts various studies to assess the behavioural pattern of non-contractual assets and liabilities and embedded options available to customers, which are used while managing maturity gaps. Further, your Bank also has necessary framework in place to manage intraday liquidity risk. Your Bank's Asset Liability Management Committee (ALCO) is responsible for monitoring its adherence to liquidity risk and interest rate risk limits.

Liquidity Coverage Ratio (LCR), a global standard to assess organisation's ability to meet its payment obligations, is used as a measure to assess your 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. Based on Basel III norms, RBI has mandated a minimum LCR of 100% from January 1, 2019. Your Bank's LCR as on March 31, 2021 stood at 211.74% and the average LCR was at 241.64% for the quarter ended March 31, 2021.

RBI has also mandated minimum Net Stable Funding Ratio (NSFR) of 100% with effect from October 01, 2021. NSFR indicates that the Bank maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities. As a prudent risk management practice, your Bank has been monitoring this ratio, and is adequately prepared to meet the RBI mandated requirements.





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Operational Risk Management

Your Bank has a comprehensive framework comprising of policies, processes and systems for measurement and management of operational risks. Operational risk is primarily managed by prescribing adequate controls and mitigation measures, which are being reviewed and updated on a regular basis, to suit the changes in business practices, structure and risk profile. Your Bank is identifying and assessing operational risk through Risk and Control Self Assessments (RCSA) and monitoring of Key Risk Indicators (KRI). New products and processes or any modifications to existing products and processes are vetted to identify and understand the nature and degree of the risks the Bank would be exposed to and suitable checks and controls are implemented to mitigate such risks. Your Bank has also put in place a fraud prevention framework, whereby various transactions are monitored by dedicated teams from the angle of fraud risk and Anti Money Laundering (AML).

Business Continuity Management

Your Bank has put in place a comprehensive bank wide Business Continuity Management (BCM) plan and procedure to ensure continuity of critical operations of the Bank in the event of any disaster/ incident affecting business continuity. Your Bank's Business Continuity Program is developed considering the criticality of the functions performed and the systems used. In terms of the Business Continuity Management Policy approved by the Board, Business Continuity Management (BCM) Committees have been formed at all units of the Bank, which acts as a Primary Crisis Management Team in the event of any business disruption. A Central Crisis Management Team (CCMT) is in place to take responsibility and act swiftly in case of any breakdown/ failure of critical systems, occurrence of natural disasters/ accidents/ pandemic affecting business continuity. Periodic drills and tests are conducted to evaluate the effectiveness of the business continuity arrangements and necessary steps are taken wherever needed.

Information Security & Cyber Security

Your Bank has a robust information and cyber security framework for securing its IT infrastructure and systems. The Information Security Team headed by the Chief Information Security Officer (CISO) formulates and periodically reviews the information and cyber security policies and practices. Bank has a Security Operations Center (SOC) which performs security monitoring round the clock. Dissemination of information and cyber security awareness among the staff and customers is undertaken on a regular basis through various modes.

Your Bank has received ISO 27001 accreditation for its critical IT areas including Data Center, DR Site, ATM Switch etc. Your Bank has also received the PCI-DSS certification for its card payments infrastructure.

Internal Financial Controls

Your Bank has put in place a comprehensive internal control framework which is supplemented with appropriate procedures across all its business and support activities. The internal controls implemented are intended to manage/ mitigate the risks, ensure compliance with laws and regulations, and provide reliable and timely financial reporting.

Your Bank has sound processes for periodic assessment and review of internal controls. Risk Control Matrices are prepared for all processes and products. Risks inherent in all business/ support activities are identified and assessed on a periodic basis. The related controls are also identified and evaluated in terms of their effectiveness. The adequacy and effectiveness of these controls are independently assessed on a regular basis and if gaps are observed, action plans are prepared and implemented by the product/ process owners for remediation of risks and control improvements. These aspects are periodically reviewed by the Operational Risk Management Committee.

Compliance with Basel framework

Currently, your Bank is using Standardized Approach for credit risk, Basic Indicator Approach for operational risk and Standardized Duration Approach with respect to market risk for computation of capital charge under Basel guidelines. Further, your Bank is gearing up with data build up and system requirements for migrating to advanced approaches. Capital Adequacy Ratio of your Bank as on March 31, 2021 under Basel III norms stood at 14.62%. Your Bank's Common Equity Capital level of 13.85% offers good cushion for further expansion and growth in asset portfolio and is in compliance with the requirements of Basel III norms. The Capital Adequacy ratio at consolidated bank level stood at 15.19%.

RBI guidelines on Basel III demand building of capital and liquidity buffers in phases and seek to enhance the minimum core capital, introduce a capital conservation buffer, and prescribe a countercyclical buffer. Your Bank has complied with the guidelines for regulatory capital under Basel III norms and is fully prepared for moving on to complete Basel III compliance as per the implementation schedule prescribed by RBI. Your Bank has also complied with the Liquidity Coverage Ratio (LCR) prescribed under Basel III norms. The LCR of your Bank on a consolidated basis as on March 31, 2021 stood at 215.28%.

Capital Management Framework

Your Bank's approach to capital adequacy is driven by strategic and organisational requirements while taking into account the regulatory and macro-economic environment. Capital management involves an on-going review of the level of capitalization against the set risk appetite and to maintain a strong

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capital base to support long term stability, planned business growth and mitigate inherent risks in various businesses.

Your Bank endeavours to maintain strong Tier I capital position as part of the overall business strategy and as a source of competitive advantage. It provides assurance to regulators and credit rating agencies, while protecting the interests of depositors, creditors and shareholders. Strong capitalization also enables the Bank to take advantage of attractive business opportunities. Your Bank strives to strike a balance between the need for retaining capital for strength and growth while providing an adequate return to shareholders and sets an internal Capital Adequacy ratio target that includes a buffer in excess of the minimum regulatory requirement. In addition to the regulatory risk based capital framework, your Bank is also subject to minimum Leverage Ratio requirement and maintains a Leverage ratio which is higher than the regulatory requirement.

Your Bank has a structured management framework in the Internal Capital Adequacy Assessment Process (ICAAP) to identify, assess and manage all risks that may have a material adverse impact on its business/financial position/capital adequacy. The ICAAP framework is guided by a comprehensive Board approved ICAAP Policy. ICAAP is aimed to ensure that your Bank maintains capital commensurate to its risk profile and improves upon its risk management systems and framework on an ongoing basis. It involves realistic assessment of level of risks inherent in the business operations of the Bank and setting aside adequate capital to cover all such risks. The annual ICAAP is placed before the Board and the Risk Management Committee (RMC). Quarterly review of the ICAAP is conducted and placed before the RMC. The capital management framework is also complemented by the risk management framework, which covers the policies, processes, methodologies and frameworks established for the management of material risks.

Additionally, the Board approved Stress Testing Policy and Framework entails the use of various techniques to assess potential vulnerability to extreme but plausible stressed business conditions. Based on the stress testing policy approved by the Board, your Bank conducts stress tests on various portfolios and assesses its impact on the capital ratios and the adequacy of capital buffers for current and future periods. Your Bank periodically assesses and refines its stress testing framework in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market movements that could arise as a result of market conditions and the operating environment.

Compliance Risk Assurance

The rising consumer expectations for anywhere, anytime banking in a safe and secure mode coupled with growing product profile

in a fast advancing technology landscape, keeping in mind the regulatory environment, calls for a strong compliance framework to manage your Banks' Compliance Risk.

A Compliance Risk Assurance Cell (CRAC), under the guidance of Chief Risk Officer, is functioning in your Bank since May 2019 to ensure adherence to various regulatory and internal requirements. CRAC works with the aim to assure total compliance in the system at all points of time. The unit is also involved in a detailed study on various processes and procedures in vogue, to identify process gaps, if any.

COVID -19 Concerns

The outbreak of Covid-19 pandemic poses a serious threat to lives and livelihoods across the world and can severely impact the global economy, including India. The impact of the pandemic may pose challenges in the business continuity, asset quality and liquidity position of your Bank and adequate measures have been put in place to respond dynamically to these challenges and minimise impact. The RBI and Government of India have come out with various measures to manage the situation. Your Bank is closely monitoring the situation and necessary steps are in place to ensure business continuity. The credit quality is being assessed under various stress scenarios at close intervals. The liquidity position is also being closely watched and contingent liquidity position and available sources of funds to meet contingent scenarios are being assessed periodically.

HUMAN RESOURCES

In a year that was much challenging, your Bank took all the efforts to keep its employees in good spirits. Many digital activities were conducted to ensure continuous employee engagement and keep the employees and their families motivated. The implementation of Work from Anywhere in your Bank is a morale booster for the employees and a trendsetter for the industry itself. It also serves as a timely measure to ensure business continuity during the pandemic. During the year, your Bank was titled as a Great Place To Work, which is a globally coveted certification. The total human capital of your Bank stands at 12,592 at the end of the financial year. The average age of the employees is 37 years and the current male-female ratio is 60:40.

Employee Engagement

Qualitative engagement activities bind employees and their families to the organisation and keep their spirits high, particularly during this pandemic. Additionally, your Bank believes that a positive employee experience will lead to higher levels of employee engagement which will not only build happy families, but also will help us achieve better customer engagement and satisfaction.





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In an effort to bring more comfort to our employees and build a good work life balance, your Bank had initiated measures that will go a long way in making your Bank the Most Admired Bank. Webinars on Stress Management, Yoga, Health & Wellness, Photography, etc were conducted periodically to keep the employees informed and engaged during the lockdown. Digital Family meets were conducted to cheer the employees and their families. Employees were motivated to showcase their own talents and that of their family members through the official online communication platforms on Yammer. These were eventually compiled into videos named Lockdown Diaries.

The safety of our people was ensured through an option of Work from Home on a rotation basis along with the benefit of flexi locations for work. Under this option, employees facing travel difficulties were allowed to work in branches/offices near their home and special consideration was given to employees in need of special care. Your Bank ensured the safety of employees and their concerns related to the pandemic were met by the formation and co-ordination with Crisis Management Teams at Head Office and all Zonal Offices. SMILES, a Program to relieve stress and provide counselling to employees, was also organised by your Bank.

Employee Communication

Your Bank ensures the effectiveness of various channels that facilitate employee communication at various levels. Latest technologies are deployed to reach a wider audience and aid the employees to collaborate with each other. A communication strategy was also issued during the pandemic on employee welfare, general health/hygiene/best practices and general matters. Christened as 'Ask Series', relevant Talk Shows were conducted by the top management through digital platforms, encouraging active participation by the employees. This helped the employees to align with the leadership thought and vision and help them stay more informed, equipped and current. To disseminate the information regarding updates and other measures, internal digital platforms like Filter Coffee (internal newsletter) and Yammer were extensively used. Through effective communication, the objective of your Bank is to establish a seamless connect with all employees and involve the entire taskforce in building stronger trust-based relationship.

Employee Welfare and Wellbeing

Your Bank gives paramount importance to the welfare and wellbeing of its employees. All efforts are being taken by your Bank to support the employees and their family members during the pandemic.

Resource Re-skilling

Your Bank has been focusing on Talent Re-skilling Strategy through internal grooming and external absorption, in alignment with business transformation. The re-skilling activities, considering the process and business transformation which the Bank has undertaken at branches, have helped to enhance the business per employee. The concept of Branch Light-Distribution Heavy Relationship Model and New Business Verticals refers to the thrust given to the HR strategy in your Bank. These objectives are being fulfilled through digitization, centralization of activities and learning programs that are focused on customer service, sales and relationship banking.

Over the last year, internal talent pool was identified and redeployed to spearhead the activities at specific geographies as Wealth Management RMs, Corporate Salary RMs, Priority Banking RMs, HNI & NRI Business Development Managers, CB & CIB RMs, Treasury Sales RMs, Government Business RMs, CV/CE RMs, Retail RMs and Fee Income RMs. While the relationship portfolio was strengthened by hiring experienced personnel from the industry at supervisory roles, the Officers at field level were deployed from the internally available talent pool in various relationship verticals / verticals formed on account of reorganisation.

Reimagining Recruitment

FedRecruit, the Artificial Intelligence (AI) based flagship HR -Tech Solution of your Bank reimagined the traditional hiring practices through digital disruption, encompassing Robotic Interview, Game Based Simulations, Chatbots, Mobile Application for real time candidate engagement etc., arguably the first of its kind in India. This new initiative has resulted in measurable efficiencies in the recruitment cycle, leading to faster candidate profiling, greater stakeholder engagement, employer branding, superior hiring and better analytics.

Employee and Industrial Relations

The Industrial Relations scenario during the last year had been congenial and various representative bodies were given due importance to maintain harmonious relations.

Talent Development and Training

Training Division of your Bank i.e. the Federal Knowledge and Development Center (FKDC) spearheads and drives learning and development activities "Phygitally" with the objective of building a workforce that is constantly learning, re-learning and developing. Your Bank has a bouquet of Synchronous and Asynchronous Learning programmes driven fully through virtual modes even before the pandemic times, which has helped uninterrupted learning opportunities for employees post pandemic lockdown.

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These include Instructor-led live webinars, webcasts, offline video tutorials, gamified learning, simulations and custom-made E-learning programmes, categorised into Mandatory Learning, Micro Learning and Role-based Learning modules, addressing Role-specific functional and behavioural learning requirements of employees in various roles.

All learning programmes are curated based on training need analysis of knowledge, skills & attitude, conducted at the beginning of the financial year. An Academic Council chaired by Executive Director and Chief Human Resources Officer with members drawn from various administrative and business verticals, field representatives and faculty team meet twice in a financial year to chalk out the priority training areas for the Bank and to review the progress and effectiveness of all training interventions.

During FY 2020-21, the Bank further evolved in the mode of learning and training dissemination by going 100% Digital. Your Bank provides around 300 plus self-paced e-learning courses for its employees, structured under quarterly learning seasons, with RPA-enabled tracking and follow-up, gamified learning dashboards and leader boards etc. to ensure that learning is engaging and adds value to business and individual growth.

Training Highlights FY 2020-21

- **MOOCs tie up with EdX** - For specialized roles requiring additional domain knowledge in Digital, Data Analytics, Automation, Design Thinking, Blockchain etc, your Bank offered various learning programmes in EdX.
- **Gamified Learning** - Our LMS enables gamified learning with real-time updates on learning hours completed, points scored, unique and personalized dashboards and Digi badges.
- **Digital Induction** – Induction and orientation programme went completely digital in order to combat pandemic challenges and successfully deploy trained manpower to our branches. Use of online live engagement tools like Mentimeter, Wordwall platforms and Leaderboards gives the desired physical classroom touch to our virtual learning programmes.
- **Learnathon**- A month long learning drive was conducted across the organisation through short videos that were curated in-house by key functional departments. The drive helped in knowledge dissemination of our products and processes.
- **Leaders League** – In this event which was conducted over various months, 1,035 employees across the organisation engaged directly with our MD & CEO on various leadership ideas over virtual fireside chats.

- **DAKSHA** – To keep abreast with the latest industry trends and gain exposure of the emerging market trends in BFSI, DAKSHA – an online talk series by external industry experts and stalwarts in BFSI, is organised for your Bank's employees once or twice a month.
- **Live internal Master class series**- This is conducted by internal and external domain experts and is hosted on a wide range of topics like Financial Investments, Digital Marketing, Data Analytics etc.
- **Mandatory e-learning** – E learning modules like Information Security Awareness, Business Continuity Management, KYC & AML Guidelines, Banking Ombudsman, BCSBI and Fair Practices Codes etc. were provided to all officers.

Key Statistics 2020-21

- Against total employee strength of 12,592, training was provided to 10,820 employees in the current FY with a 100% shift from classroom mode to online instructor-led training (including 936 employees trained via external institutes)
- 99% of our officers, including executives, and 96% of total employees have participated in various self-paced e-learning programmes
- 4.02 Lakhs total learning hours generated under various training and self-paced e-learning modules, which is equivalent to an average of 4.5 days of training to each employee
- Board members and 76 Senior Management Executives underwent training and certification in IT and Cyber Security at IDRBT, Hyderabad in compliance with the RBI guidelines
- E- Learning on Cyber Security was provided to 10,107 employees as part of the mandatory learning programme
- E-learning on Business Continuity Management was provided to 7,336 employees including Senior Management (96% officers)

Performance Management System

Performance Management System in your Bank helps employees stay focussed and ensures continuous improvement at Individual, Group and Organisational levels.

Half-yearly Performance Review discussions and Year-end Performance Evaluation are conducted and the performance of Officers against their set goals are analysed. The Officers are given online feedback on their level of performance against the allotted goals. Employees awarded with lower grades are given an opportunity to submit their grievance through an online platform.





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An independent committee then looks into the grievances and arrives at a judicious decision, which is communicated to the employees concerned.

INSPECTION AND AUDIT

Inspection and Audit independently evaluates the adequacy, completeness, operational effectiveness and efficiency of all internal controls, risk management/governance systems and processes of your Bank. The Audit Committee of the Board provides direction and reviews the adequacy of internal audit function, including its reporting structure, staffing, coverage and frequency of audits. The Head of Inspection & Audit Department is designated as the "Internal Auditor" of the Bank and reports directly to Managing Director & CEO. An executive level committee named the "Inspection Review Committee of Executives" headed by the Managing Director & CEO oversees the audit and inspection functions and reviews the audit procedures and methodologies, effectiveness of audit systems, progress in completion of audits, risk rating of branches, and significant audit findings.

The Audit & Inspection Policy, Information System Audit Policy and the Internal Audit Procedure & Guidance Manual, which serve as the basic guidance documents for internal Audit function, were subjected to annual review during the year. The review covered appropriate modifications and refinements based on the observations made by Reserve Bank of India in the Risk Based Supervision, other regulatory guidelines, changes in internal rules and guidelines, and directions of the Audit Committee of the Board and the Board of Directors. The review and modifications ensured that the audit systems and procedures are contemporary and continue to be an effective tool for monitoring control and compliance in your Bank. Inspection & Audit is responsible for self-assessment of the Bank's internal financial controls by testing and validating the effectiveness of controls on an on-going basis.

All activities (including outsourced activities) and all entities (including subsidiary companies) of your Bank fall within the ambit of internal audit. The major audits undertaken by your Bank during the financial year are:

- **Risk Based Internal Audit** - Your Bank has leveraged on Risk Based Internal Audit (RBIA) as a tool to assess the risks in its processes, operations and effectiveness of related controls. Risk Based Internal Audit conducted at branches focuses on prioritizing the audits and audit resources based on the level of inherent business risks and control risks. 745 Risk Based Internal Audits were conducted during the year.
- **Information System Audit** - Information System Audit collects and evaluates the evidence to determine whether the information system safeguards assets, maintains data integrity and availability, achieves organisational goals effectively and consumes resources efficiently. It focuses on the risks that are relevant to information assets and assesses the adequacy of controls implemented for mitigating the risks. All critical IT infrastructures in your Bank are subjected to Information System Audit by information systems professionals from reputed CERT-IN empanelled external audit firms and Certified Information System Auditors (CISA) of your Bank. Critical Information Systems are subjected to Vulnerability Assessment & Penetration Testing (VAPT) every quarter. In addition to this, Information System Audit covering physical security of IT systems, core banking system operations, business continuity procedures and cyber security is conducted at branches/ offices. During the year 2020-21, Information System Audit was conducted in 1,376 branches/ offices.
- **Management Audit** - Management Audit in your Bank essentially focuses on identifying the adequacy and effectiveness of processes adopted for decision making in various Head Office Departments of the Bank, Zonal Offices, Large Corporate Hubs, National and Regional Credit Hubs, Loan Collection & Recovery Divisions, Currency Chests, Regional Cheque Processing Centers, your Bank's Subsidiary Companies etc. The feedback from management audit is relied upon by the auditee units to improve the processes, procedures and systems in place in such offices. During the year 2020-21, Management Audit was conducted in 129 offices.
- **Offsite Audit** - Offsite audit is a forward looking diagnostic tool to identify gaps in the systems and procedures of your Bank. The entire revenue audit in your Bank is undertaken through Offsite Audit. Your Bank leverages Computer Aided Audit Tools (CAAT) for generating and analysing exceptions while conducting offsite audits.
- **Concurrent Audit** - Your Bank is increasingly relying on 'Concurrent Audit' as an early warning system to ensure near real-time detection of irregularities and lapses and is also used as a tool to prevent frauds. We have implemented the revised Concurrent Audit framework, duly approved by the Audit Committee of the Board, as per RBI circular dated September 18, 2019, with effect from April 1, 2020. During the year under review, Concurrent Audit was in place in 239 branches and 80 offices, covering 61.16% of total advances and 43.75% of total deposits of

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your Bank. The offices covered under the Concurrent Audit include Treasury Department, Operations Department, Information Technology Department, Loan Collection and Recovery Department, Zonal Credit Administration Divisions, Depository Participant, International Financial Service Center Banking Unit, National Credit Hubs, Large Corporate Hubs, Regional Credit Hubs, Centralised Retail Credit Hubs, Corporate Client Service Centers, FedServ, Deposits Cards and Unsecured Lending, Transaction Banking Department, Digital Center of Excellence, Regional Cheque Processing Centers, Transaction Monitoring and Fraud Prevention Department, AML Monitoring Department, Credit Monitoring Department, Exceptionally Large Branches and Branches where RBI risk rating is assessed as "High". Concurrent Audit is also conducted in all the currency chests as required by the Reserve Bank of India. 276 External Auditors / Audit Firms and 23 Retired Officers were engaged for audit assignments during the period. Additionally, Concurrent Audit of 19 units was conducted by Internal Audit Staff.

The Inspection & Audit Department is manned by appropriately qualified personnel and has a staff strength of 90 officers (as on March 31, 2021) with expertise and exposure in all activities of the Bank, such as branch operations, credit sanction, credit monitoring, clearing operations, information technology, risk management and treasury operations.

During the FY 2020-21, audits were undertaken at various operating units, considering the audit universe and in tandem with the Annual Audit Plan approved by the Audit Committee of the Board. Data on major audits conducted during the year is as follows:

Type of Inspection/Audit	Number of Audits conducted
Risk Based Internal Audit	745
Information System Audit	1,376
Management Audit	129
Revenue Audit	1,257
Gold Loan Audit	1,894
Credit Audit	644
Legal Audit	471
Bi-monthly audits at Currency Chests	54
Audits of outsourced agencies/ managed services	183

The compliance position of audit comments has improved during the year 2020-21. A significant reduction of 44% in the position of audit comments outstanding for rectification is observed on year-over-year basis.

TRANSACTION MONITORING AND FRAUD PREVENTION

Your Bank is having a fully equipped Transaction Monitoring & Fraud Prevention Department with state-of-the-art monitoring tools working round the clock. The transactions in Core Banking and various online channels are monitored by the Transaction Monitoring Team. With special focus on UPI, a new team has been set up to monitor UPI transactions on NPCIs eFRM tool. Monitoring of POS acquiring and Payment Gateway (Cards) transactions is also under the purview of the Department to have a holistic control over the transaction monitoring activities of the Bank. Proactive Risk Manager (PRM) tool has been implemented for monitoring Debit Card transactions in view of the increased technology-led vulnerability in the market. Other special tools are also used for monitoring cyber frauds. The card monitoring activity also takes place round the clock. With the launch of Credit Cards (CUG & Staff Launch), monitoring of Credit Card transactions on dedicated tool – Falcon has also commenced. Transaction Monitoring Team could identify suspicious online transactions and take immediate remedial measures to prevent further occurrence. The close association with Cyberdome of Kerala Police has been instrumental in preventing many fraudulent transactions and making recoveries to a reasonable extent.

LEGAL COMPLIANCE

In recent times, the legal environment in the country has become very dynamic, with new laws and amendments to the existing laws being enacted at a very brisk pace. In order to cope up with this change and to ensure legal compliance, it is imperative for a robust legal risk management process to be laid down. The process helps your Bank to mitigate the legal risk which falls under the larger umbrella of operational risk.

Your Bank has a healthy compliance and legal risk management culture. The processes are designed to ensure legal and regulatory compliance and enable detection and prevention of any breaches. The Legal Department of your Bank frames processes and controls that can efficiently manage and mitigate the legal risks stemming from the daily business transactions of the Bank. Further, your Bank has a well laid system, which ensures that the documentation process is contemporary and in tune with industry standards, thus minimising the menace of legal risk, and in the meantime enhancing customer experience. Additionally, a "Manual of Instructions on Documentation" has been published by our Legal Department comprising of all





Management Discussion and Analysis (Contd...)

the general instructions pertaining to documentation for the reference of branches and other functionaries, and the same is also updated periodically.

Legal Hubs are set up at all the Zones of your Bank to ensure compliance with local laws and render legal support to the branches, underwriting teams and credit administration teams. New products, processes and schemes introduced by your Bank invariably undergo legal vetting by the Legal Department to ensure legal compliance and proper analysis of legal risks involved. Moreover, the Legal Department is rendering professional and expert advice on various legal issues associated with your Bank.

With the strong objective of making your Bank a Zero Customer-Complaint Bank, strenuous efforts are being made to reduce the number of suits/ complaints filed against the Bank before different courts/ consumer forums. The fortnightly publication of "Legal Decisions Affecting Banks" circulated by Legal Department based on verdicts rendered by Supreme Court/ various High Courts/ Tribunals coupled with various educational circulars issued by Legal Department, keeps all teams well informed on legal challenges/ issues and steps to be taken to avert compliance failures. Legal Department, a repository of statutes, also updates the teams/offices/ branches of the relevant amendments/ modifications made to statutes from time to time. Standard Loan Agreements are modified/ simplified from time to time to make them contemporary and in tune with industry standards.

Other than this, the Legal Department has formulated a framework for legal compliance of local laws compiling the Land and Stamp Laws, related customs and practices etc., in vogue in different states. It has also published Stamp Duty tracker for guidance of branches/ offices, especially for the use of those who are posted to a branch outside their home state. Moreover, Zonal Legal Hubs have been holding sessions on legal topics for enriching branch level functionaries. With a view of imparting awareness on latest developments/ amendments in law and to strengthen the knowledge base of the Legal Officers of your Bank, the department is also conducting Biennial Conference of Legal Officers where legal luminaries address the participants on latest topics virtually.

The Legal Department is also conducting Panel Advocates Meet across various Regions/Zones, which helps the Bank in understanding the best practices on legal/documentation side and also helps in deriving optimum services from the panel advocates. Value addition is imparted by holding interactions amongst the members of Legal Department and Legal Hubs through audio-

visual means, which also helps in resolving the hitches faced by the Legal Hubs, thereby enabling them to function efficiently and contribute to the overall growth of your Bank.

REGULATORY COMPLIANCE

Compliance, with all applicable laws and regulations, is quintessential to the success of the Bank. Hence, your Bank balances growth and controls simultaneously to achieve the Most Admired Bank status. Your Bank's compliance philosophy declares that the Bank has neither appetite nor tolerance for any compliance risk on account of non-compliance with regulations.

Your Bank adopts risk- based approach and has put in place appropriate policies and processes to ensure enterprise-wide compliance. To manage compliance risk, we have built a comprehensive Compliance Risk Management Framework (CRMF), containing processes covering implementation of regulations, identification of risks, and remediation of risks on time. To identify any known or hidden risks, we have a variety of monitoring and testing programs, like branch and department self- testing by frontline staff, review by Compliance Monitoring Officers and Compliance Risk Assurance Cell (CRAC). Every staff of your Bank is committed to maintain the highest level of compliance standards, both in professional and personal life. Zero adverse regulatory action or investigation on the Bank during the financial year is a testament of their commitment and the effectiveness of your Bank's compliance management.

Your Bank has taken many steps to strengthen its compliance structure. It has revised the Compliance Policy and the Policy on Combating Financial Crime, keeping in view the regulatory requirements and best domestic and international practices. This year, it has also extended the compliance program to the subsidiaries and group companies. Additionally, your Bank has also framed a robust annual Compliance Risk Assessment Program and Quality Assurance Program to rate the compliance risk and ensure sustenance of compliance standards.

On the technological front, your Bank is also embarking on tech-based innovations to rewrite its compliance controls and standards. The Continuous Compliance Monitoring (CCM) is a new technological solution leveraging the data analytics and artificial intelligence. The solution will be industry's first and help multiple control functions such as compliance, audit, vigilance and CRAC to comprehensively monitor scenario-based alerts on any transactional deviations within 24 to 48 hours. The upgraded Anti- Money Laundering solution that your Bank is currently implementing will provide an exhaustive list of management and screening capabilities of individual transactions, comparable

Management Discussion and Analysis (Contd...)

with the Financial Action Task Force (FATF) recommendations and international standards. Moreover, the Bank is developing an electronic comprehensive obligation register covering more than eighty statutes and thirty regulatory authorities/ industry bodies. The obligation register will be supplemented by a manual of instructions to each department for process mapping, gap identification and periodic confirmation of compliance through self- testing, monitoring, concurrent and internal audits. Henceforth, the periodic compliance confirmation to the Board and the Regulator by your Bank will be based on the actual testing and affirmations carried out on all transactions from time to time. With this, your Bank can proudly present its Compliance Model as a benchmark for the industry.

MARKETING

Marketing campaigns of your Bank in FY 2020-21 were driven by the twin watchwords 'Digital at the Fore and Human at the Core' and 'First Choice'. The primary endeavour of your Bank was to ensure that it stays on the course despite unfavourable external conditions. Hence, priority was given to digital and social media campaigns over large scale ATL campaigns like TV and print. Over the years, data driven digital advertising has gained a greater impetus among brands aiming to become more focused and result-oriented. Your Bank adhered to this profound change by embarking on a robust digital marketing journey. To stay on track and capitalize on the new reality of marketing and advertisement, your Bank partnered with a leading digital marketing agency. Through a combination of product and brand promotions, your Bank ensured that it remained relevant, visible and on top of mind for customers/ audience.

The year saw your Bank launch an array of campaigns on Digital for products such as Federal 24 7, Celesta, Car Loans, Sovereign Gold Bonds, Contactless Cards etc. with prime focus on visibility and conversions. The endless possibilities of social media were also leveraged for brand promotion during the FY. Having said that, your Bank also explored some traditional marketing avenues such as Radio Campaigns for products such as Gold Loans. During the year under review, brand Federal made significant inroads into the consideration set of Indian consumers and slowly but steadily gained the mindshare of various stakeholders.

Your Bank's MD & CEO winning the 'Business Standard Banker of the year' award has caught the attention of the industry at a national level. Several other recognitions came your Bank's way including 'Best Bank and Fastest Growing Bank' by Business Today and KPMG; awards for 'Most Innovative

Project'; recognition as a runner up in the categories of 'Best Technology Bank of the Year' and 'Best IT Risk & Cyber Security Initiatives' among medium banks; and IBA Annual Banking Technology Awards 2021. Encouraged by the impact created by the digital campaigns, a very conscious and extensive groundwork was done in the year for a confident take off in digital marketing in FY 2021-22.

SERVICE QUALITY

An increase in adoption of digital banking by consumers and enhanced reliance on technology based solutions to overcome day-to-day challenges has made it imperative for any business to leverage innovation and technology for improving the existing products and procedures and delivering quality experience to customers. Your Bank thus initiated a Quality movement in 2012 with the following objectives:

- Ensure standardization in the look of and feel of branches
- Raise pan India branch performance with regard to customer experience
- Ensure uniformity and predictability across the Bank's touch points
- Create system, processes and procedures, inherently capable of continuous improvement
- Ensure standardization in customer communication

In pursuit of this, your Bank has employed a dedicated team to facilitate identification and implementation of process improvements which are critical from a customer point of view. This team liaises with other teams to evaluate various customer touch points and strives to improve various services. The team had identified and executed 100+ process improvements, large and small, to ensure responsive and frictionless customer service. One of the initiatives is introduction of a self-service facility (Fed e Point) via website, where the customer can avail various banking services through a single portal. Some of the services available on this portal include Email ID updation, request for debit card/ cheque book, Gold Loan renewal, raise a dispute, KYC upload, Positive Pay system, profile update in customer account, 15 G/H updation, online financial advisory etc.

Your Bank has also implemented the RBI guidelines on Harmonisation of Turnaround Time (TAT) and customer compensation for failed transactions using authorised Payment Systems, by putting in place various systems and a dedicated team which ensures this.





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Customer Grievance

Sr. No	Particulars	Previous Year (2019-20)	Current Year (2020-21)
1.	Number of complaints pending at beginning of the year	1,354	1,692
2.	Number of complaints received during the year	2,00,249	1,47,914
3.	Number of complaints disposed during the year	1,99,911	1,46,108
3.1	Of which, number of complaints rejected by the Bank	48,386	46,394
4.	Number of complaints pending at the end of the year	1,692	3,498
Maintainable complaints received by the Bank from OBOs			
5.	Number of maintainable complaints received by the Bank from OBOs	535	757
5.1.	Of 5, number of complaints resolved in favor of the Bank by BOs	150	243
5.2	Of 5, number of complaints resolved through conciliation/ mediation/advisories issued by BOs	385	511
5.3	Of 5, number of complaints resolved after Passing of Awards by BOs against the Bank	Nil	Nil
6.	Number of Awards unimplemented within the stipulated time(other than those appealed)	Nil	Nil

Note: Maintainable complaints refer to complaints on the grounds specifically mentioned in BO Scheme 2006 and covered within the ambit of the Scheme

Customer Delight

Your Bank is always keen on relationship building, customer convenience and delight. With the purpose of enhancing customer experience and brand trust, it initiated opening of new branches, capacity building of contact center, web based portal for self-service, digital products and also observes customer-day on 15th of every month. Branches are also sanitized and laced with fine interiors, at par with industry standards. The security aspect has been given utmost importance with modern equipment like closed circuit TV, motion sensors, infra-red cameras and fire alarm systems. Your Bank has also started online real time remote security and surveillance of ATMs and branches towards this end. Further, it is progressively equipping its branches with fake note detectors, note sorting machines and currency authenticating machines, in compliance with the regulatory guidelines. Your Bank has installed 1,957 ATMs/Cash Recyclers (including 10 Mobile ATMs) which will enable customers to withdraw/deposit cash in their account 24 X 7. With these measures, your Bank is focussing on ensuring excellence in operations, service delivery with least gaps based on customer feedback and strives to maintain high level of customer satisfaction along with reduced count of customer complaints through an efficient redressal mechanism.

STRATEGIC PLANNING

In this new era of heightened economic volatility, strategic planning has become more relevant and critical. The Corporate Planning Department of your Bank works towards developing effective future-ready strategies aligned with the market realities and setting aspirational goals for your Bank to achieve. The

department co-ordinates with diverse functions like Planning, Budgeting, Monitoring of Business Performance, Business Analytics, Cost Management and Management Information systems to achieve its goals.

'Branch Light Distribution Heavy' approach followed by your Bank ensures a healthy co-existence of the branch channel consisting of 1,272 Branches, 1,957 ATMs/Cash Recyclers (including 10 Mobile ATMs), with alternate distribution channels including Relationship Managers, Field Sales teams, and Digital Acquisition; thereby leveraging multiple engines for customer acquisition and engagement; embracing its goals with focus, quality, granularity, regularity and sustainability. The department, through its various initiatives, brings synergy between the distribution channels to deliver desired results. Cost Management has become a compulsion to ensure sustainability in the long run pushing the department to maintain a holistic approach and adopting an agile operating model, while connecting cost reduction and investment decisions.

Under the watch of a core Analytics team, your Bank is consistently enhancing its analytical capabilities and leveraging the rich data resources available in an optimal manner. The deliverables for the division, in the form of relevant, qualitative and actionable insights for stakeholders at each level and on time, are ensured by leveraging both internal and external data sources. This will ensure that the right product is offered to the right customer at the right time using right channel, warranting the customer wallet share to always point north.

Management Discussion and Analysis (Contd...)

Leveraging cutting-edge technologies, the power of data science and robust analytical frameworks is aiding the decision-making process for your Bank, enabling it to capitalize on new opportunities as well as gear up to respond optimally during stressful times like COVID-19. Overall, this ensures a better customer experience and infusion of customer delight while maximizing profitability.

MIS team, a multi-functionary cell under Corporate Planning Department, coordinates comprehensive report generation and automation, ensuring data quality, accuracy and timeliness of information for prudent decision making as its prime objectives. The agile reporting of MIS enables branches and offices to align and organise themselves to the set goals. The automated reports/ insights to individual business units, by making use of cutting-edge business intelligence tools, enable the users slice and dice data, helping them to derive meaningful insights and empowering them to take informed business decisions. The Regulatory Reports Cell, which functions under MIS, is a specialized team that deals with generation and automation of regulatory reports of your Bank, and ensures integrated and prompt generation of reports for stakeholders to enable onward submission to the regulators. Your Bank also has a Quality Assurance Cell for MIS, that ensures the accuracy and consistency of data captured in the Bank's systems and validates the critical reports generated by the MIS team.

CORPORATE SOCIAL RESPONSIBILITY

Major CSR Projects undertaken during FY 2020-21

The Corporate Social Responsibility activities of your Bank touches a wider footprint through areas like Health, Education, Women Empowerment, Environment Sustainability and other activities permitted by the Schedule VII of the Companies Act, 2013. Federal Bank Hormis Memorial Foundation was set up by your Bank in 1996 in the fond memory of the Bank's founder Late Shri. K P Hormis. The foundation and its activities were inaugurated by the then Finance Minister Shri. P Chidambaram at Ernakulam on October 18, 1996.

The CSR projects are executed under the Federal Bank Hormis Memorial Foundation, which acts as a special purpose vehicle for implementation of CSR activities of your Bank. The last financial year witnessed the spread of COVID-19 pandemic and its medical and socio economic impacts, resulting in inclusion of COVID-19 activities under the CSR umbrella by the Ministry of Corporate Affairs.

Major CSR projects undertaken during FY 2020-21 by your Bank are as follows:

Promoting Education

Federal Bank Hormis Memorial Foundation Scholarships

From the Year 2005-06 onwards, the Foundation is providing scholarships to deserving students for pursuing professional courses. From FY 2020-21, 13 additional scholarships have been added to the Nursing category, taking the total number of scholarships for nursing students to 45. During the year 2020-21, the trust offered assistance to 125 eligible students out of 150 seats available. This included 20 seats each for Medicine, Engineering, BSc (Agri), MBA; 45 seats for BSc Nursing and 25 seats to the wards of Martyred Armed Force Personnel. From the inception of the program till date, a total of 1015 students were selected for scholarships and 418 students are still receiving the same.

Federal Skill Academies (FSA)

As part of the Corporate Social Responsibility initiatives, your Bank started the Federal Skill Academy at Kochi on October 18, 2015 (Founder's Day). The social initiative was launched to give wings to the youth belonging to the underprivileged section of the society. The aim of the project is to impart skill training to unemployed and marginalized youth to empower, mentor and assist them to upgrade their skills for improved employability, increased efficiency and career growth.

Smooth implementation of the project was ensured through collaboration with M/s SB Global Educational Resources Pvt Ltd as the implementing partner. All expenses towards this initiative are borne by your Bank. On successful achievement of the objective of the first Academy, your Bank decided to expand the Academy's operations to three more states, i.e. Coimbatore (2016), Kolhapur (2018) and Karnal (2019). The number of trainees have grown rapidly since then and the initiative has created livelihood for the youth as well as contributed significantly to the national skilling initiative.

The year 2020-21 started with an unprecedented situation as the COVID-19 pandemic disrupted all the normal activities, with Education/Training/Skilling being one of the worst affected segments on account of social distancing norms. The situation warranted the skilling industry to introduce technology driven learning and skilling and blended/hybrid learning thus emerged as an effective solution. As change leaders during this crisis, FSA decided to start delivering the theoretical portions of the skilling programs using online platforms. The first step to address the need was creating a cadre of well trained E-Teachers. The Pilot batch of E- Teacher program thus commenced on September 9, 2020 at FSA Kochi and BPO Non voice program followed suit on November 11, 2020.





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'Vidyapetty'

The Govt of Kerala began virtual classes for school students from June 1, 2020 in an effort to ensure continuation of lessons despite the pandemic induced lockdown. The classes were being conducted through the Kerala Infrastructure and Technology for Education (KITE)-Victors Channel. However, given the fact that about 2 Lakhs students did not have adequate facilities to attend online classes, this new method of teaching and studying posed a challenge for both teachers as well as students. Eventually, Deshabhimani, one of Kerala's leading Daily, organised 'Vidyapetty', an initiative to enable those students who do not have access to TV at home, attend the online classes. Your Bank supported this initiative as a part of promoting education amongst the underprivileged section and eligible students were identified in each district with the help of schools.

Support to Light of Life Trust

Support to Light of Life Trust, Mumbai for the program, 'Anando', was designed for children who were school dropouts, belonging to the age group 11-18 years, with the aim to help them continue their education and enable them to lead a life of self-sufficiency and dignity. The program was implemented for 54 students at the Worli Center during the academic year 2020-21.

Support to Oxfam India project- Back to School Campaign

Oxfam India is a confederation of 20 independent charitable organisations focusing on the alleviation of global poverty and incorporated under Companies Act 1956. The aim of the project is to assist children from under privileged families to continue their schooling which was interrupted as an aftermath of the pandemic. After identifying that the incidence of child labour and child marriage of girl children was very common in the slum areas and migrant colonies of South East Delhi, M/s Oxfam India proposed the re-enrolment of these underprivileged girl students back to the educational institutions.

Support to IIT Palakkad- Research and Development in the context of COVID-19

IIT Palakkad intends to set up an Assistive & Rehabilitation Technology Research & Development Center in their institute in collaboration with SreeChitra Medical Institute (SCTIMST) Thiruvananthapuram and National Institute of Mental Health and Neurosciences (NIMHANS) Bangalore. SreeChitra Institute of Medical Sciences and Technology (SCTIMST) Trivandrum and a Medical Research Group in Italy have agreed to share their expertise and 60,000 ultrasound images of COVID-19 cases in Italy for the project. In an effort to assist hospitals in Kerala to combat the COVID-19 situation, IIT Palakkad also plans to develop Biomedical Assistive Diagnostic Devices and systems like Low Cost Medical Ventilator, Pulse Plethysmograph, Ultrasound Lung Imaging and Automated Analysis, Group Testing Equipment

for COVID-19 and Crowd Sensing using Mobile Phone. In lieu of its commitment to help India fight against the pandemic, your Bank supported the research team in IIT Palakkad to make desirable breakthroughs.

Promoting Education-Various Projects

- (a) Support to M/s K P Hormis Education and Charitable Society, Mookkannur for providing scholarship to meritorious students
- (b) Support to disruptive innovations in education in the wake of COVID-19 crisis organised by Rajagiri Media Trust
- (c) Support to Govt. NSLP School, Ezhupunna for purchasing a LED TV to conduct online classes for students
- (d) Providing Note Books and stationery items to 213 children at SOS Children's Village, Aluva

Disaster Management – COVID-19

Deployment of Mobile ATMs in Karnataka, Kerala, Maharashtra and Tamil Nadu

During the month of April 2020, in an effort to support people affected by the nationwide lockdown imposed by the Govt, your Bank started deploying Mobile ATMs for a period of 3 months to bring essential banking services to the doorstep of the residents in Tamil Nadu, Karnataka & Maharashtra. In the Phase II of the project, mobile ATMs were also deployed in Kerala.

Livelihood Enhancement- CovidWarden Initiative

As an esteemed organisation committed to the people of Kerala, your Bank extended support to the unskilled/unorganised segment of the society under its Corporate Social Responsibility. Based on the requests submitted by the agencies, unskilled personnel were deployed as Covidwardens for managing the crowd outside the branches and ensuring social distancing as well as sanitization of hands.

Support to Helpage India, New Delhi

Helpage India is a leading charity in India working with and for disadvantaged elderly for nearly four decades. Your Bank, with a 50-50 contribution from public, supported Helpage India by sponsoring 5,600 food packets to migrants labourers during the lockdown period of 15 days at various locations in New Delhi.

Funding Community Kitchens at Aluva, Perumbavoor

In the recent years, Kerala has been experiencing a large influx of migrant workers from different parts of India. Due to the lockdown imposed by our Govt, these migrant labourers were left without job and food. During this period, your Bank supplied food materials to community kitchens for providing meals to such migrant labourers and other weaker section at Perumbavoor, Aluva and Angamaly.

Management Discussion and Analysis (Contd...)

Support to KeshavSrushti

M/s KeshavSrushti is a non-profit organisation located in Uttan, Bhayander (West), Thane District. Your Bank supported the organisation in providing 1,000 PPE Kits to doctors and medical staff, working in hospitals of Mumbai.

Support to National Health Mission

Your Bank supported the National Health Mission with PCR Testing machine for General Hospital Ernakulam during the first wave of COVID-19 pandemic. The machine boosted testing capacity of the district by huge numbers. Also, as a part of the vaccination drive in Kerala, 10,000 vaccine carriers were supplied across the state to NHM, as per the requirements of each district's medical authorities.

Support to enhance medical facilities in CMC Vellore

CMC Vellore is one of the few private hospitals identified for treatment of COVID-19 patients in Tamil Nadu. As a part of our CSR initiatives, your Bank supported the hospital to augment its medical facilities to combat the pandemic.

Support to B J Medical College, Pune

B J Medical College, Pune is an approved testing center for COVID-19. Your Bank, with 50-50 contribution from public, supported the College by providing it with 10 testing kits in two stages.

Support to Kannur Medical College, Kannur for providing My Lab Testing kits

Considering the rampant spread of the virus in Kasargod and Kannur Districts, the Govt of Kerala started a Viral Research and Development Lab for COVID-19 PCR testing at the Government Medical College, Pariyaram, Kannur. Your Bank supported the cause with 50-50 contribution from the public.

Disaster Management and Preventive Healthcare – Various Covid-19 projects

COVID-19 related projects were included under CSR by the MCA. Following are some important activities supported by your Bank-

- Construction of COVID-19 isolation rooms for City Armed Reserve Force Central, Bangalore
- Supplying 35 thermal scanners to police stations and offices in Kochi
- Purchase of N95 masks to be used by health workers at Medical College, Kottayam
- Raincoats supplied to Fire & Rescue Personnel, Fire Force Station, Gandhinagar, Ernakulam
- Supply of 500 units of PPE Kits for doctors and health workers in Ernakulam General Hospital

- Provisions for enhanced medical facilities in Alappuzha Town
- Distribution of re-usable masks in Angamaly Constituency
- Sanitising & fumigation of all our branches and ATMs for the safety of customers
- Mobile vaccination in Malappuram District
- Vaccine Distribution project in the State of Maharashtra by purchasing and supplying 100 Ice-lined refrigerators for storage of COVID-19 vaccines
- Setting up of basic amenities at COVID-19 first-line treatment centers at Alappuzha, Pala, Kalluvathukkal, Amarambalam, Thrissur, and Kozhencherry
- Setting up of walk-in sample collection kiosk for Kollam District Administration
- Supply of 35 Rain Coats for COVID-19 surveillance/containment duty for Police Force, at Vazhakulam
- Support to various organisations like Dalit Bahujan Resource Center, Kerala Pulaya Maha Sabha for relief measures in the wake of COVID-19
- 10 movable barricades in the context of COVID-19 containment activities to Kerala Police, Kollam rural district
- Support for transporting migrant workers to various destinations in Rajasthan from Chennai in four buses

Healthcare

Support to KEM Hospital to enhance medical facilities

KEM Hospital (King Edward Memorial Hospital), Pune, established in the year 1912 at Pune District of Maharashtra, is one of the largest Non-Government Organisation Hospitals in the region. Your Bank supported the hospital with specialised ventilators having HFO for their 50 bedded (Level 3) Neonatal ICU.

Sponsoring Trauma Care Units- Support to Sansad Mobile SwasthyaSeva, Himachal Pradesh

Sansad Mobile Swasthya (SMS) is a public healthcare programme started by Sri Anurag Singh Thakur, MP from Himachal Pradesh (presently Minister of State for Finance, Govt of India). Sansad Mobile Swasthya comprises of Mobile Medical Units (MMUs) which ply to remote rural villages in Hamirpur Parliamentary Constituency of Himachal Pradesh. This programme was started on April 14, 2018, on the birth anniversary of Dr B R Ambedkar. Within a short span of time, a fleet of 19 Mobile Medical Units are plying in Hamirpur Parliamentary constituency, which covers 5 districts, 800 Panchayaths and 13,000 beneficiaries.





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Promoting Differently-abled -Support to SCTIMST (Sree Chithira Thirunal Institute for Medical Sciences and Technology)

In 2017, your Bank joined hands with Sree Chithira Thirunal Institute for Medical Science & Technology for setting up a Comprehensive Center for Cognitive Rehabilitation of Children with Neuro disorders. The center aims to provide high-quality state of the art and continuing care for children with Neuro Development Disorders and provide adequate support to the child and family. In phase I, it included setting up of sensory integration room, individual therapy rooms and paediatric physiotherapy unit at SCTIMST and the second phase envisages a sensory park and sensory room at NISH. The first Phase of the project is completed, which includes one-to-one therapy rooms, soft play area for occupational therapy and a paediatric gym. Phase II of the project which included sensory park and sensory room is completed and are setup at National Institute of Speech and Hearing (NISH), Thiruvananthapuram.

Promoting the Differently Abled- Various Projects

- Infrastructural support to School for the Blind, Aluva
- Support to the differently-abled and mentally challenged of Karuna Bhavan Social Center, Kalady
- Support to the differently-abled and mentally challenged of Karuna Bhavan, Malayattoor

Health Care- Various Projects

- Support to Christian Medical College, Ludhiana for procuring two ambulances with life support system
- Support to St. Gregorios Medical Mission Hospital, Parumala, Pathanamthitta for purchasing an ambulance with ICU system
- Support for purchasing Blood Bank Refrigerator for use in the blood bank to IMA Voluntary Donor Blood Bank, Ernakulam
- Infrastructural Support to Idukki Govt Medical College Hospital
- Infrastructural Support to District Autism Center, Sultan Bathery, Wayanad
- Support to Divyam Foundation for purchasing a vehicle for Palliative Care activities
- Support to Holy Family Hospital, Bandra for procuring Liga sure LS 10 tissue fusion instrument used to arrest bleeding during laparoscopic and open surgeries

Promoting Women Empowerment Project "SwayamSakthi"

Your Bank is supporting Drishtikona Consultancy and Program Management Services Pvt Ltd and partnering with Himalayan Social Institute for promoting 'SwayamSakthi'- a women empowerment project. The Project empowers girls who have not completed their education by providing them with 'Bridge Education'. Regular classes will be conducted under this initiative to impart knowledge, thereby ensuring enrolment of girls in their age appropriate grades in regular schools. The project is targeting age groups 11-14 years, belonging to weaker sections/ BPL families who have discontinued their education or have never attended school due to various socio-economic problems. Remedial education is given to them for fulfilling their aspirations for a better livelihood and career prospects. This is a one year programme and is being implemented at Madawala, Panchkula District of Haryana.

Women Empowerment –Various Projects

- Support to Christo Province for providing 10 sewing machines to underprivileged ladies, especially widows
- Support for providing 28 sewing machines to unemployed women in Mookkannoor Panchayath
- Support to 'Say Yes: Women for India@75' Initiative by CII-Indian Women Network (IWN)

Promoting Environment Sustainability & Swachh Bharat

SEED – Student Empowerment for Environment Development

To build awareness amongst student fraternity and conserve the earth's natural resources, your Bank has been partnering with Mathrubhumi for SEED Programme since 2012. SEED (Student Empowerment for Environmental Development) is an initiative aimed at spreading the message of ecological conservation. Schools carry out simple but effective steps in environment protection like Planting and Protection of Saplings, Agricultural Activities, Bio-diversity Conservation, Energy Conservation, Conservation of Water bodies, Cleanliness and Protection of Public Health, Reduce, Reuse and Recycle Plastic waste and intervention in local area environmental issues through SEED Police. Your Bank has been supporting this noble cause for the past eight years.

Support to Various District Administration Bodies

Your Bank provided support to various projects of different administrations, which include-

- Tirunelveli Municipal Corporation for installation of FRP Mobile Toilets in Tirunelveli for public use

Management Discussion and Analysis (Contd...)

- Greater Chennai Corporation for setting up Miyawaki forest at Balaji Nagar, Chennai
- Trivandrum Municipal Corporation for Providing Cloud Solution to Green Village Portal
- Trivandrum Municipal Corporation (TMC) for Waste Management Campaign 'EnteNagaram ,SundaraNagaram'

Eradicating Hunger & Poverty - Various Projects

- Supported Scalae Charitable Society for setting up a dryer unit (for food processing) for farmers
- Supported AkshayaPatra Foundation for distribution of food to 7,500 children of Karnataka for a period of 1 year through 'Happiness Box 'project
- Supplied 1.50 Lakhs Quarantine Kits costing approximately Rs. 300/- per kit, to Non-Resident Keralites returning home during the COVID-19 pandemic
- Supported Kerala Samajam, Bangalore for distributing essential grocery items to the needy in the wake of COVID-19
- Distributed essential grocery items to Convents in Ernakulam Parliament Constituency and to 16 Destitute Homes in Ernakulam in the wake of COVID-19
- Supported Bosco Integrated Development Society for providing food kits to Community School students in the state of Meghalaya

Promoting Sports & Culture

As a measure for empowering women and to promote sports among the women from the country and overseas, support was extended to the Women's team of Gokulam FC, run by M/s Gokulam Football Foundation, in the year 2020-21. The foundation is also running a campaign called 'Inspire Like a Girl', in connection with the Women's team, who are also the current champions of Indian Women's League.

Support to Kovalam FC, Vizhinjam was also provided with a target to uplifting talent within the underprivileged segment, providing livelihood and bringing them to the mainstream. The objective of the Club was to engage boys from the fishermen families, thereby preventing them from anti-social activities such as substance abuse. The club was also supported with a team bus for transportation purposes.

Ind AS Implementation

Reserve Bank of India (RBI) through press release RBI/2018-2019/146 DBR.BP.BC.No.29/21.07.001/2018-19, dated March

22, 2019, updated all scheduled commercial Banks that legislative amendments recommended by the RBI are under consideration of the Government of India. Accordingly, RBI had decided to defer the implementation of Ind AS till further notice.

Even though RBI has deferred the implementation, your Bank is gearing itself to bring the necessary systems in place to facilitate the Proforma submission to RBI. With respect to the various instructions from Ministry of Corporate Affairs and Reserve Bank of India (RBI), the actions taken by your Bank are summarized as follows:

- A steering committee was formed by MD & CEO with ED & CFO as its Chairman with members from all cross-functional departments
- The implementation of IT solution procured to automate the computation of Expected Credit Losses (ECL), Effective Interest Rate, Fair valuation and other accounting changes required under Ind AS is completed and your Bank is generating extracts from the system on a quarterly basis
- Your Bank is now in the process of implementing the other assessed changes required in existing IT architecture and other processes to enable smooth transition to Ind AS
- Your Bank is continuing to submit the quarterly progress report on the status of Ind AS implementation to the Audit Committee of the Board
- As directed by the RBI, the Bank is submitting quarterly Proforma Ind AS financial statements to the RBI within the stipulated timeline
- Training to the employees is imparted in a phased manner

The key impact areas during the implementation of Ind AS for the Bank include effective interest rate accounting, fair valuation inputs, methodologies and assumptions, specific valuation considerations in many instruments, expected credit losses, employee stock options and implementation of technology systems.

SUBSIDIARY/ ASSOCIATES PERFORMANCE

As on March 31, 2021, your Bank has one unlisted wholly owned subsidiary - M/s. Federal Operations and Services Limited, and one unlisted subsidiary - M/s. Fedbank Financial Services Limited. Your Bank also has two Associate Companies - M/s. Ageas Federal Life Insurance Company Limited and M/s. Equisur Capital Private Limited.





Management Discussion and Analysis (Contd...)

FEDERAL OPERATIONS AND SERVICES LIMITED

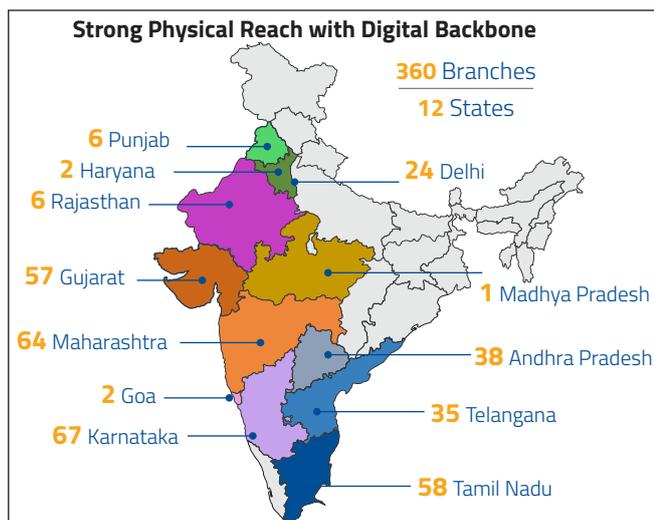
Federal Operations and Services Limited (FedServ) is a wholly owned subsidiary company of your Bank fully dedicated to operational and technology-oriented services of the Bank. The company has helped the Bank in re-engineering various operational activities and implement various process improvements since its inception. FedServ has been effective in providing support on 87 operational activities for the year ended March 31, 2021 and is expected to provide support on 30+ additional processes during FY 2021-22. FedServ's primary objective is to enhance the customer service level by up keeping and upgrading processes on a continuous basis while ensuring that all the perceived risks are duly mitigated.

FEDBANK FINANCIAL SERVICES LIMITED

Fedbank Financial Services Ltd. (Fedfina) started as a wholly-owned subsidiary of Federal Bank (the Bank) in year 1995, and was initially engaged in the distribution of Auto and Home Loans for the Bank. It received a non-bank finance company license in 2010 and is currently registered with the Reserve Bank of India as a systemically important non-deposit taking non-banking financial company (NBFC-ND-SI). As on March 31, 2021, Federal Bank holds 74% stake in Fedbank Financial Services Limited while True North (Large PE Fund formally known as India Value Fund) holds the residual 26% stake.

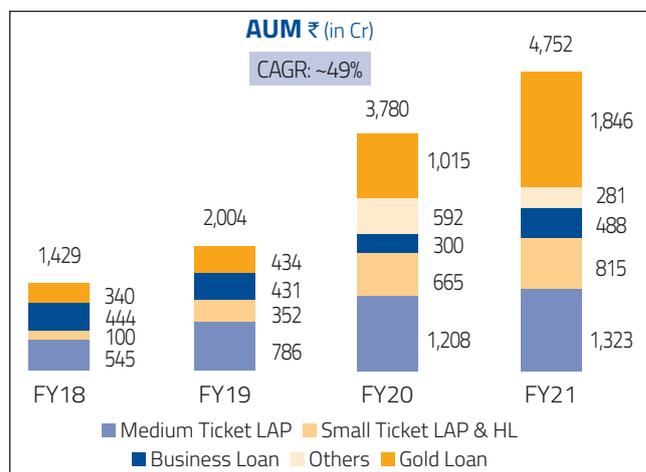
Growth Story

Fedfina is one of the fastest growing NBFCs in the secured lending space. With the vision of empowering emerging India with easy access to credit, the company caters to growing needs of both retail and commercial clients through a network of 360 branches in 12 states across India.



Diverse Product Suite

Fedfina has a wide range of financial solutions that help self-employed emerging Indian consumers meet its growing credit needs. The operations are divided into three categories: Retail Lending (Gold Loans, Loan against Property, Business Loans, Personal Loans, and Housing Loans), Wholesale Lending (loans to NBFCs and Construction loans) and Distribution Business (sourcing Housing Loans, Personal Loans, SME Loans for parent company).



During the year ending March 31, 2021, Fedfina ramped up its focus on the retail segments with a high emphasis on granularity and secured lending. The Gold Loan book has acted as an effective counter-cyclical hedge to MSME credit in a COVID-19 stressed year, as demonstrated by the change in its composition.

The AUM as on March 31, 2021 was ₹ 4752 Crore with ~86% of the portfolio secured by tangible assets.

Loan Composition	March 31, 2021	March 31, 2020
Retail	96%	90%
Gold Loans	39%	27%
Mortgage Loans/ Home Loans	45%	50%
Unsecured Business Loans	10%	8%
Micro Finance/Fintech Lending	2%	5%
Wholesale Finance	4%	10%

Performance in FY 2020-21

Gross revenues for FY 2020-21 grew by 48% to ₹ 696.41 Crore (PY ₹ 471.27 Crore) on the back of growth of 23% in the loan book during the year. Net profit grew 48% to ₹ 58.60 Crore (PY ₹ 39.54 Crore).

Management Discussion and Analysis (Contd...)

Revenue/ Profit Parameters

(₹ in Crore)

Financials per Indian GAAP	March 31, 2021	March 31, 2020	Chg (%)
Gross Revenue	696.4	471.3	48%
Net Interest Income	337	206	64%
Pre-provisioning Optg Profit	149.0	71.3	109%
Credit costs incl. write-offs [#]	76.6	14.7	420%
Profit after tax	58.6	39.5	48%

[#] The company took a one-time write-off of non-performing loans of ₹ 29 Cr

Net worth in FY 2020-21 grew 20% to ₹ 832 Crore and CRAR (computed based on Ind-AS financials per RBI norms) improved to 23.52%. During the year, Federal Bank has invested in equity shares of Fedfina amounting to ₹ 58.6 Crore

Fedfina carried enhanced liquidity buffers of ₹ 686 Crore as on March 31, 2021 in addition to the committed credit lines from Banks, in anticipation of any potential COVID-19 related stress to cash-flows.

(₹ in Crore)

	March 31, 2021	March 31, 2020	Chg (%)
Capital Parameters			
Net Worth	832.08	694.04	20%
Capital adequacy	23.52%	17.89%	563 bps
Balance Sheet			
Asset Size	5410	4035	34%
Loan Book	4492	3651	23%
Liquidity			
Cash, Bank & Liq. MFs	685.9	224.2	206%

Gross loan portfolio (on book) as on March 31, 2021 grew 21% to ₹ 4,492 Crore (PY ₹ 3,651 Crore). Total assets increased to ₹ 5,410 Crore (PY ₹ 4,035 Crore).

GNPAs fell below 1% on the back of a one-time technical write-off of ₹ 29 Crore.

Portfolio Quality	March 31, 2021	March 31, 2020	Chg (%)
GNPA (%)	0.98%	1.35%	34 bps
NNPA (%)	0.79%	1.16%	37 bps

Robust Risk & Governance Architecture

Fedfina established a robust Enterprise Risk Management (ERM) framework, approved by the Board (which has three Federal Bank nominees), which has enabled Fedfina to maintain net NPA levels below 1 per cent (among the lowest in the industry) and strong credit ratings. The Company has set up a Risk Management Committee (RMC) of the Board to assist the Board by supervising and assessing company's risk management principles, policies, strategies, processes and controls. This committee is supported by an Operational Credit and Risk Management Committee and Asset Liability Management Committee (ALCO).

Debt Rating

Fedfina's long-term debt is rated AA-/stable by India Ratings and its short-term debt is rated A1+ by ICRA, CRISIL & ACUITE, indicating the highest degree of safety regarding timely servicing of financial obligations.

Nurturing Human Talent with Enhanced People Focus

People focused initiatives led to Fedfina to receive the "Great Place to Work" (GPTW) certification for two consecutive years. The Company took a variety of staff wellness & safety related initiatives in light of the ongoing pandemic. Prioritising employee safety,





Management Discussion and Analysis (Contd...)

Fedfina established SOPs for working from home across a variety of functions. As company followed all the advisories by government and authorities, it launched employee benefit initiatives like Corona Kawach Insurance for all the employees, free COVID-19 tele-advisory, Ambulance on Call, oxygen cylinders to employees, etc.

Leverage Technology to Drive Efficiencies

Fedbank Financial Services strives to be a technology driven company, leveraging digital technology and data analytics across the customer life cycle. In view of this, Fedfina commissioned an integrated LOS & LMS for Gold Loan business with the capability to digitally on-board customers and also provide Door-Step Gold Loan services.

With the launch of customer self-service Mobile App & Web Portal in Q4'21, customers now can perform a host of borrowing and account management activities effortlessly from the comfort of their homes and/or workplace.

Fedfina is also in an advance stage of implementing fully digital workflow for instalment loan origination, underwriting and portfolio management. The company has already committed a significant investment in information technology systems and will continue to invest in technology to build scalable and efficient operating model.

AGEAS FEDERAL LIFE INSURANCE COMPANY LIMITED

Performance Summary

During FY 2020-21, Ageas Federal Life Insurance Company Limited (AFLIC) continued to play on its strengths which included best in class customer service, high customer retention, committed workforce among many others. This has helped to keep its overall premium growing over the prior year. AFLIC has witnessed strong growth in New Business Premium (NBP) to the tune of 13% and in Renewal Premium, recording 4% growth over last year. The Company has also increased its market share on APE basis as compared to the last year, despite the challenging business environment.

AFLIC has been agile and swiftly moved in line with macro-economic changes such as interest rates and performance of various financial markets thereby modifying its product suite to ensure balanced product mix for the company and at the same time, offer better terms to its customers.

In this backdrop of business performance and cost effectiveness, the Operating Cost Ratio (operating cost to gross written premium) decreased to 12.7% from 13.8% during the year. The Company registered a profit before tax of ₹ 134.98 Crore., down by 17% over

the earlier year due to higher provisioning of policy liabilities in lieu of prevailing interest rate scenario. The gross booked premium was ₹ 1,959 Crore, a growth of 6% over the previous year. Total New Business Premium for the year stood at ₹ 632 Crore, which increased by 13% over prior year. While business sourced is driven by customer needs, AFLIC has achieved a good balance between product segments with contribution of 50% from non-unit linked products. At ₹ 1,327 Crore, the renewal premium grew by 4% over the previous year.

Product

AFLI offers a comprehensive product suite of 23 plans designed to meet the varying life-stage requirements of its customers while ensuring financial protection for them and their families. During this financial year, AFLI has filed 6 new plans with IRDAI, launched 5 new products and modified 2 existing plans.

Risk Management Framework & Risk Mitigation Measures

Discipline is a key component of a visionary organisation. To this end, AFLI is continuously evolving its risk management framework for timely identification, intervention, and mitigation of risks. AFLI risk management structure is guided by development, implementation, and monitoring of financial and operational strategies.

AFLI is thus able to not only assess the risk but also ensure mitigation, thereby improving efficiencies and enhancing the value that AFLI delivers to its stakeholders. Further, our assessment process ensures timely response and decisions to minimise operational surprises and losses.

Cognizant of the strong connect between risk and return, the Company does not believe in risk avoidance and is rather focused on understanding and managing risks effectively. This approach helps the Company to identify the acceptable risks and optimise the same to achieve expected returns.

Risk Taxonomy continues to be a vital component of the Company's risk management framework and helps ensure a consistent and comprehensive approach to risk identification, assessment, monitoring and response. Guided by this mechanism, AFLI is able to highlight and define all the identified risks within the Company, which further helps it to improve the necessary risk management efforts. It also helps establish ownership of the various risk categories and provides a link to the overall governance structure of the Company.

Financial Risk is managed by putting fund-wise strategic asset allocation mix and various internal limit such as instrument concentration limits, duration limits etc in place. These limits are

Management Discussion and Analysis (Contd...)

monitored daily by the Middle Office and discussed at ALCO in its monthly meetings. In case of linked portfolios with minimum guarantees, the Company hedges the risk through duration matching/cash flow matching within the applicable regulatory boundaries. Moreover, the ALM system is in place to manage the interest rate risk, equity price risk, underwriting risks, liquidity risks etc. The Company has also put in place a credit review process to review the credit risk of Corporate Bonds and has also developed a stress testing framework in accordance with IRDAI's guidelines.

The company carries out Stress Tests on its portfolio for certain scenarios and basis the results of such stress test, decides to control risks by putting risk limits.

The Company has defined a Risk Control and Self-Assessment framework for identifying and monitoring key operational risks. Key Risk Indicators are used to report important operational risks to Senior Management and Risk Management Committee of the Board. Further, the Risk Department sends risk alerts, do's and do not's, posters, banners etc as part of this initiative to spread awareness and build the first line of defence.

EQUIRUS CAPITAL PRIVATE LIMITED

Based on Consolidated Financials, total Assets of Equirus Capital Private Limited stood at ₹ 91.32 Crore as on March 31, 2021 as against ₹ 64.62 Crore as on March 31, 2020. Total gross income earned by the Company during the financial year ended March 31, 2021 was ₹ 65.42 Crore as compared to ₹ 45.06 Crore during the previous financial year. Profit before tax posted by the Company for the financial year ended March 31, 2021 was ₹ 3.94 Crore as against the loss of ₹ 7.76 Crore reported in the previous financial year ended March 31, 2020. Profit after tax was ₹ 3.40 Crore for

the financial year ended March 31, 2021 as against loss of ₹ 8.32 Crore in the previous financial year.

As on March 31, 2021, the Company had following subsidiaries:

1. Equirus Securities Private Limited - Institutional broking business in cash and derivative segment
2. Equirus Wealth Private Limited – Wealth Management and PMS business
3. Equirus Insurance Broking Private Limited - General Insurance Broking

After the successful execution of the Antony Waste Handling IPO, the Company is seeing increased demand for its services in the area of M&A and Equity Capital Market. The Company will further increase its presence in the Fixed Income Market and Institutional Broking. For the Wealth Management through EWPL, the team has expanded to 10 locations this year to complete the first phase of expansion and help grow the AUM to ₹ 2,000+ Crore. This year we will add more locations along with a strong digital platform to make it the best omni-channel wealth platform. The Company's PMS business has become one of the top funds in its category and has now grown to ₹ 300+ Crore AUM, and we are expecting to enhance it further by adding international distribution to it.

Risk Mitigation Measures

A risk management policy/plan of the Company is in place to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk Management.

