

EXTERNAL ENVIRONMENT

Navigating a Changing Environment with Confidence

We remain agile and responsive to risks from a challenging environment globally and the opportunities provided by a strong and resilient Indian economy. We have raised our compliance thresholds so that we secure the best interests of our stakeholders and customers, even as we aim for industry-beating growth.

Economic Environment

In 2023, interest rate risk dominated investors' concerns, demonstrated by the classic run on deposits in some of the US regional banks. However, swift regulatory responses and liquidity measures from the central banks contained any potential spillover, and a sharp increase in the fiscal deficit delayed the widely anticipated growth slowdown in the US. India's

banking sector, buoyed by improvements in asset quality and robust capital buffers, remained resilient. To insure against potential future risks, RBI tightened macroprudential norms in sectors seeing strong growth, like in unsecured personal loans. It also tightened liquidity, likely to protect against potential global volatility, driving fierce competition for CASA deposits, as deposit growth continues to lag credit growth.

Global Economic Outlook

The global economic landscape is grappling with various challenges. These include "Higher for Longer" rate regime: while price pressures have eased, further progress on the last-mile objective is likely to be slow; sticky high fiscal deficits in the developed world are also likely to prevent a meaningful decline in the global cost of capital. Geopolitical tensions are intensifying, exacerbated by political changes in major economies. There is growing fragmentation of global trade, and an increase in industrial policy action in most major economies. At the same time, growing investments in clean energy and the promise of significant productivity growth from generative AI are promising developments. The IMF does not expect the global economy to slow, with global growth forecasts held steady at 3.2% for 2024

and 2025 in their April 2024 World Economic Outlook.

Amidst this churn, the Indian economy is likely to grow at a moderately strong pace, with the potential annual growth rate getting upgraded to 7%. Monetary policy actions improved fiscal consolidation, and supply-side interventions have eased inflation, contributing to stable growth, aided by an upturn in the real-estate cycle. Looking forward, we expect inflation to average around 4.5% in fiscal 2025, and the economy to grow at 7%.

Relevant Risk

-  Liquidity Risk
-  Market Risk
-  Operational Risk

Opportunities Identified

The growth in global headwinds presents a unique opportunity for the Bank to capitalise on India's resilient growth by harnessing innovation in fintech and digital sectors, along with prioritising customer centricity and leveraging its extensive distribution network to create a world-class business.

Our Response

The Bank is building a robust business strategy with a detailed and diversified approach to revenue streams, advances, and funding mix. Ensuring alignment between advances and deposits, along with stability and resilience in operational and technology infrastructure, is paramount.



Technology Evolution and Artificial Intelligence

Technological advancements are revolutionising the banking and financial sectors, driving innovation and efficiency across processes and services, while adoption of cutting-edge solutions is enhancing customer experiences, and expanding market opportunities. Together with Machine Learning (ML), AI technologies are being deployed in asset management, algorithmic trading, credit underwriting, and fraud detection. Furthermore, AI optimises IT operations, digital marketing, and real-time analysis of customer transactions, improving risk management and customer experience.

In India, Scheduled Commercial Banks (SCBs) leverage AI for data analytics, fraud detection, and deploy chatbots for customer service. Innovations like

the Jan Dhan-Aadhar-Mobile (JAM) trinity and the Unified Payments Interface (UPI) are driving financial inclusion and digitisation, facilitating ~131 billion transactions for fiscal 2024. Initiatives such as the 24x7 operationalisation of payment systems and the introduction of a Central Bank Digital Currency (CBDC), underscore India's commitment to fostering innovation and enhancing digital transactions while maintaining a customer-centric approach and emphasising oversight and ethical conduct.

Relevant Risk



Information and Cyber Security Risks



Operational Risk

Opportunities Identified

Leveraging technological advancements to revolutionise banking and finance, driving innovation and efficiency while ensuring compliance with industry standards and regulatory requirements at the most efficient cost levels.

Our Response

The Bank is investing in the use of AI for models and analytics in multiple areas such as acquisition, risk management, monitoring etc. AI/ML is also being used for building customer offers and engaging with customers better. While doing so, adequate model risk oversight is being ensured on AI-based models.

Climate Resilience and ESG Integration

The increasing frequency and severity of climate-related events have prompted industries, particularly the financial services sector, to increasingly integrate ESG considerations into their decision-making processes. In fiscal 2024, sustainability and climate action took centre-stage in India during its G20 presidency. Under the theme 'One Earth, One Family, One Future', India showcased its ambitious green development agenda as it commences on its 'Amrit kaal', and achieved significant milestones in scaling green energy capacity and technological transformation. In July 2023, the Financial Stability Board, comprising all G20 countries, stressed the imperative of bolstering climate data accuracy for comprehensive risk assessment. In response, the Basel Committee on Banking Supervision (BCBS) is actively evaluating Basel framework gaps and considering regulatory measures to

integrate climate risk management principles into core banking supervision principles. In India, by introducing reasonable assurance on select core KPIs of BRSR, SEBI has strengthened the credibility of corporate disclosures. In 2024, the RBI introduced the new Draft Disclosure Framework on Climate-related financials, thus stressing on robust risk management and disclosures to prevent asset mispricing. Stress testing remains important for banks to assess climate risks transparently, enabling proactive risk management aligned with regulatory and stakeholder expectations.

Relevant Risk



Climate Risk



Operational Risk

Opportunities Identified

Leveraging green financing and focused lending in green and sustainable space including, but not limited to, green housing, electric vehicles, and renewable energy sectors to bolster sustainability efforts and appeal to environmentally conscious clientele.

Our Response



The Bank has in place an ESG Policy for Lending and adopted the Sustainable Financing Framework, strengthening its overall sustainable financing capabilities. Notably, climate risk is now an integral part of its risk management framework, overseen at the Board level. Furthermore, a robust business continuity management process has been established to effectively manage any impact on the Bank's operations.

Cyber Security Threat and Customer Privacy

In recent years, the banking sector has undergone a profound transformation with the widespread adoption of digitization and cutting-edge technologies, revolutionizing banking services and introducing new challenges, particularly in cybersecurity and data privacy. Financial institutions embracing open banking and digital payment systems require robust IT infrastructure and stringent security measures to safeguard customer interests. Regulatory bodies like the RBI are taking proactive steps to ensure adherence to updated frameworks for IT governance and risk management. However, the use of AI in finance introduces complexities, with concerns about model risks and ethical practices. The Bletchley Park

Declaration, signed by major countries, emphasises international collaboration in addressing AI-related risks in the financial sector. In August 2023, the Indian Parliament passed the Digital Personal Data Protection Act, marking a significant milestone in data privacy regulation. Centralising monitoring and analysis through a Sectoral Security Operations Centre (SSOC) will enable swift adaptation to evolving cyber threats by correlating events, logs, and incidents from multiple supervised entities.

Relevant Risk

-  Information and Cyber Security Risks
-  Operational Risk

Opportunities Identified

Enhancing privacy controls & cyber security controls through deployment of ISO27018 Standard framework for Bank's Cloud applications and infrastructure.

Our Response



In the technology environment, the Bank will maintain adequate oversight through robust product approval process, cyber security assessment, and technology risk assessment.

Transforming Talent and Workplaces

In the dynamic banking landscape, talent management has undergone significant shifts driven by technological advancements and evolving market demands. There is a heightened focus on recruiting professionals skilled in areas such as cybersecurity, data analytics, and digital marketing to meet the evolving needs of customers. Additionally, the emergence of hybrid roles combining technology expertise with domain knowledge reflects the industry's adaptation to the fintech revolution. With a chronic

shortage of tech talent, reskilling initiatives have become pivotal for organisations aiming to bridge the skills gap and remain competitive. Soft skills such as innovation, adaptability, communication, problem-solving, and critical thinking are also increasingly valued alongside technical proficiency. Furthermore, offering flexible working options to attract top talent, addressing workplace culture issues and promoting diversity and inclusivity are vital for enhancing employer branding.

Relevant Risk

-  Information and Cyber Security Risks
-  Operational Risk

Opportunities Identified

Embracing flexible working environment, cultivating a diverse talent pool with inclusivity, investing in learning and development, and reducing overhead costs associated with traditional office setups are paramount.



Our Response

Anchored by a comprehensive HR policy emphasising meaningful career experiences, flexible work arrangements, and output-driven performance metrics, we are well-positioned to drive innovation and growth in the banking sector while continually upskilling our workforce. Through innovative HR

programmes and policies, we have fostered an inclusive environment conducive to career growth. Moves like adopting a hybrid work model and introducing GIG-A opportunities have attracted top talent, while **Project Thrive** has encouraged internal career exploration, resulting in significant job movements and

promotions. Our commitment to talent development is evident through our robust learning and development framework, supported by initiatives like *Astros* and *Ahead*. Additionally, our dedication to DE&I is reflected in initiatives like *#HouseWorksWork* and *Pride365*, fostering a culture of belonging.

Regulatory Landscape

Failures of Silicon Valley Bank and several other US regional banks in March 2023, along with the collapse of Credit Suisse prior to its merger with UBS underscored the vulnerability of banks despite their comparatively robust capital and liquidity positions. In view of both global and domestic developments, the RBI has been issuing new or revised guidelines for financial sector participants, emphasising on regularly updating risk management frameworks, particularly with respect to liquidity, technology, credit, market, and reputation risks. Today's constantly evolving banking environment requires organisations to adapt to emerging risks, such

as technological disruptions, cybersecurity threats, evolving customer expectations, and shifts in business models and operations due to outsourcing. Banks and financial institutions are expected to maintain robust governance structures and processes due to their unique nature. Indian banks must focus on digital transformation, improving customer experience, adopting innovative technologies such as AI-ML, Gen-AI and blockchain, investing in cybersecurity measures, and seeking collaborative opportunities to remain resilient and competitive in the evolving banking landscape.

Relevant Risk



Compliance Risk



Reputation Risk

Opportunities Identified

Promoting transparency and enhanced disclosures, further enhancing the regulatory adherence standards.

Our Response

The Bank's Assurance functions regularly review emerging risks and trends and engages with the respective stakeholders to ensure sustainable and timely implementation of remedial measures. Wherever required, specific projects are run with key stakeholders, led by Management Committee members or Executive Committee members. Updates on

important projects are provided to the Management Committee, committees of the Board or the Board, on a regular basis. Among the areas currently in focus are model governance, conduct of business, customer experience, grievance handling, fairness and transparency in dealing with customers, detection and prevention of frauds, transaction monitoring, and anti-money laundering processes,

improving efficiencies of other important processes, managing risks emanating from outsourcing, cyber security, BCP, reliability and scalability of technology platforms and adoption of latest innovative technologies in business operations and customer services.