

Pillar III Disclosures – 31st March 2024

Equitas Small Finance Bank Limited (hereinafter referred to as the 'Bank' or 'ESFBL') is a private sector bank domiciled in India and incorporated under the provisions of the Companies Act, 2013. Equitas Finance Limited ("EFL"), the subsidiary of Equitas Holdings Limited ("EHL") was converted into a Small Finance Bank (SFB) and changed its name to Equitas Small Finance Bank Limited. The Bank commenced operations as a SFB effective September 5, 2016 and became a Scheduled Bank effective December 23, 2016 vide Official Gazette Notification dated February 4, 2017. As per the Scheme of Amalgamation between EHL and ESFBL, effective from February 02, 2023, EHL has got amalgamated with ESFBL. The Bank provides banking services and financial services in urban and semi-urban areas as well as rural areas through its inclusive banking initiatives. The Bank has its headquarter at Chennai and there are no foreign operations of the Bank.

The Pillar III disclosures on the capital adequacy and risk management framework are detailed in the following sections:

1. Capital Adequacy

1.1 Capital Adequacy Assessment

The Bank is subject to the capital adequacy framework as per the "Operating Guidelines for Small Finance Bank" from Reserve Bank of India (RBI). As per capital adequacy framework, the Bank is required to maintain a minimum Capital to Risk Weighted Assets (CRAR) of 15%, with minimum Tier I capital to Risk Weighted Assets at 7.5%. As of now, capital conservation buffer and counter cyclical buffer are not applicable for Small Finance Banks.

For the purpose of capital adequacy, only credit risk is covered, since there is no separate capital charge prescribed for market risk and operational risk, as per the direction of RBI. For credit risk, RBI has prescribed Basel II Standardized Approach and has permitted the use of external rating based risk weights for rated exposure and regulatory retail approach for small retail loans.

The Bank has a process of assessing the capital requirements and a strategy to maintain its capital levels. Besides computing CRAR under the Pillar I requirement, the Bank also periodically undertakes stress testing to assess the impact on capital and risk weighted assets under various plausible stressed scenario. The Bank has set up sound governance and control practices to identify, assess and manage risks. The Risk Management Committee of the Board reviews results of stress testing.

Capital Structure

Breakup of capital funds (as per Basel II disclosures) is as follows:

Particulars	₹ in Lakhs
Tier I capital	5,67,113
Paid Up Capital	1,13,489
Reserves	4,53,624
Deductions	
Intangible Assets	50,720
First loss credit enhancement provided for securitized assets	3,555
Second loss credit enhancement provided for securitized assets	0
Any Other Deductions	
Total Deductions	54,275
Tier I Capital Total	5,12,838
Tier II Capital	
Standard Assets Provisions	9,577
Investment Reserve	408
Incremental provisions in respect of unhedged foreign currency exposures	3
Total General Provisions & Loss Reserves (prior application of cap) – (A)	9,988
Cap on inclusion of general provisions & loss reserves in Tier 2 under Standardised approach – (B)	30,942
General provisions & Loss Reserves considered in Tier 2 – MIN(A,B)	9,988
Subordinated term debt (discounted value)	0
Investment fluctuation reserve	18,000
Tier II Capital Total	27,988
Deductions	
First loss credit enhancement provided for securitized assets	3,555
Second loss credit enhancement provided for securitized assets	0
Total deductions	3,555
Tier II Capital Total	24,433
Total Capital	5,37,271

1.2 Capital Adequacy

As per RBI guidelines for small finance banks, the capital to risk weighted assets (CRAR) has been assessed using Basel II standardized approach for credit risk only and no separate capital charge prescribed for market risk and operational risk. Trading book also has credit risk, which is assessed as part of market risk – specific risk charge framework. Since, there is no market risk charge prescribed for SFBs, the credit risk for trading book is also assessed and included in the credit risk weighted assets.

S. No.	Particulars	₹ in Lakhs
A	Capital requirement for Credit Risk	
A.1	Portfolio Subject to Standardized approach	3,71,428
A.2	For Securitized Portfolio	
B	Capital requirement for Market Risk	
B.1	For Interest Rate Risk	
B.2	For Equity Risk	
B.3	For Forex Risk (including gold)	
B.4	For Commodities Risk	
B.5	For Options risk	
C	Capital requirement for Operational Risk	
	Total Capital Requirement (A+B+C)	3,71,428
	Total Risk Weighted Assets	24,76,188
	Total Capital Funds	5,37,271
	CRAR (%)	21.70%
	Tier -1 (CET1) Capital Adequacy Ratio (%)	20.71%
	Tier -2 Capital Adequacy Ratio of the Bank (%)	0.99%

2. Credit Risk

Credit risk is the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The objective of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable limits.

2.1 Credit Risk Management Framework

The Bank's credit risk management framework consists of a tiered governance structure that defines, monitors and reviews policies and risk limits periodically with appropriate use of statistical techniques.

The bank has an approved delegation of authorities including credit committee for credit approvals. The risk management committee at the management level reviews the portfolio quality, inherent risks and prudential risk limits on periodic basis. Governance control is vested with the Risk Management Committee of the Board (RMCB), which monitors and provides guidance on the risk management practices, risk assessments, capital adequacy as well as ensures timely and effective implementation of various risk related policies. Bank has various Board approved policies - Lending policy, Investment policy, Credit risk policy, MSE Policy, Real Estate policy, Wilful defaulter policy, etc. to effectively manage credit risk.

The risk management function in the Bank is clearly demarcated and independent from the operations and business units of the Bank. The Risk Management function is not assigned any business targets.

2.2 Credit Process

The product credit policy details the credit norms to be adhered to for each customer segment within specific products. An empowerment matrix is prescribed to ensure that a competent authority takes an informed decision on any deviations to these norms. All major retail products are covered by credit scoring models, which would help eventually to predict the probability of default based on transactional parameters and historic portfolio data on defaults. These statistical models help achieve standardization and avoid biases in decision-making. These models will be further monitored periodically to reflect recent portfolio performance. In addition, early warning indicators are tracked closely and appropriate action is initiated.

Large value exposures are assessed based on qualitative and quantitative parameters. An internal rating model uses these quantitative and qualitative inputs to assess the risk profile of the borrower. Internal rating is mandatory for approval of large value exposure and the rating is reviewed periodically.

As per the Board approved lending policy, the Bank maintains a robust internal rating mechanism in line with conventional rating standards. Based on the aggregate score, ratings range between CR1 – Lowest risk to CR 9 – Default Grade.

2.3 Concentration Risk

The Bank manages concentration risk by means of prudential limits as directed by the RBI as well as internal limits. Credit concentration in the Bank's portfolios is monitored for the following:

- *Single/Group party exposure:* The Bank has individual borrower-wise exposure limits as well as group-wise borrowing limits which are continuously tracked and monitored
- *Geography-wise exposure:* The Bank continuously monitors the geographical concentration of the business and factors the inputs into strategic business planning. The bank is aware of its concentration in the South, especially Tamil Nadu, and is taking steps to reduce the same by growing the retail book in other regions and through product diversification
- *Industry exposure:* The Bank tracks the exposure to specific industries as also sensitive sectors. The analysis further contributes to formulating the growth strategy of the Bank

2.4 Portfolio Management

ESFBL monitors its portfolio across different parameters and analyses the spread of risk among different asset classes. The bank is taking steps to diversify the portfolio and increase the secured lending portfolio. It also analyses the portfolio performance of different customer segments within products as well as portfolio performance for known risk indicators such as LTV, tenure, geography, etc. ESFBL monitors portfolio at risk (PAR), which is an overdue portfolio (1 day overdue and more) across products and business lines to identify any impending stress.

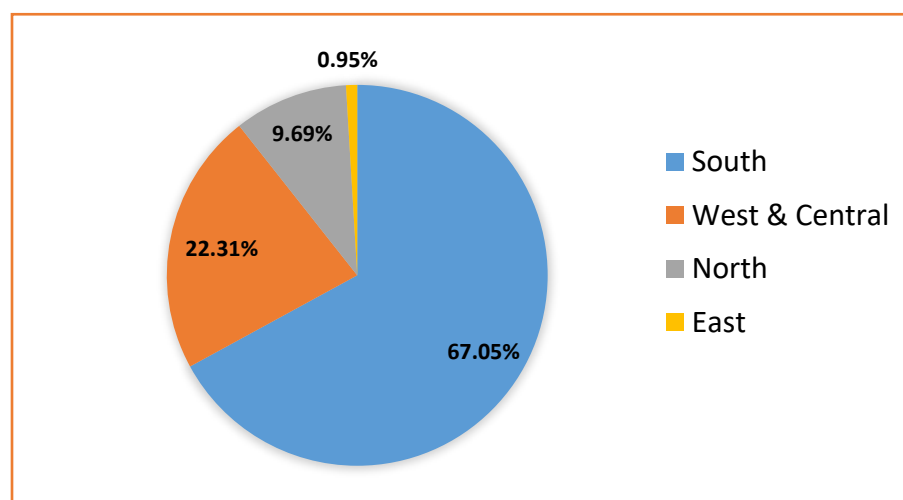
2.5 Credit Exposures & Risk Summary

a) Exposure – Facility Type

S. No.	Exposure Type	₹ in lakhs
1	Fund Based*	31,97,947
2	Non Fund Based	560
	Total	31,98,507

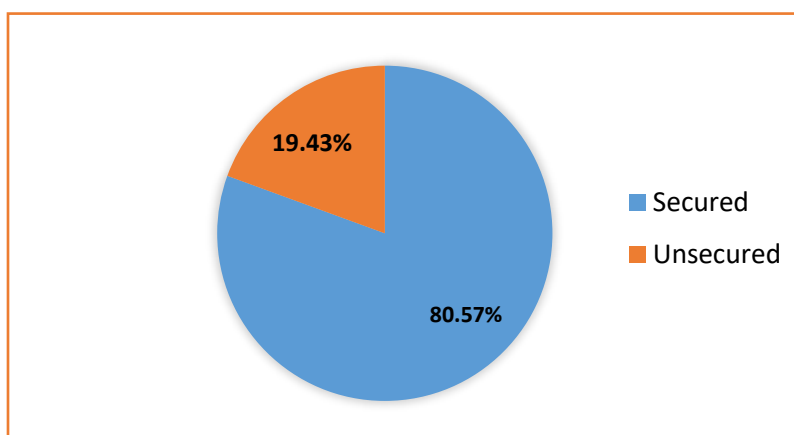
*Fund based exposures (net of provisions) also include Balance with Banks as well as investments and excludes SLR, reverse repo with RBI & managed assets. Exposure is net of IBPC.

b) Geographic distribution of loan portfolio:



This is based on the loan and advances book for credit risk exposure.

c) Distribution of portfolio between secured and unsecured businesses :



Note - Unsecured Loans includes top-up Loans in Vehicle finance, in line with latest circular from RBI (excludes investment exposures)

d) Industry-wise distribution:

Industry type	Exposure(in lakhs)	% of Exposure
Retail [#]	22,11,427	69.14%
- of which Microfinance	5,58,545	
- of which Housing	2,77,351	
Commercial Real Estate [#]	12,230	0.38%
Vehicles	7,19,629	22.50%
NBFC ^{\$}	1,18,028	3.69%
Banks [*]	17,579	0.55%
Other Financial Intermediaries [^]	16,046	0.50%
Other industries [@]	1,03,568	3.24%
Total	31,98,507	100.00%

^{*}Balance with Banks (includes Certificate of Deposits)

[#]Exposure to CRE & Retail is net-off IBPC

[@]Other industries include Non-Fund Exposure

[^]Other Financial Intermediaries includes CCIL, investment in Equities, exposure to PTC Securitised transaction & Security receipts

^{\$}Includes exposures on NBFCs by way of NCDs

e) **Maturity pattern of Assets**

(₹ In lakhs)

Maturity Bucket	Cash & RBI Balance	Balance with Banks and Placements	Investments	Loans & Advances*	Fixed assets	Other assets	Total
Day 1	99,733	749	2,72,793	1,426	-	1	3,74,703
2 - 7 Days	1,20,000	0	10	20,792	-	660	1,41,462
8 - 14 Days	0	0	0	24,541	-	3,864	28,405
15 - 30 Days	9,948	0	42,595	34,005	-	62,260	1,48,808
31 Days & up to 2 Months	6,174	0	26,436	1,06,172	-	4,922	1,43,705
Over 2 Months & up to 3 Months	4,154	0	17,784	77,711	-	3,174	1,02,823
Over 3 Months & up to 6 Months	8,455	0	45,919	2,48,190	-	4,319	3,06,882
Over 6 Months & up to 1 Year	30,909	5,474	1,32,341	4,43,699	-	23,758	6,36,181
Over 1 Year & up to 3 years	35,798	1,637	2,03,243	12,08,305	-	1,396	14,50,379
Over 3 Years & up to 5 years	26,110	0	1,27,909	3,94,984	-	451	5,49,454
Over 5 Years	8,755	0	37,496	6,54,604	60,473	4,258	7,65,586
Total	3,50,035	7,860	9,06,527	32,14,430	60,473	1,09,062	46,48,387

*Note: Loans & Advances are grossed up for IBPC

Quantitative disclosures

Credit Exposure by Risk Weights

The Bank has adopted Standardized Approach for computation of capital charge for Credit Risk as per RBI guidelines. These guidelines envisage different risk weights for different asset classes, which have been duly applied. Institutional lending is risk-weighted as per ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by RBI.

₹ In lakhs

S. No.	Risk Weight	Amount of Exposure *
1	Below 100% risk weight	26,87,890
2	100% Risk weight	2,22,837
3	More than 100% risk weight	2,87,780
	Total	31,98,507

*Exposures (net of provisions) include Balance with Banks and exclude SLR, reverse repo with RBI & managed assets. Exposure is net of IBPC.

- For Exposures with a contractual maturity of less than or equal to one year (except Cash Credit, Overdraft and other Revolving Credits), Short-term Ratings given by approved Rating Agencies are used.
- For Cash Credit, Overdraft and other Revolving Credits (reckoned as long term exposure) and for Term Loan exposures of over 1 year, Long Term Ratings are used.
- The Bank has, in accordance with RBI guidelines, transferred public ratings on to comparable assets in the banking books in the following manner
 - All long term and short term ratings assigned by the credit rating agencies specifically to the Bank's long term and short term exposures respectively are considered by the Bank as issue specific ratings
 - Long term ratings issued by the chosen domestic credit rating agencies have been mapped to the appropriate risk weights applicable as per the standardized approach.

The rating to risk weight mapping as given below is adopted for domestic corporate exposures, as per RBI guidelines:

Long Term Rating	AAA	AA	A	BBB	BB & Below	Unrated
Risk Weight	20%	30%	50%	100%	150%	100%

In respect of issue specific short term ratings the following risk weight mapping has been adopted by the Bank, as provided in the RBI guidelines:

Short Term Rating	A1+	A1	A2	A3	A4 & D	Unrated
Risk Weight	20%	30%	50%	100%	150%	100%

- The key aspects of the Bank’s external ratings application framework are as follows
 - The Bank uses only those ratings that have been solicited by the counterparty
 - The risk-weighting of corporate exposures based on the external credit rating includes the following.
 - The Bank ensures that the external rating of the facility/borrower has been reviewed at least once by the ECAI during the previous 15 months and is in force on the date of its application.
 - When a borrower is assigned a rating that maps to a risk weight of 150%, then this rating is applied on all the unrated facilities of the borrower and risk weighted at 150%.

ESFBL follows the RBI guidelines that outlines specific conditions for facilities that have multiple ratings, as detailed below.

- If there is only one rating by a chosen credit rating agency for a particular claim, that rating would be used to determine the risk weight of the claim.
- If there are two ratings accorded by chosen credit rating agencies that map into different risk weights, the higher risk weight should be applied.
- If there are three or more ratings accorded by chosen credit ratings agencies with different risk weights, the ratings corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights should be applied, i.e., the second lowest risk weight.

Credit Risk Mitigation

Portfolio covered by eligible financial collateral are as below -

₹ In lakhs				
S. No.	Particulars	Outstanding	Credit Risk Mitigation	Net Exposure
1	Gold Loan	21,072.69	21,072.69	0.00
2	Loan against FD	26,392.02	26,370.60	21.42

2.6 Classifications of Non-Performing Assets

a. Classification

Advances are classified as Performing Assets (Standard) and Non-performing Assets (NPAs) in accordance with the RBI guidelines on Income Recognition and Asset Classification (IRAC). Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. The advances are stated net of specific provisions made towards NPAs, unrealized interest on NPAs, if any etc. Interest on NPAs is transferred to an interest suspense account and not recognized in the Profit and Loss Account until received.

b. Provisioning

Provision for non-performing advances comprising Sub-standard, Doubtful and Loss Assets is made at a minimum in accordance with the RBI guidelines. In addition, specific loan loss provisions in respect of non-performing assets are made based on management's assessment and estimates of the degree of impairment of advances, based on past experience, evaluation of security and other related factors; the nature of product and delinquency levels. Loan loss provisions in respect of non-performing advances are charged to the Profit and Loss Account and included under Provisions and Contingencies.

Provisions made in excess of the Bank's policy for specific loan loss provisions for non-performing assets and regulatory general provisions are categorized as Floating Provision. The Bank up to a level approved by the Board of Directors considers creation of Floating Provision. In accordance with the RBI guidelines, Floating Provisions are utilised up to a level approved by the Board with prior permission of RBI, only for contingencies under extraordinary circumstances for making specific provisions for impaired accounts.

Amount of NPA as on March 31, 2024

S. No.	Category	₹ in Lakhs
A	Amount of NPA (Gross)	82,127.72
A.1	Substandard	51,597.33
A.2	Doubtful	29,316.39
A.3	Loss	1,214.00
B	Net NPA	36,089.88
C	Advances	-

C.1	Gross Advances*	31,42,467.83
C.2	Net Advances	30,96,429.99
D	NPA Ratios	-
D.1	Gross NPA to gross advances (%)	2.61%
D.2	Net NPA to net advances (%)	1.17%

*Gross advances is net of IBPC of Rs.1,180 crore

Movement of NPA for the YTD ending March 31, 2024

Particulars	₹ in lakhs	
	Gross NPA	Net NPA
Opening balance	72,396.46	31,201.64
Addition during the period	1,13,887.11	68,512.75
Reduction/write-off during the period	1,04,155.86	63,624.52
Closing balance	82,127.71	36,089.87

Movement of Provision for the YTD ending March 31, 2024

Particulars	₹ in lakhs
Opening balance	41,194.82
Provision made during the period	45,374.36
Write off/ write back excess provision	40,531.34
Closing balance	46,037.85

3. Leverage Ratio

The Bank is also assessing leverage ratio as per Basel III framework. Leverage ratio is a non-risk based measure of exposure over capital. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements.

$$\text{Leverage Ratio} = \frac{\text{Capital Measure (Tier I Capital)}}{\text{Exposure Measure}}$$

Leverage Ratio		
	Particulars	(₹ in Lakhs)
On balance sheet exposure		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	45,30,387
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(54,275)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	44,76,112
Other off-balance sheet exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)/	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	-
Other off-balance sheet exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	92,931
18	(Adjustments for conversion to credit equivalent amounts)	(76,095)
19	Off-balance sheet items (sum of lines 17 and 18)	16,836
Capital and total exposures		
20	Tier 1 capital	5,12,838
21	Total exposures (sum of lines 3, 11, 16 and 19)	44,92,948
Leverage ratio		
22	Basel III leverage ratio	11.41%

Summary comparison of accounting assets vs. leverage ratio exposure measure		
	Particulars	(₹ in Lakhs)
1	Total consolidated assets as per published financial statements	45,30,387
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	(54,275)
4	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	16,836
5	Other adjustments	-
6	Leverage ratio exposure	44,92,948

4. Liquidity Risk

Liquidity refers to Bank's ability to fund an increase in assets or withdrawal of liabilities and meet both expected and unexpected cash & collateral obligations at reasonable cost without adversely impacting its financial condition. The liquidity risk arises when the Bank is unable to meet such obligations. The Bank's Asset Liability Management Committee (ALCO) is responsible for overseeing the management and governance of liquidity risk.

Liquidity risk management in the Bank (standalone) is governed by Board approved Asset Liability Management (ALM) Policy which provides the framework for its monitoring & management. The Bank actively manages its liquidity risk covering both market funding risk and market liquidity risk. The Bank maintains a diversified funding profile with emphasis on building retail franchise to increase customer deposits. The Bank ensures that there is sufficient liquidity headroom available, including liquid assets, at all times to manage any contingency. Liquidity risk is assessed from both structural and dynamic perspective and the Bank uses various approaches like stock approach, cash flow approach & stress test approach to assess liquidity risk. The Bank uses liquidity gap analysis to measure cash flow mismatches at different time bands. The cash flows are bucketed based on the residual maturity or expected behavior of assets, liabilities and off-balance sheet items.

The Bank also manages its liquidity on a dynamic basis to supplement the liquidity gap analysis by estimating net cash outflow or inflows for business units considering their business projection for the next 3 months. The Bank also employs stock approach to assess various aspects of liquidity risk such as stability of funds, liquid assets cover, funding concentration, etc.

The Bank follows scenario-based approach for Liquidity Stress Testing. These scenarios & assumptions are employed to evaluate the impact of stress on the existing liquidity position of the Bank. Market Liquidity Risk is considered through haircuts to sell liquid assets considering instrument type, expected change in interest rate in liquidity crisis, etc.

The Bank had also implemented Basel-III liquidity standard i.e., Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR measures the adequacy of High Quality Liquidity Asset to cover short-term net outflows under severe stress conditions. These measures have been incorporated as part of Bank's risk appetite definitions and thresholds. The Bank had implemented LCR framework since January 2016 and the LCR was maintained well above the regulatory threshold at all times. The average LCR for the quarter ended Mar 31, 2024 is 152.76% as against RBI minimum requirement of 100%. The Net Stable Funding Ratio (NSFR) measures the ratio of Available Stable Funding (>1 year) and the Required Stable Funding (>1 year) to support long-term lending and other long-term assets. The Bank's NSFR is 120% for quarter ended Mar 31, 2024 as against RBI minimum requirement of 100%.

5. Market Risk

Market Risk may be defined as the possibility of loss to a bank caused by changes in the market variables such as interest rates, credit spreads, equity prices, etc. The market risk for the Bank is governed by 'Market Risk Management Policy' and 'Treasury & Investment Policy', which are approved by the Board. These policies ensure that transactions in debt and capital markets are conducted in accordance with acceptable business practices and are as per the extant regulatory guidelines.

Market Risk Management unit is independent of the dealing function and the settlement function and reports directly to the Chief Risk Officer. The unit is responsible for identifying and escalating any risk, limit excesses on a timely basis. This unit ensures that market risks are identified, assessed, monitored and reported for management decision making.

For Small Finance Bank, Reserve Bank of India had not prescribed capital charge for market risk. Since market risk framework also covers specific risk charge, the credit risk in the trading book is assessed and risk weighted assets so computed are included under credit risk.

6. Interest Rate Risk in Banking Book

Adverse movements in interest rates can affect both interest earnings and fair or economic value of the financial instruments. The very nature of the financial intermediation business makes the Bank susceptible to interest rate risk and unmanaged risk could potentially pose a significant threat to the Bank's earnings and capital. Interest rate risk results from both trading book and banking book. The impact of interest rate risk on trading book is actively measured using trading book risk metrics like PV01, duration, etc. For banking book, interest rate risk arises through mismatches in re-pricing of interest rate sensitive assets (RSA), rate sensitive liabilities (RSL) and rate sensitive off-balance sheet items.

As interest rate risk can impact both net interest income (NII) and value of capital, it is assessed and managed from both earning and economic perspective. Assets Liabilities Management Committee (ALCO) is the guiding body for management of IRRBB in the Bank and ensures adherence to the overall policy and risk limits as approved by the Board. Earning at Risk (EaR) is a short term interest rate risk measure which assesses the change in NII by estimating the impact on interest income from rate sensitive assets and interest expense on rate sensitive liabilities including off-balance sheet items. The Bank had set limit for change in NII for a given change in interest rates to manage the re-pricing gaps. Bank also uses Market Value of Equity (MVE), which is a long term risk measure to assess the change in value of equity due to change in market value of asset and liabilities. The duration gap approach is used to determine the sensitivity of MVE. Modified duration is computed for all assets, liabilities (excluding equity capital) and rate sensitive derivatives to assess the Leveraged Duration Gap / Duration of Equity. Leveraged Duration gap is computed and is subject to interest rate shocks to assess the impact on MVE. Bank has defined a threshold for change in MVE as percentage of net-worth for a given change in interest rate.

Details of increase (decline) in earnings and market value of equity for upward (downward) rate shocks based on the Balance Sheet as at Mar 31, 2024 are given below:

₹ In lakhs

Interest Rate Risk (Banking Book)		31-Mar-2024	
		If Interest rate were to go up by 100 bps	If Interest rate were to go down by 100 bps
Earning Perspective	Impact on NII	-2,026	2,026
Economic Perspective	Impact on MVE	-46,138	46,138

7. Operational Risk

Operational Risk is “the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. It excludes Strategic and Reputational Risks but includes Legal Risk”. Strategic and Reputational risks are second order effect of Operational Risk. Legal risk includes, however is not limited to, exposure to penalties, fines, punitive damages arising out of supervisory action, civil litigation damages, related legal costs and any private settlements.

Operational Risk Management Committee (ORMC) chaired by MD & CEO is constituted to supervise on implementation of Operational Risk Management Framework in the Bank. The Committee guides, and oversees the functioning, implementation, and maintenance of operational risk management activities of Bank, with special focus on:

- Process review: All new processes including amendments, BRD, URD and so on are subject to a mandatory review by the Operational Risk Management Department (ORMD).
The Risk and Control Self-Assessment (RCSA) is conducted by the ORMD for all the processes, along with the relevant stakeholders. Process Approval Panel (PAP) takes into consideration the RCSA, with control rating and risk rating, before approving any process. The CRO is also a member of PAP.
- Monitoring Key Risk Indicators (KRI): The Bank has identified KRI across 15 functional to monitor risk as part of the ORM Framework. The thresholds for each of the KRIs have been finalized in consultation with the stakeholders.
- Operational Risk Loss Database Management: Operational Risk incidents are reported by employees in incident reporting tool. These incidents are reviewed and are classified as per Basel Risk Types.

The gap resulting in OR incidents are subsequently reviewed to identify the cause and take corrective action and preventive action, as applicable. The critical incidents are presented to ORMC for review and guidance to strengthen the controls.

- Outsourcing Risk Assessment: ‘Outsourcing’ is defined as the Bank’s use of a third party (either an affiliated entity within the corporate group or an entity that is external to the corporate group) to perform certain activities on a continuing basis that would normally be undertaken by the Bank itself, now or in the future.

Key activities undertaken during Outsourcing risk assessment includes pre-onboarding risk assessment of the partners covering financial strength, shareholding pattern to identify ultimate beneficial owner and internal controls available in the firm.

- Business Continuity Management: Business Continuity Management is in place to provide continued service to the customers during any unforeseen adverse events or circumstances.

Business Continuity Plan has well defined roles and responsibilities for IT activities through Disaster Recovery program and non-IT through simulation across the branches towards bank's continuity preparedness.

Periodic drills are exercises for testing the effectiveness of these recovery plans. These robust practices have enabled the bank to continue delivering banking services seamlessly to customers throughout the COVID-19 pandemic phases with a hybrid approach comprising of well-adopted continuity and recovery strategies like remote working (work from home) and staff transfer to available sites.

The Bank has established a Business Continuity Management Committee at management level to monitor the business continuity preparedness of the Bank on an on-going basis. The Committee reports on to the RMC of the Board.

8. Information and Cyber Security

ESFBL is committed to information security & compliance and follows the Cyber Security framework for Banks as mandated by RBI. There is an independent information security group, which addresses information and cyber security related risks. The function is governed by a Board approved policies on information security and cyber security. These policies are supported by sub-policies, procedures and process documents.

Robust risk assessment framework is in place to perform information security risk assessments.

The Bank carries out periodical awareness exercise to ensure employees are updated on information security practices. The information security function is driven by both technology and process driven controls. The bank has put in place a layered security defence and this include firewalls, intrusion prevention system and anti-DDoS at perimeter level; IPSec and TLS encryption at channels level; Tiered architecture to make sure the placement of servers and components at different zones including DMZ and trusted zone; proactive defence through Web Application firewall, Vulnerability Assessment and Penetration testing, well defined rules in Proxies and next

generation anti-virus systems. Bank has secured the email gateway through DMARC and SPAM controllers and implemented a data leakage prevention solution. Bank has also implemented SSO (Single Sign On) covering critical applications under centralized user identification and authentication system.

A security operation centre is in place which monitors alerts and anomalies 24x7. This monitors the Bank's perimeter and internal network and systems. Bank has put in place Anti Phishing and Anti Rogue application identification and take down as part of its brand monitoring initiatives.

Bank has put in place controls to ensure security controls are on par to the defined standards, as well as continue to maintain work environment where the work force connect remotely. Bank has conducted phishing awareness to its employees through simulation and also through emails. Bank also has sent awareness to customers through emails, SMSs, social media handles etc. as part of Cyber Jagrookta Diwas campaigns. Further the advisories and alerts from regulators and CERT-In are acted upon within time to make sure the banks cyber and information assets are protected.