**Hackathon and Crowd Sourcing:** The objective is to promote an outcome-based technology culture amongst start-ups and in-house developers, with the focus on developing cutting edge solution for your Bank in an agile manner.

**Intrapreneurship Scheme:** This scheme aims at collaborating with and incubating strong ideas from its employees in a focussed and directed way.

## V. CUSTOMER SERVICE

Your Bank has implemented a robust state-of-the-art CRM solution with a comprehensive Complaint Management System (CMS) as an integral feature of the system. The CRM solution helps your Bank's stakeholders with a 360O view of customers for an enhanced engagement. The CMS helps customers to lodge their complaints and receive their feedback, suggestions, and queries through its various channels such as Contact Centre, Website, SMS, Email as well as your Bank's Branches and Offices. State Bank of India's round-the-clock contact centres operate 24*7*365 from four different geographical locations, servicing its customers in Hindi, English and 10 major regional languages.

For improving the quality of resolution of customer grievances, your Bank has established dedicated Centralised Complaints Resolution Centres at the Local Head Office level. Proper and timely resolution of customer grievances is the priority. Towards this end, your Bank has introduced a system for seeking feedback from customers on how well it resolved their complaints. You Bank has also put in place a system of incognito visits to branches, for assessing the level of customer service and initiating corrective action if required. Furthermore, it conducts Root Cause Analysis across major areas of complaints on a continuous basis and carry out the required product and process improvements to reduce future complaints.

Your Bank has been aggressively embarking on digital banking and have earmarked several more processes for digitisation in the near future. Its CRM tool, backed by data analytics and artificial intelligence, is transforming customer experience and satisfaction for the better.

Your Bank conducted several outreach programmes such as Mega Customer Meets, and Customer Town Hall Meets during the year. It had also conducted Customer Service Surveys during the year and is utilising the results of these surveys for bringing about improvements. Your Bank has also conducted various campaigns for a reduction in complaints during the year, with encouraging results.

## 3. RISK MANAGEMENT

### A. RISK MANAGEMENT OVERVIEW

Risk Management at your Bank includes risk identification, risk assessment, risk measurement, and risk mitigation with its main objective to minimise the negative impact on profitability and capital.

Your Bank is exposed to various risks that are an inherent part of any banking business. The major risks are credit risk, market risk, liquidity risk, and operational risk, which also includes IT risk.

Your Bank is committed to creating an environment of increased risk awareness at all levels. It also aims at continually upgrading the appropriate security measures, including cybersecurity measures, to ensure avoidance or mitigation of various risks.

Your Bank has policies and procedures in place to measure, assess, monitor, and manage these risks systematically across all its portfolios, which makes it amongst the leaders to undertake the implementation of the advanced approaches under credit, market, and operational risk. With a view to adopt global best practices, State Bank of India has also initiated the enterprise and group risk management projects, which are being implemented with support from external consultants.

RBI Guidelines on Basel III Capital Regulations were implemented, and your Bank is adequately capitalised as per the current requirements under Basel III. An independent Risk Governance Structure, in line with international best practices, was put in place, in the context of separation of duties and ensuring the independence of risk measurement, monitoring and control functions. This framework visualises empowerment of Business Units at the operating level, with technology being the key driver, enabling identification and management of risk at the place of origination. The various risks across your Bank and the State bank of India Group are monitored and reviewed through the Executive Level Committees and the Risk Management Committee of the Board (RMCB), which meets regularly. Risk Management Committees at Operational unit and Business unit level are also in place.

### 1. CREDIT RISK MITIGATION MEASURES

Your Bank has put in robust credit appraisal and risk management frameworks in place for identification, measurement, monitoring and control of the risks in credit exposures. The industrial environment is scanned, researched, and analysed in a structured manner by a dedicated team for deciding its outlook and growth appetite for each of the identified 39 industries and sectors, which constitute about 72% of your Bank's total advances (excluding Retail and Agri). Risks in these sectors are monitored continuously, and wherever warranted, the industries concerned are reviewed immediately. Impact of events such as Supreme Court Ruling on License Fees and Spectrum Usage Charges in Telecom Sector, liquidity risk management framework for NBFC, export subsidy in Sugar industry, falling prices and rising imports from FTA countries in Steel sector, to name a few, were analysed and appropriate responses to these situations were strategised by your Bank to mitigate possible risks. Exposure to sensitive and stressed sectors such as Real Estate and Telecom are being reviewed at half-yearly intervals. Sectors such as Power, Telecom, Iron and Steel, Textiles, which are going through a challenging phase, are watched continuously, and analysis of new developments are shared with the business groups to enable them to make informed credit decisions. Knowledge sharing sessions are conducted for the benefit of the operating staff at various levels.

Credit rating thresholds for each industry are decided based on the outlook. Your Bank uses various internal Credit Risk Assessment Models and scorecards for assessing borrower wise credit risk.

Models for internal credit ratings of the borrowers were developed in- house. They are reviewed through cycles of comprehensive validation and back-testing frameworks. Bank also has in place 'Dynamic Review of Internal Rating' framework, which facilitates early identification of stress and mitigation mechanism.

It has adopted an IT platform for credit appraisal processes through a Loan Origination Software/Loan Lifecycle Management system (LOS/LLMS). Models developed by your Bank are hosted on these platforms, which are interfaced with CIBIL and RBI defaulters' lists.

Risk-Adjusted Return on Capital (RAROC) framework is in place. The Customer level RAROC calculation has also been digitised. Further, behavioural models for monitoring and scoring the retail borrower performance were developed and hosted on Credit Risk Data Mart. Your Bank has procured the ORACLE "OFSAA" platform for the Credit Risk Management System, and the implementation of the system is being done in phases.

State Bank of India has put an improved mechanism in place to manage Credit Concentration Risk, by way of risk-sensitive Internal Prudential Exposure Limits framework for single as well as group borrowers. These limits are fixed based on the internal risk rating of the borrower.

This framework is one step ahead of the regulatory prescription of Prudential Exposure norms, which is 'one size fits all' in nature. These exposure norms are monitored regularly at defined periods.

Your Bank conducts Stress Tests every half-year on its Credit portfolio. Stress Scenarios are regularly updated in line with RBI guidelines, industry best practices and changes in macro-economic variables.

Your Bank undertakes specific analytical studies to identify trends in the movement of NPAs, a quarterly review of loan sanction, time-to-default, amongst others, to keep track of the quality of asset portfolio regularly.

RBI has allowed your Bank to participate in the parallel run process for Foundation Internal Ratings Based (FIRB) under the Advanced Approaches for Credit Risk. The data under a parallel run of FIRB is being submitted to RBI. Models for estimation of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) are hosted in Credit Risk Datamart for computation of IRB capital.

A new role of Portfolio management was created under the Risk Management Department. Credit Portfolio Management function will focus on both profitability and risk view while performing portfolio management activities. The key functions comprise portfolio risk appetite and target definition, portfolio packaging, risk assessment and review, and portfolio optimisation, amongst others.

## 2. MARKET RISK MITIGATION MEASURES

Market risk is managed through a well-defined Board-approved Investment Policy, Trading Policy and Market Risk Policy that caps risk in different trading desks or various securities through trading risk limits/triggers. These risk measures include position limits, gap limits, tenor restrictions, sensitivity limits, namely, PV01, Modified Duration, Value-at-Risk (VaR) Limit, Stop Loss Trigger Level, Options Greeks and are monitored on an end-of-day basis. Besides, forex gap limits are computed and monitored on an intraday basis.

Value at Risk (VaR) is a tool used for monitoring risk in your Bank's trading portfolio. Enterprise-level VaR of your Bank is calculated daily and backtested daily. The Stressed VAR for market risk is also computed daily. This is supplemented by a Board-approved stress testing policy and framework that simulates various market risk scenarios to measure stress losses and initiate remedial measures.

The market risk capital of your Bank is computed using the Standardised Measurement Method (SMM) applying the regulatory factors.

Your Bank undertakes risk-adjusted performance analysis of its domestic and overseas portfolios. It also analyses the credit rating migration of non-SLR bonds as a tool for decision making.

## 3. OPERATIONAL RISK MITIGATION MEASURES

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Key elements of your

Risk Awareness Day Pledge Being Administered by the Chairman

Bank's Operational Risk Management include timely incident reporting and ongoing review of Systems and Controls, enhancing of risk awareness through Risk & Control Self-Assessment (RCSA) and Risk Awareness Workshops (RAW), monitoring of Key Risk Indicators(KRIs) and aligning Risk Management activities with Business Strategy.

Your Bank has a detailed Business Continuity Plan (BCP) in place for ensuring continuity of operations at the Branches and Offices during disruptions. The BCP has enabled us to ensure minimum business disruption during natural disasters, which occurred during the year, such as the spread of COVID -19 disease. During this pandemic, your Bank has not only taken steps to prevent the staff from this disease but help the society by providing uninterrupted essential Banking services to the customers. Also, your Bank ensured availability of ATMs round the clock and smooth functioning of Net Banking, YONO, Mobile Banking, amongst others.

All these components minimise your Bank's Operational Risk in various products and processes besides ensuring compliance with regulatory requirements.

For FY2020, your Bank has allocated capital for Operational Risk as per Basic Indicator Approach (BIA).

Additionally, your Bank observes Risk Awareness Day on 1st September annually to improve risk culture in your Bank. As part of Sensitisation, Risk awareness day pledge was administered, and an online quiz contest was conducted for your Bank employees. Furthermore, risk awareness is also being embedded through the training system at all levels. Your Bank organised a training for CFOs of the circle, DGM (Risk) of Business units and Circle ORMs, where not only the DMD(CRO) and DMD (COO) addressed the participants but also a presentation was made by the outside consultant on the new and emerging risks.

## 4. ENTERPRISE RISK MITIGATION MEASURES

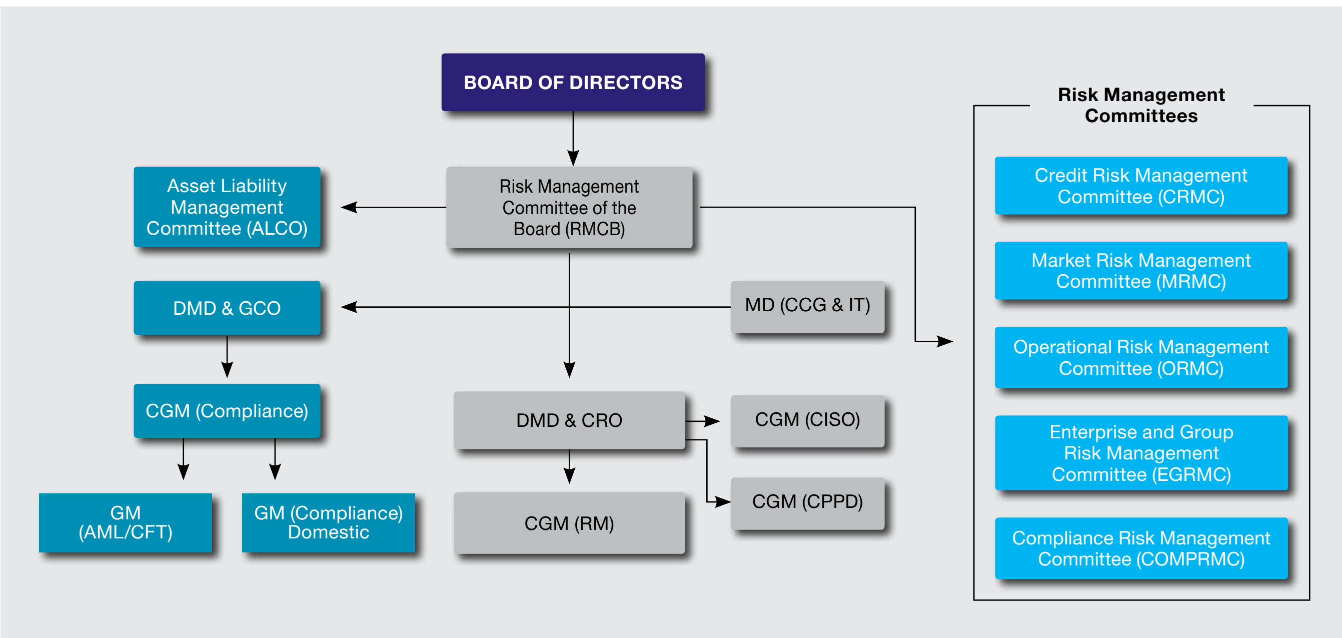
Enterprise Risk Management aims to put in place a comprehensive framework to manage and align risk with strategy at the whole Bank level. It encompasses global best practices such as Risk Appetite, Material Risk Assessment and Risk Aggregation, amongst others.

As part of your Bank's vision to transform the role of Risk into a Strategic function, a Board-approved Enterprise Risk Management (ERM) Policy is in place.

With an objective of maintaining a sound risk profile, your Bank has developed a Risk Appetite Framework incorporating limits for major risk metrics. For the promotion of a strong risk culture in your Bank, Risk Culture Framework is being operationalised in a phased manner. As a part of Material Risk Assessment Framework, a quarterly analysis of risk-based parameters for Credit Risk, Market Risk, Operational Risk and Liquidity Risk, amongst others, is presented to the Enterprise and Group Risk Management Committee (EGRMC)/ Risk Management Committee of the Board (RMCB).

Your Bank conducts a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) exercise every year with respect to the adequacy of Capital under normal and stressed conditions. In the ICAAP, besides the Pillar 1 risks, such as Credit Risk, Market Risk and Operational Risk, Pillar 2 Risks, such as Liquidity Risk, Interest Rate Risk in Banking Book (IRRBB), Concentration Risk and others are also assessed, and capital is provided if required. New and emerging risks are identified and discussed in the ICAAP.

**Risk Management Structure:**



## 5. GROUP RISK MITIGATION MEASURES

Group Risk Management aims to put in place standardised risk management processes in Group entities. Policies relating to Group Risk Management, Group Liquidity and Contingency Funding Plan (CFP), Arm's Length and Intra Group Transactions and Exposures are in place.

Monitoring of consolidated Prudential Exposures and Group Risk components is being done regularly. The Group Internal Capital Adequacy Assessment Process (Group ICAAP) document includes an assessment of identified risks by Group entities, internal controls and mitigation measures, and capital assessment, under normal and stressed conditions. All Group entities where State Bank of India has 20% or more stake and management control, including Non- banking entities, carry out the ICAAP exercise and a Group ICAAP Policy is in place to ensure uniformity.

## 6. BASEL IMPLEMENTATION

Your Bank is identified as D-SIB by the Regulator and is required to keep additional Common Equity Tier 1 (CET1) of 0.60% of RWAs applicable from 1st April, 2016 in a phased manner. It has become fully effective from 1st April, 2019. Additionally, it has also started maintaining Capital Conservation Buffer (CCB) in a phased manner and has to reach level of 2.5% as on 30th September, 2020.

## B. INTERNAL CONTROL

Internal Audit (IA) in your Bank is an independent activity and has sufficient standing and authority within your Bank. The IA Department, headed by a Deputy Managing Director, works under the guidance and supervision of the Audit Committee of the Board. Your Bank's IA function works in close co-ordination with the Risk Management and Compliance Departments to evaluate effectiveness of controls, assess compliance with controls and adherence to internal processes and procedures. The IA function undertakes a comprehensive risk-based audit of the operating units of your Bank, in line with regulatory guidelines relating to Risk Based Supervision.

Keeping pace with rapid digitalisation in your Bank, the IA function has initiated technological interventions for providing enhanced efficiency and effectiveness through system driven and analytics-based audits.

**Some key initiatives include the following:**

- Web based, online Risk Focused Internal Audit (RFIA) for assessing compliance with controls at a granular level.
- Analytics based, continuous assessment of compliable controls through remote evaluation of huge data.
- System driven, analytics based off-site monitoring of transactions.
- Concurrent Audit of business units to ensure contemporaneous scrutiny of compliances.
- Early review of sanctions to assess quality of loans of ₹1 crore & above.
- Online self-audit by branches for self-assessment by branches and vetting by controllers.

As part of RFIA, IA Department conducts various audits, viz. Credit Audit, Information Systems Audit, Cyber Security Audit, Home Office Audit (audit of foreign offices), Concurrent Audit, FEMA Audit, Audit of Outsourced Activities of your Bank, Expenditure Audit and Compliance Audit.

Your Bank has created a new wing at IAD to strengthen the overview of the audit of banks aggregate risk assessment processes.

In addition to this, it undertakes Management Audit of business verticals to assess their strategic effectiveness and Thematic audits as per the directions of the Audit Committee or the regulators.

**Branch Audit**

IA Department undertakes critical review of the operations of auditee units through RFIA, an adjunct to Risk Based Supervision, as per RBI directives. The domestic branches are broadly segregated into three groups (Group I, II and III) based on business profile and advances exposures. Your Bank has initiated a system driven process for identification of branches for audit, whereby, analytical algorithms are deployed to identify units displaying significantly different behavioural patterns. This enables your Bank to step in with a prioritised audit to identify the causative factors at these outlier branches and flag the underlying problem areas for early intervention.