



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), maintaining Arm's Length and requirements for Intra Group Transactions and Exposures are in place. Additionally, monitoring of the consolidated Prudential Exposures and Group Risk components is being done regularly.

All Group entities where SBI 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

The RBI Guidelines on Basel III Capital Regulations have been implemented, and your Bank is adequately capitalised as per current requirements, including maintaining the required level of Capital Conservation Buffer (CCB). Your Bank is identified as D-SIB by the Regulator and

is accordingly required to keep additional Common Equity Tier 1 (CET1) of 0.60% of RWAs from 1st April, 2019.

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 and 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 its 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 four groups (Group I, Special 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.

During FY2021, the IA Department has completed RFIA of 12,359 units of Domestic Branches & Central Processing Centres (CPCs). Further, Evidence Based Compliance Testing (EBCT) was completed in 3,388 branches identified under Trigger Based Audit (TBA).

Credit Audit

Credit Audit is an integral part of Risk Based Internal Audit system, aimed at identification of inherent business risk (credit risk), evaluation of effectiveness of control systems for monitoring the inherent risks (control risk) and may also suggest the remedial measures for controlling the credit risk underlying the high value loan portfolios.

Bank has put in place Risk Focused Credit Audit (RFCA), an effective tool for periodic evaluation of quality of the credit portfolio and to bring about qualitative improvement in credit administration, maintaining the integrity of credit rating process, portfolio quality, through critically examining individual large commercial loans with exposures of above ₹20 crore annually.

Early Review of Sanction

A review of all eligible sanction proposals with total credit exposure of above ₹1 crore is carried out under 'Early Review of Sanctions'(ERS). ERS captures the critical risks in sanctioned proposals at an early stage and apprises the Business Units of such risks for mitigation thereof. ERS facilitates in improving the quality of sourcing, pre-sanction and sanction processes. ERS activity has been recently Centralised and under this initiative the services of in-house officers/Chartered Accountants are being taken in place of retired officials for Review of Loan Proposals. This is for the purpose of better control and monitoring and also to build a professional team for Loan Review under ERS. The entire ERS process is system driven and done through the Loan Lifecycle Management Solution.

FEMA Audit

The branches that are authorised to deal (Authorised Dealers) in Foreign currency transaction, including Trade Finance Centralised Processing Cells-TFCPC are subjected to FEMA audit. All branches in CAG/CCG/TFCPCs and "A" & "B" category branches not linked to TFCPCs are audited once in a year. Around 20% of branches linked to TFCPC are also audited along with the linked TFCPC depending on the risk perception/volume of Forex operations of the linked branches. During FY2021, 479 such branches/units are subject to FEMA audit.

Information System and Cyber Security Audit

Your Bank's branches are subjected to Information System audits ("IS Audits") to assess the IT-related risks as part of RFIA of the branch(es). IS Audit of centralised IT establishments is also carried out by a team of qualified officials, which includes IS auditors appointed through lateral recruitment. During FY2021, IS Audits of 84 centralised IT establishments were completed. In addition to this, a cyber-security audit of your Bank is also executed annually, as per the Cybersecurity Policy of your Bank. Also, ISA takes care of audit of IT-outsourced activities.

Foreign Offices Audit

Foreign Offices are subjected to Home Office Audit in addition to Internal Audit conducted locally at the respective centres under the oversight of Internal Audit Department. Home Office Audit due at 17 Foreign Offices and Management Audit due at 1 Representative Office and 1 Subsidiary during FY2021, is deferred to FY2022 due to restrictions imposed on account of COVID-19 pandemic. However, these offices were subjected to internal audit as per approved periodicity.

Concurrent Audit System (CAS)

Concurrent Audit System in your Bank covers advances and other risk exposures as prescribed by the regulatory authority. In order to further strengthen the CAS, all Extremely High Risk/Very High Risk/High Risk Branches, categorised as per the risk matrix prescribed by RBI are covered under CAS. Additionally, Concurrent Auditors are placed at all Credit Central Processing Cells to identify shortcomings in underwriting at a very early stage of the client relationship. Your Bank has engaged Chartered Accountant Firms in addition to the retired experienced bank officers and regular officers for audits.

Off-site Transaction Monitoring System (OTMS)

For the purpose of monitoring the transactions offsite, scenario-based alerts are generated and flagged to the business units for corrective actions. Presently, there are 54 types of scenarios embedded in the system against which the transactions are scrubbed at regular periods, wherein inconsistent transactions are flagged by the system for affirmation of the related compliances. The scenarios are periodically reviewed and enlarged, depending upon the need and certain triggers.

Legal Audit

Legal Audit in your Bank covers scrutiny of the loan and security related documents of loans amounting to ₹5 crore and above. The legal audit is a control function, carried out through a panel of advocates in addition to the scrutiny by the in-house team of internal auditors, to ensure that there are no shortcomings in the documents or creation of security in favour of your Bank. During FY2020-21, legal audit was carried out for 13,535 accounts.

Audit of Outsourced Activities (Non-IT)

Your Bank recognises the need of service providers engaged by your Bank to be as compliant with the legal and regulatory requirements as your Bank itself. Therefore, the Audit of Outsourced activities is conducted at regular intervals to gain a reasonable assurance that adequate systems and procedures are in place to mitigate legal, financial and reputational risks that may arise on account of the outsourced activities.

Audit of outsourced activities in your Bank covers audits of vendors (Non – IT) engaged in providing ATM services, Corporate Business Correspondents (BC), Individual BCs and CSPs, Recovery and Resolution agents, Cash Management Services, Cheque Book Printing, Collateral Management, Marketing of Loan proposals, Registrar and Transfer Agents, Document Archival Centre, and Cash Efficiency Project amongst others.

During FY2020-21, your Bank has completed audit of 30,384 CSPs out of 60,776 CSPs engaged under financial inclusion plan. In respect of other outsourced activities audit of 738 vendors as planned was completed.

RFIA of Corporate Centre departments

This Department was created to audit and assess the aggregate risk and maintain oversight of risk residing at the macro level. The risk assessment covers inherent risks, control risks, residual risks and gaps in Governance and oversight. It also assesses the degree of compliance to regulatory and statutory requirements". Thus, providing a fair and reasonable assurance to the Senior Management and Board, on the direction and trend of aggregate risk in your Bank.

Management Audit

Management Audit covers identified Corporate Centre establishments/Circle's Local Head Office/Regional Rural Banks sponsored by your Bank. The Strategy, Processes and Risk Management at auditee units are covered under the audit.

C. Compliance Risk Management

Your Bank gives utmost priority to meeting Regulatory and Statutory compliances. Towards this, we have completely revamped our compliance architecture to ensure a sharper focus for tracking areas

giving rise to compliance risks and for taking quick remedial steps.

A deep-rooted compliance culture is crucial for the Bank to manage its compliance risk effectively and this is being strengthened through various forms of communication and interactions across the organization.

To forestall any compliance risk, all products, process, policies are vetted from the Regulatory perspective before they are operationalized. A Compliance Risk Management Committee, comprising of Senior Executives from business verticals and support functions, maintains oversight on all compliance related issues. The committee meets regularly and extends necessary guidance to all the internal stakeholders for ensuring Regulatory compliance.

Compliance testing of RBI's regulations and remediation of gaps, if any, is regularly carried out. The testing universe is being expanded to ensure that the control mechanisms are in place to comply with all the regulatory requirements.

D. KYC / AML-CFT MEASURES:

Bank has a Board approved KYC Policy, in line with the extant RBI Master Direction. The Policy incorporates Bank's approach to KYC, AML and CFT issues. Bank has taken steps to implement provisions of Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, as amended from time to time.

The policy contains Banks framework for Customer Acceptance, Risk Management, Customer Identification and Monitoring of Transactions. Bank has put in place a robust system containing a combination of manual and system enabled methodology to ensure KYC compliance. No account is opened, in anonymous or fictitious/benami name or where the Branch/Business unit is unable to apply appropriate CDD measures. Bank does not open accounts for transacting in or settling transactions of virtual currencies. However, while implementing the policy, Bank takes care that it does not result in denial of banking services to those who are financially or socially disadvantaged.

To facilitate contactless customer onboarding, Video Customer Identification Procedure (V- CIP) has been rolled

out nationally. Using this process, new customers can open fully functional accounts without visiting any Branch.

AML CFT Deptt of the Bank takes care of ongoing due diligence through transaction monitoring. Bank follows a risk-based approach wherein Customers are categorized as low, medium and high risk, based on the assessment and risk perception. Bank takes care of filing of obligatory reports to Financial Intelligence Unit-India (FIU-IND). Suitable reports are also filed on priority in cases of accounts, suspected of having terrorist links.

Several initiatives are put in place to bring greater awareness amongst the staff. Ongoing employee training programmes are conducted by the Bank so that the members of staff are adequately trained in AML/CFT policy. AML-CFT Day is being observed on 2nd November every year wherein pledge is taken on that day at all branches/processing centers and Administrative Offices. Similarly, 1st August is observed as KYC Compliance and Fraud Prevention Day.

E. Insurance

Your Bank is procuring insurance policies, covering your Bank's assets and other risks. Insurance coverage includes cash and valuables, Properties of the Bank, Fraudulent transactions under Debit Card/Electronic banking, and Cyber Risk, amongst others.

F. Premises

IGBC Green Building Awards :

1. Our prestigious State Bank Bhavan building at Nariman Point has received the Excellence award in IGBC Performance Challenge 2020.
2. Further the IGBC rating of State Bank Bhavan has been upgraded to Gold from the existing Silver rating obtained in 2017. Remarkable improvements in areas such as water efficiency, Energy efficient lights, Energy efficient Sewage treatment plant, Cooling tower of air conditioning plant and Organic farming etc. have helped us in achieving this rating. We have also obtained "Platinum" Certification from IGBC for our "Dunedin Bungalow". At present, SBI has a total of eight IGBC rated Green Buildings.