RISK MANAGEMENT

Safeguarding our Interests Against Uncertainties

We have a robust and comprehensive Risk Management Framework to strengthen our capacity to recognise and address risks. Backed by an independent risk function, the Board oversees all facets of risk management.

Risk Governance Framework

At the forefront of the Bank's resilient risk governance structure lies the Board and its specialised Committees, entrusted with overseeing risk management practices. Leading this endeavour is the Risk Management Department (RMD), under the astute guidance of the Chief Risk Officer (CRO). Tasked with implementing and enforcing policies, procedures, and frameworks endorsed by the Bank's Risk Management (RM) and Executive Risk Committees, the RMD operates in strict accordance with RBI guidelines. Crucially, the Board plays a pivotal role in approving the roles and responsibilities of the CRO, ensuring alignment with regulatory directives. Reporting directly to the MD and CEO of the Bank, the CRO assumes a central position in steering the Bank's risk management strategies. Moreover, the RMD operates autonomously, devoid of business targets, and actively participates in critical decision-making forums. Endowed with the authority to formulate independent perspectives, the RMD serves as a vigilant guardian of the Bank's risk landscape, contributing significantly to its resilience and stability.

The Risk Management Department (RMD), headed by the Chief Risk Officer (CRO), takes responsibility for implementing and driving the policies, procedures, and frameworks approved by RM and executive risk committees of the Bank.
The CRO reports to the MD & CEO of the Bank.

Key Achievements of the RMD for Fiscal 2024

The Bank has invested in strengthening the risk infrastructure across multiple dimensions. During fiscal 2024, the Risk Department enhanced its oversight on subsidiaries by strengthening the Group Risk Management Framework. The Department also initiated steps to build toolkits that would help assess emerging risks such as ESG, as well as support emerging areas of distinctiveness for the Bank like Bharat Banking. Further, it conducted an organisation wide exercise around training mid-level officers in cyber security to cascade the cyber security awareness to the frontline.

The Bank also continued to focus on actioning around its operational risks and put in place time-bound plans to address the top critical risks facing the Bank. A digital risk framework was also put in place and continually enhanced to enable the Bank to build out its digital strategy in a risk-sensitive manner.

Key Focus Areas for the RMD for Fiscal 2025

Four most critical initiatives for fiscal 2025 revolve around Bharat Banking, cyber security, universal underwriting and, risk and compliance culture. These will contribute to a credit-led growth thrust in retail and rural spaces while balancing those with technology-related considerations through digital banking and cyber security, as well as building sustainability through a robust risk culture. The plan also includes undertaking other initiatives around subsidiary risk, operational risk, vendor risk, fraud risk, and digital risk.

Successful implementation of these initiatives will help the Bank to achieve its GPS objectives in a sustainable manner.

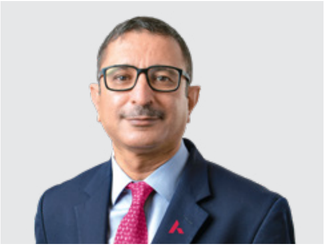
Risk Management Committee Members

G. Padmanabhan
Chairperson,
Independent Director

Amitabh Chaudhry
Member,
MD & CEO

Girish Paranjpe
Member,
Independent Director

Pranam Wahi
Member,
Independent Director



Munish Sharda
Member,
Executive Director

Risk Management Approach

Our risk management approach is built upon four essential pillars. These pillars provide a strong foundation to the process ensuring it is supported by well-defined policies for various risk categories, independent oversight, and regular monitoring by Board sub-committees.

Foundation Pillars

1

Risk Philosophy

The Bank's risk philosophy states that risk management is the collective responsibility of all employees. When making decisions, regulatory compliance, and reputation should be factored in, as compliance is non-negotiable and safeguarding reputation has equal weight in protecting financial losses.

2

Risk Appetite

The Risk appetite statement aligns business decisions with approved risk dimensions. Board-approved policies guide actions across departments, with Executive Committees providing specific instructions. The Risk department vets new initiatives to manage potential risks.

3

Risk Identification and Mitigation

RMD proactively identifies emerging risks and uncertainties for the Bank. Material risks are reported to the Board and RMC through various frameworks, including ICAAP and Risk Dashboards. RMD engages in risk mitigation at strategic, policy, and operational levels, collaborating with business teams to foster risk ownership in the first line of defense (LOD).

4

Risk Culture

We have implemented a dual strategy to instill a strong Risk and Compliance culture throughout the Bank. Governance-wise, the Board of Directors and Senior Management lead the charge, while operationally, the Compliance Department and RMD spearhead culture integration. This is reinforced by an accountability framework and shared values cascaded throughout the organisation.

Compliance

The Bank upholds Board-approved policies to meet regulatory requirements, regularly updating them. Compliance is closely monitored by senior management, with zero tolerance for non-compliance. The Compliance department conducts independent assessments, reporting to the Board and audit committee, guiding improvements. Testing and root cause analysis address gaps, focusing on sustainable solutions. Performance evaluations are based on an accountability framework reinforced by assurance functions. Emphasis on employee training ensures comprehensive compliance. Continuous enhancement of processes and workflows streamlines operations for efficiency.

Internal Audit

The Bank's Internal Audit function provides an independent assessment of internal controls, risk management, and governance to the Board and Senior Management, ensuring compliance with both internal and regulatory guidelines. Aligned with RBI's Risk Based Internal Audit (RBIA) guidelines, the Bank's robust audit policy emphasises a strategic focus on emerging business risks. Various audit methodologies, including concurrent, off-site, and thematic audits, enhance the function's robustness. Embracing digitalisation, technology-driven audits improve efficiency and effectiveness, while continuous skills enhancement ensures agility in addressing emerging risks. Operating independently under the Audit Committee's supervision, the function ensures internal controls' efficacy and guideline compliance.

Business Continuity Plan

The Business Continuity Planning Management Committee (BCPMC) oversees the implementation of the approved Business Continuity Plan (BCP) framework, ensuring service continuity for our extensive customer base. The BCP framework is rigorously tested for critical internal activities, enabling readiness for diverse contingency scenarios. Insights from these exercises refine the framework. With an effective BCP, the Bank successfully operates by adapting to various continuity and mitigation plans.

Fraud Detection and Mitigation

The Bank prioritises creating a secure environment with minimal vulnerability to fraud by implementing a comprehensive Fraud Management and Reporting Policy. This policy, supported by operational procedures, guides internal oversight and fraud management efforts. Continuous round-the-clock transaction monitoring, facilitated by IT systems, promptly detects any suspicious or fraudulent activities in real or near-real-time. Additionally, the Bank utilises an enterprise-level anti-money laundering software system that generates alerts based on various scenarios, aiding in monitoring, investigating, and reporting suspicious transactions. Furthermore, a dedicated fraud management system is deployed to prevent and detect fraudulent activities related to credit and debit card transactions.

Key Material Risks

	Mitigation Measures
Credit Risk Credit risk is the risk of financial loss if a customer, borrower, issuer of securities that the Bank holds, or any other counterparty fails to meet its contractual obligations. Credit risk arises from all transactions that give rise to actual, contingent, or potential claims against any counterparty, customer, borrower, or obligor. The goal of credit risk management is to maintain asset quality and managing concentration limits at individual exposures as well as at the portfolio level.	Internal rating forms the core of the risk management process for wholesale lending businesses with internal ratings determining the acceptability of risk, maximum exposure ceiling, sanctioning authority, pricing decisions, and review frequency. For the retail portfolio including small businesses and small agriculture borrowers, the Bank uses different product-specific scorecards. Credit models used for risk estimation are assessed for their discriminatory power, calibration accuracy, and stability independently by a validation team.
Market Risk Market risk is the risk of losses in 'on and off-balance sheet' positions arising from the movements in market price as well as the volatilities of those changes, which may impact the Bank's earnings and capital. The risk may pertain to interest rate related instruments (interest rate risk), equities (equity price risk) and foreign exchange rate risk (currency risk). Market risk for the Bank emanates from its trading and investment activities, which are undertaken both for the customers and on a proprietary basis.	The Bank's market risk management framework is comprehensive and guided by well-defined policies, guidelines, and processes aimed at identifying, measuring, monitoring, and reporting exposures against established risk limits aligned with the Bank's risk appetite. The Risk Department independently monitors investment and trading portfolios, ensuring adherence to predefined risk limits and promptly reporting any deviations. Both statistical measures like Value at Risk (VaR), stress tests, back tests, and scenario analysis, as well as non-statistical measures such as position limits, marked-to-market (MTM), and stop-loss limits, are utilised for effective risk management. VaR calculation employs a historical simulation approach with a 99% confidence level for a one-day holding period over a time horizon of 250 days, supplemented by ongoing back testing and stress testing. Overall, this framework ensures a robust approach to managing market risk within the Bank's risk appetite.

	Mitigation Measures
Liquidity Risk Liquidity is a bank's capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at a reasonable cost and without incurring unacceptable losses. Liquidity risk is the inability of a bank to meet such obligations as they become due, without adversely affecting the bank's financial condition.	The Asset Liability Management (ALM) Policy of the Bank provides a comprehensive framework for managing liquidity risk, ensuring the Bank's ability to meet its obligations and withstand liquidity stress. Aligned with the Risk Appetite Statement, the policy encompasses governance structures and is complemented by additional liquidity policies for intraday liquidity, stress testing, contingency funding, and branch-specific liquidity. Liquidity profiles are monitored through static and dynamic analysis, including gap analysis, key liquidity ratios, and stress tests, overseen by the ALCO and the Board's Risk Management Committee. The Bank adheres to RBI guidelines on liquidity risk management, integrating Basel III framework standards such as intraday liquidity management and the Liquidity Coverage Ratio (LCR), maintaining LCR/NSFR in line with regulatory requirements and the Bank's risk appetite.
Operational Risk Operational risks may emanate from inadequate and/or missing controls in internal processes, people, and systems or from external events or a combination of all the four.	The Bank implements an Operational Risk Management (ORM) Policy to proactively manage operational risks efficiently. The policy involves assessing and measuring risks, monitoring them closely, and implementing mitigating measures through a structured governance framework. All new products, processes, and changes undergo thorough risk evaluation by the Operational Risk team, overseen by the Risk Department's Product Management and Change Management Committees. Outsourcing arrangements are scrutinised and approved by the Outsourcing Committee, with input from the Operational Risk team. The Information System Security Committee directs efforts to mitigate operational risk within information systems. A comprehensive Operational Risk Measurement System documents, assesses, and periodically monitors risks and controls across all business lines. The Bank continually strengthens its operational and information security risk frameworks through various initiatives.

Risk	Mitigation Measures
Information and Cyber Security Risks Information and cybersecurity risks for banks entail the threat of unauthorised access, manipulation, or theft of sensitive data and assets stored within their systems. These risks include potential breaches due to cyber-attacks such as hacking, phishing, and malware, which can disrupt services, compromise customer information, and undermine trust in the bank's operations. Maintaining robust security measures, including encryption, multi-factor authentication, and regular security audits, is crucial to mitigate these risks and safeguard both the bank and its customers from potential cyber threats.	The Bank has established a robust Information and Cyber Security programme, underpinned by comprehensive policies and standards aligned with industry best practices and regulatory guidelines such as NIST, ISO27001:2013, and PCI DSS. Led by the Information System Security Committee, the governance framework ensures regular assessment of the threat landscape and validation of controls to mitigate cyber risks effectively. Proactive measures, including technical and administrative controls, are in place to prevent, detect, and respond to suspicious activities. The Bank conducts various assessments before deploying IT infrastructure or applications, covering areas like application security, vulnerability testing, and penetration testing. With a defense-in-depth approach and 24x7 Security Operation Centers (SOC), the Bank monitors digital assets and collaborates with regulatory bodies and industry stakeholders to strengthen its defense against cyber-attacks and implement recommended measures.
Climate Risk Climate risks are divided into 2 risks broadly: **Transition Risks** Risks stemming from various factors such as policy and regulation changes, advancements in technology, and shifts in consumer preferences. **Physical Risks** It encompasses both chronic and acute impacts of climate change. Chronic risks include long-term changes in temperature, precipitation patterns, agricultural productivity, and sea levels, whereas acute risks refer to more immediate and severe events such as heatwaves, floods, cyclones, and wildfires.	As a financial institution in India, we recognise the profound impact of climate-related risks, spanning credit, operational, market, and reputational domains, as well as the significance of environmental and social risks, including those linked to climate change. Our activities are aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and we have been publishing our TCFD-aligned disclosures since fiscal 2022, in line with RBI's Draft Discussion Paper on Climate Risk and Sustainable Finance. We have also been responding to the CDP since 2015, detailing our climate-related governance, strategy and performance. Embracing TCFD's recommendations on conducting climate-related scenario analysis and stress testing, we have initiated integrating relevant climate levers into our stress testing exercises and are actively developing capabilities for climate-related stress testing and scenario analysis under the guidance of our ESG Committee as well as in line with regulatory guidance. We are also intensifying our focus on the broader sustainability-related risks, with a heightened emphasis on corporate governance and stakeholder impact.

Managing our Climate Risk

The shift from climate risk to financial risk poses complex threats to the economy and all its participants. Operating through various channels, climate risks include both physical impacts and transition risks, necessitating adopting comprehensive risk management practices. These risks impact business profitability, household wealth, and financial stability, potentially leading to stranded assets. At micro and macro levels, challenges may range from property damage to capital depreciation. In finance, this transition results in heightened credit risk, market risk, underwriting risk, operational risk, and liquidity risk, potentially affecting defaults, asset repricing, insurance gaps, operational disruptions, and liquidity challenges.

Since 2021, the ESG Committee of the Board has guided and overseen the Bank's efforts to fortify our Environmental, Social, and Governance (ESG) practices, including a strong focus on managing our climate-related as well as ESG-related risks. Working under the Committee's oversight and led by the RMD, we are enhancing our capabilities and frameworks for climate risk management at the enterprise level. This proactive approach not only safeguards our operations but also positions us to seize potential opportunities in the evolving climate landscape.

Actions undertaken under ESG Committee and Risk functions can be broadly placed into four focus areas

Governance

Establishing the ESG Committee of the Board

In August 2021, we became the first Indian bank to establish a dedicated ESG Committee at the Board level, centralising oversight of our ESG initiatives and climate-related risks. The Chief Risk Officer leads efforts to enhance our capabilities in ESG and climate risk management at enterprise level.

Strengthening Board-level Oversight on Climate and ESG Risks

Climate and ESG risks, now part of our existing risk categories are managed under the oversight of Risk Committee of the Board. As we expand their coverage in our Risk Management Framework, we reinforce the Committee's oversight. The Board's Committee of Directors evaluates key cases, including their assessment in line with our 'ESG Policy for Lending', ensuring alignment with our risk management strategy.

Policy and Controls

ESG & Climate-related Risks and Opportunities included in ICAAP

Our Internal Capital Adequacy Assessment (ICAAP) evaluates ESG and climate risks as material risks including both physical risk and transition risk.

Strengthening the ESG Policy for Lending

Our 'ESG Policy for Lending' integrates environmental and social risk assessment into our credit appraisal process, aligning with international standards. Implementation is overseen by the Environmental and Social Management Group within the Credit vertical.

Adopting the Sustainable Financing Framework and establishing the ESG Working Group

In July 2021, we launched the Sustainable Financing Framework, aligned with global standards like ICMA and ASEAN and endorsed by Sustainalytics. We also established the ESG Working Group to ensure compliance in our financing activities.

Risk Toolkit

ESG Rating Model part of credit appraisal

While ESG rating model was piloted last year, it has been implemented as part of credit appraisal process for selected Wholesale Banking clients. Developed in-house, it encompasses over 60 parameters across E, S, and G pillars. This model aligns closely with IFC Performance Standards, reinforcing our commitment to ESG principles in lending practices.

Building Capabilities around Stress Testing

We're building stress testing and scenario analysis capabilities in line with regulatory guidance and expectations. Additionally, we're studying external best practices to expedite our learning process.

Developing Climate Risk Dashboards

Since the previous fiscal year, we have been working on presenting various facets of climate risk, covering key identified metrics for physical and transition risks, as well as our lending and financing activities to sectors aligned to the Sustainable Financing Framework. As part of this activity, during the year, we presented a snapshot of the transition risk faced by the Bank, wherein we identified the exposure, as well as the asset quality therein, to what we considered as high transition risk sectors including exposure to coal and thermal power. Under physical risk assessment, we presented a view of the Bank's retail, rural and SME portfolios in the context of four of India's natural hazards viz. cyclones, droughts, heat waves and floods. We continue to monitor the lending and financing activities aligned to the Sustainable Financing Framework. These presentations were made to the ESG Committee during the year.

Capacity Building

Bank-wide ESG education and participation

In the previous fiscal, we had rolled out a Bank-wide ESG e-module that introduces all employees to concepts including ESG, climate-related risks and opportunities, pertinent national and international frameworks and regulations, and the Bank's own policies and activities in this space. In addition, pertinent verticals and roles at the Bank participate in specialised internal and external trainings and awareness programmes on this topic, including those organised by regulatory agencies and industry organisations. In this fiscal, the Bank participated in a two-day climate risk training workshop organised by Indian and foreign experts under a UK government programme for emerging economies (UK PACT), wherein the entire Risk and Corporate Underwriting verticals of the Bank participated.

Engagement with peers and regulators

The Bank also proactively engages with the wider industry, its peers, as well as the regulators on the key topics including ESG, climate risk and sustainable finance. The Bank's leadership is on key ESG and Climate committees, and formal groupings, including at the IBA, CII and FICCI, among others.