Overview of risk management, key prudential metrics and RWA

KM1: Key metrics

(Amount in ‘000)

		a	b	c	d	e
		Mar’19	**Dec’18**	**Sep’18**	**Jun’18**	**Mar’18**
	Available Captial (amounts)					
1	Common Equity Tier 1 (CET1)	1 560 441	1 543 346	1 551 788	1 418 291	1 427 964
1a	Fully loaded ECL accounting model	1 560 441	1 543 346	1 551 788	1 418 291	1 427 964
2	Tier 1	1 560 441	1 543 346	1 551 788	1 418 291	1 427 964
2a	Fully loaded ECL accounting model Tier1	1 560 441	1 543 346	1 551 788	1 418 291	1 427 964
3	Total Capital	1 599 819	1 576 285	1 584 727	1 451 230	1 460 903
3a	Fully loaded ECL Accounting model total capital	1 599 819	1 576 285	1 584 727	1 451 230	1 460 903
	Risk-Weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	9 920 754	10 366 520	9 198 932	8 171 264	7 128 412
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier1 ratio(%)	15.73%	14.89%	16.87%	17.36%	20.03%
5a	Fully loaded ECL accounting model Common Equity Tier 1(%)	15.73%	14.89%	16.87%	17.36%	20.03%
6	Tier 1 ratio(%)	15.73%	14.89%	16.87%	17.36%	20.03%
6a	Fully loaded ECL accounting model Tier 1 ratio(%)	15.73%	14.89%	16.87%	17.36%	20.03%
7	Total Capital ratio (%)	16.13%	15.21%	17.23%	17.76%	20.49%
7a	Fully loaded ECL accounting model total capital ratio (%)	16.13%	15.21%	17.23%	17.76%	20.49%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	1.875%	1.875%	1.875%	1.875%
9	Countercyclical buffer requirement(%)	0.02%	0.00%	0.00%	0.00%	0.00%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank (CET1) specific buffer requirements (%) (row 8+row9+row10)	2.52%	1.88%	1.88%	1.88%	1.88%
12	CET1 available after meeting the bank’s minimum capital requirement(%)	3.21%	2.39%	4.37%	4.86%	7.53%
	Basel III Leverage ratio					
13	Total Basel III leverage ratio exposure measure	11 561 561.00	11 530 112.00	12 834 837.00	10 365 797.00	8 288 121.00
14	Basel III leverage ratio(%) (row 2/row 13)	13.50%	13.39%	12.09%	13.68%	17.23%
14a	Fully loaded ECL accounting model Basel III Leverage ratio(%) (row2a/row13)	13.50%	13.39%	12.09%	13.68%	17.23%
	Liquidity coverage ratio					
15	Total HQLA	419 957.00	434 464.00	524 448.00	468 713.00	505 665.00
16	Total net cash outflow	265 528.00	101 845.00	343 903.00	289 784.00	317 510.00
17	LCR ratio (%)	158%	427%	152%	162%	159%

OVA: Bank risk management approach

State bank of India, South Africa (SBISA) aim to address risk at its root, by continuous monitoring of various risks associated with all business verticals to ensure that the organisation does not get exposed to unwarranted high risk. The following are the identified Key Risk Dimensions in managing our business and to achieve our goals.

DIMENSION	**RISK**	**OUR APPETITE**
Compliance(regulatory and corporate)	Operational	Zero Tolerance
Fraud	Operational	Zero Tolerance
Execution, Delivery & process management	Operational	Minimize
Outsourcing activities	Operational	Minimize
Loss of key employees	Operational	Minimize
Systems & Procedures	Operational	Minimize
Liquidity	Financial	Minimize
Credit Limits	Credit	Minimize with Risk/Reward Evaluation
Market Risk	Market	Minimize with Risk/Reward Evaluation

OV1: Overview of RWA

		a	b	c
		RWA		Minimum Capital requirements
		T	T-1	T
1	Credit risk (excluding counterparty credit risk)	9 187 069	9 602 285	1 150 221
2	Of which: standardised approach (SA)	9 187 069	9 602 285	1 150 221
3	Of which: foundation internal ratings-based (F-IRB) approach			
4	Of which: supervisory slotting approach			
5	Of which: advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk (CCR)	127 365	222 707	15 946
7	Of which: standardised approach for counterparty credit risk	127 365	222 707	15 946
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)			
11	Equity positions under the simple risk weight approach			
12	Equity investments in funds – look-through approach			
13	Equity investments in funds – mandate-based approach			
14	Equity investments in funds – fall-back approach			
15	Settlement risk			
16	Securitisation exposures in banking book			
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)			
19	Of which: securitisation standardised approach (SEC-SA)			
20	Market risk	61 105	7 537	7 650
21	Of which: standardised approach (SA)	61 105	7 537	7 650
22	Of which: internal model approaches (IMA)			
23	Capital charge for switch between trading book and banking book			
24	Operational risk	497 127	490 281	62 240
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	29 868	25 573	3 739
26	Floor adjustment	18 220	18 137	2 281
27	Total (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25 + 26)	9 920 754	10 366 520	1 242 078

Leverage Ratio

LR1 – Summary comparison of accounting assets vs leverage ratio exposure measure

		a
1	Total consolidated assets as per published financial statements	11,847,196
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 recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	171
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	
6	Adjustment for off-balance sheet items (ie conversation to credit equivalent amounts of off-balance sheet exposures)	- 285,049
7	Other adjustments	-757
8	**Leverage ratio exposure measure**	**11,561,561**

LR2: Leverage ratio

Leverage ratio framework		a	b
		March 2019	December 2018
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	9,938,477	9,106,359
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	9,938,477	9,106,359
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	4,909	6,148
5	Add-on amounts for PEE associated with all derivatives transactions	171	200
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)	5,080	6,348
Securities financing transaction 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	1,903,053	2,563,704
18	(Adjustments for conversion to credit equivalent amounts)	-285,049	-146,299
19	Off-balance sheet items (sum of lines 17 and 18)	1,618,004	2,417,405
Capital and total exposures			
20	Tier 1 capital	1,560,441	1,543,346
21	Total exposures (sum of lines 3, 11, 16 and 19)	11,561,561	11,530,112
Leverage ratio			
22	Basel III leverage ratio	13.50%	13.39%

LIQA – Liquidity risk management

The bank will seek to maintain sufficient liquidity and diversity of funding sources to allow the bank to meet its obligations. The liquidity management program takes into account all the stress scenarios and adequate liquidity sources which are in place to meet the contingencies. Basel III requirements relating to liquidity management disclosures (LCR, NSFR) are being met in the stipulated intervals.

LIQ1 – Liquidity Coverage Ratio (LCR)

		a	b
		Total unweighted value (average)	**Total weighted value** (average)
	High-quality liquid assets		
1	Total HQLA	419 957	419 957
	Cash Outflow		
2	**Retail deposits and deposits from small business customers, of which:**		
3	Stable deposits	151 269	-
4	Less stable deposits	230 457	23 046
5	**Unsecured wholesale funding, of which:**		
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	804 232	12 304
7	Non-operational deposits (all counterparties)	249 273	99 709
8	Unsecured debt	843 849	843 849
9	**Secured wholesale funding**	-	-
10	**Additional requirements, of which:**		
11	Outflows related to derivative exposures and other collateral requirements	9 823	9 823
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	584 616	62 180
14	**Other contractual funding obligations**		
15	**Other contingent funding obligations**		
16	**TOTAL CASH OUTFLOWS**	2 873 519	1 050 912
	Cash Inflows		
17	**Secured lending (eg reverse repos)**		
18	**Inflows from fully performing exposures**	1 991 236	1 551 268
19	Other cash inflows	903 528	4 909
20	**TOTAL CASH INFLOWS**	2 894 764	1 556 177
			Total adjusted value
21	**Total HQLA**		419 957
22	**Total net cash outflows**		262 728
23	**Liquidity Coverage Ratio (%)**		**160**

CRA: General qualitative information about credit risk

Credit risk is defined as the possibility of losses associated with default by or diminution in the credit quality of Borrowers or Counterparties arising from:

i. Outright default due to inability or unwillingness of a borrower or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions; or
ii. Reduction in portfolio value arising from actual or perceived deterioration in credit quality of borrowers or counterparties.

Credit Risk emanates from a bank's dealings with an individual, non-corporate, corporate, bank, financial institution or sovereign.

SBI SA has its approved Credit Policy which is in broad alignment with the Policies of its Head Office. This policy sets out the principles, standards and approach for credit risk management and puts in place a comprehensive framework to identify, assess, measure, monitor, control and report credit risks in a timely and efficient manner.

Non-performing assets:

An asset becomes non-performing when it ceases to generate income for the Bank. A non-performing Asset (NPA) is an advance where (i) Interest and/or instalment of principal remain 'overdue' for a period of more than 90 days in respect of a Term Loan (ii) The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC) (iii) The bill remains 'overdue' for a period of more than 90 days in the case of bills purchased and discounted (iv) Any amount to be received remains 'overdue' for a period of more than 90 days in respect of other accounts (v) An account would be classified as NPA only if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter. (vi) In respect of derivative transactions, the overdue receivables representing the positive mark to market value of a derivative contract, remain unpaid for a period of 90 days from the specified due date for payment. An account is treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Bank's Balance Sheet, or where credits are not enough to cover the interest debited during the same period, such accounts are treated as 'out of order'. 'Overdue' Any amount due to the Bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank.

Early identification and reporting of stress:

Identification of incipient stress in loan accounts, immediately on default*, by classifying stressed assets as **special mention accounts (SMA**) as per the following categories:

SMA Sub-categories Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between

SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

Credit Assessment

SBISA has in place a well-established process of credit appraisal that has developed and evolved over a period of time. The fundamental purpose of credit appraisal has been two fold. First, to be able to take an informed decision as to the credit worthiness of any proposal, viz. whether it is prudent, worthwhile and desirable for SBISA to take a credit exposure on the applicant entity. Second, to be able to assess the extent and nature of such credit exposure and the pricing at which it is considered prudent to operationalize such a credit relationship.

Credit Risk Governance Structure

Credit risk process/ control is executed through the credit team comprising of Manager – Credit (Retail & SME), Manager – Credit (WB) and 3 Assistant Managers which reports to the Chief Executive officer (Johannesburg) who in turn reports to the Regional Head and CEO, SA operations. To oversee the policy and strategy for Integrated Risk Management relating to various Risk exposures of SBISA Risk Management Committee (RMC) has been constituted involving all the senior functionaries.

Credit Audit

SBISA has an in-built internal control system with well-defined responsibilities at each level. The Inspection Department carries out the Inspection and Audit and the Management Audit functions covering different facets of activities. The Audit system serves as an effective control on the process of sanction of loans in SBISA through widely delegated powers. Credit Audit also examines identified Risks and suggests Risk Mitigation Measures, monitors high value exposure on an ongoing basis to check breach of prudential limits.

Internal Communication

The Policies, Procedures and Risk Limits are published in SBISAs website for easy access by operating functionaries, the training system, the Credit Audit and Inspection & Audit functionaries to keep them updated on an ongoing basis.

RISK REPORTING

Periodic progress reports in respect of management of various Risks are placed before the Senior Management who are familiar with the Risk Appetite, Risk Bearing and Risk Taking Capacity of SBISA. SBISA has well established and well defined Risk Monitoring and Risk Reporting Framework.

Under the Standardised Approach for Credit Risk, Risk Weights are assigned to Corporate Exposures, i.e. borrowers, based on their rating grades assigned by approved External Credit Rating Agencies (ECRAs). Unrated exposures carry 100% risk weight.

CCRA: Qualitative disclosure related to counterparty credit risk

Counterparty Credit Risk is the risk that the counterparty to a derivative transaction can default before the final settlement of the transaction’s cash flow. To mitigate this risk, derivative transactions are undertaken only with those counterparties where approved counterparty limits are in place. For corporates, the Derivatives limits are assessed and sanctioned in conjunction with regular credit limit as part of regular appraisal.

We are utilising current exposure method (CEM) for calculating counterparty credit risk and will be implementing Standardised Approach to Counterparty Credit Risk from Oct 2019.

MRA : Market Risk is computed through Standardised approach and is contributed only by Foreign Exchange Risk. We do not have any exposures on Equity, Commodities etc. Our Forex Trading activity is mainly to cater for our clients and is line with our Forex Trading Policy and Market Risk Management Policy. The policy encompasses systems and procedures to actively mitigate risks while ensuring reasonable returns commensurate with the risk profile of the Bank.

MR1: Market risk under the SA

		a
		Capital charge in SA
1	General interest rate risk	
2	Equity risk	
3	Commodity risk	
4	Foreign exchange risk	4 888.00
5	Credit spread risk – non-securitisations	
6	Credit spread risk – securitisations (non-correlation trading portfolio)	
7	Credit spread risk – securitisation (correlation trading portfolio)	
8	Default risk – non-securitisations	
9	Default risk – securitisations (non-correlation trading portfolio)	
10	Default risk – securitisations (correlation trading portfolio)	
11	Residual risk add-on	
12	**Total**	**4 888.00**

Interest Rate Risk

Interest rate risk refers to impact on Bank's Net Interest Income and the value of its assets and liabilities arising from fluctuations in interest rate due to internal and external factors. The Asset - Liability Management Committee (ALCO) is responsible for evolving appropriate systems and procedures for ongoing identification and analysis of Balance Sheet risks and laying down parameters for efficient management of these risks through Asset Liability Management Policy of the Bank. ALCO, therefore, periodically monitors and controls the risks and returns, funding and deployment, setting Bank's lending and deposit rates, and directing the investment activities of the Bank. ALCO also develops the market risk strategy by clearly articulating the acceptable levels of exposure to specific risk types (i.e. interest rate, liquidity etc). The Risk Management Committee of the Board of Directors (RMCB) oversees the implementation of the system for ALM and reviews its functioning periodically and provides direction. It reviews various decisions taken by Asset - Liability Management Committee (ALCO) for managing interest risk.

REMA: <u>Remuneration Policy</u>: Remuneration policies of all the staff (both Expats & Local Staff) are approved by State Bank of India Head Office, Mumbai.

Table REM1: Remuneration awarded during the Financial Year

			a	b
	Remuneration amount		Senior management	Other material risk-takers
1	**Fixed remuneration**	Number of employees	**03**	Nil
2		Total fixed remuneration (3 + 5 + 7) Amount in ZAR	**2 718 003.41**	Nil
3		Of which: cash-based	**2 718 003.41**	
4		Of which: deferred	Nil	Nil
5		Of which: shares or other share-linked instruments	Nil	Nil
6		Of which: deferred	Nil	Nil
7		Of which: other forms	Nil	Nil
8		Of which: deferred	Nil	Nil
9	**Variable remuneration**	Number of employees	Nil	Nil
10		Total variable remuneration (11 + 13 + 15)	Nil	Nil
11		Of which: cash-based	Nil	Nil
12		Of which: deferred	Nil	Nil
13		Of which: shares or other share-linked instruments	Nil	Nil
14		Of which: deferred	Nil	Nil
15		Of which: other forms	Nil	Nil
16		Of which: deferred	Nil	Nil
17	Total remuneration (2 + 10)		**2 718 003.41**	