

Risk Management **focus**

Vijaya Bank
Bangalore



Organizational Description

Vijaya Bank is a premier nationalised Bank in India established by a group of enterprising farmers on the auspicious Vijayadashami Day on the 23rd October 1931 in a small town of Mangalore in Dakshina Kannada District of Karnataka State, and, hence, the name Vijaya Bank. From humble beginnings, Vijaya Bank today is a pan India Institution, serving diverse sectors of the society. The bank has built a network of 2030 branches, 16 Extension Counters and 1865 ATMs, that span across all 28 states and 4 union territories in the country. The Bank's total business is over Rs.2,18,000 crores with a diverse clientele base of over 15.2 million. The driving force behind Vijaya Bank's every initiative has been its 15000+ strong dedicated tech savvy workforce.

The Governance of Bank is represented by Board of Directors constituted in accordance with the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980. The Directors have been contributing their knowledge, experience and expertise in the respective areas of their specialization for the development of the Bank. Further, Bank has various sub committees in place to address governance issues on risk management, information security, administration, personnel etc.

The Bank has a three tier Organization structure:

- **Head Office** • **Regional Office** • **Branches.**

The Head office hosts various functional departments that are instrumental in policy formulations and monitors performances of both Regions and branches. The bank's 31 Regional Offices and 9 Regional Inspectorates exercise immediate supervision and control over the branches under their jurisdiction.

Effectiveness of the Risk Management Framework

Initially risks are assessed based on inherent basis, considering the likelihood and impact of the risk without taking into account the controls in place. This process helps our Bank to understand the importance of controls in mitigating risk. Thereafter, residual risk is assessed after existing internal controls are taken into account. For identification of risks related to new products/ processes, various departments are involved the risk identification/ assessment process. Upon completion of the process, the new product/processes are placed before the sub committees of Risk Management and Board of Directors for approval.

The monitoring and review is a planned part of the risk management process and involves regular checking or surveillance. The results are recorded and reported internally. The results are used as input to the review and continuous improvement of the firm's risk management

framework.

As part of the monitoring process, the thresholds for the risk criteria are reviewed at the commencement of each risk assessment cycle to identify the processes that may be subject to increased risks and, as such, would derive the greatest value from the risk assessment. The aspects relating to controls, systems and procedures will be suggested by Internal audit function.

Responsibilities for monitoring and review have been clearly defined which covers the following:

- a) Ensuring that controls are effective and efficient in both design and operation level.
- b) Obtaining further information to improve risk assessment
- c) Analyzing and learning lessons from risk events, including near misses, changes, trends, successes and failures.
- d) Detecting changes in the external and internal context, including changes to risk criteria and to the risks, which may require revision of risk treatments and priorities
- e) Identify emerging risks

Roles and responsibilities of Organizational Risk Management set-up

Board of Directors

The roles and responsibilities of Board of Directors are as follows:

- a) The Board of Directors shall be aware of the major aspects of the bank's risks as a distinct risk category that should be managed, and it should approve and periodically review the Bank's Integrated Risk management framework.
- b) Direct policy, approve Risk Tolerance and Risk Appetite limits and review them annually. Further, the Board has to review the bank's exposure to its key risks and to direct risk mitigation activities.
- c) The Board of Directors examines the implications of introduction of new products, strategies etc on the risk profile of the bank.
- d) The Board is also responsible for providing an independent assessment of risk reporting and on the effectiveness of controls.
- e) Board ensures that the bank has the scope and frequency of the internal audit of Risk Management Framework and review the internal audit report annually.
- f) The Board of Directors ensures that the bank's HR policies are consistent with its appetite for risk and are not aligned to rewarding staff who deviate from policies.
- g) Board ensures that the bank's risk activities pertaining to risk

management are conducted by qualified staff with the necessary experience, technical capabilities and access to resources

- h) Board of Directors reviews the scope and frequency of independent review / validation of Risk Management System program to ensure effectiveness

Risk Management Committee of the Board

The role and responsibilities of Risk Management Committee of the Board (RMCB) are as follows:

- a) Risk Management Committee of the Board oversees the integration of all bank wide risks and promotes effective management of all risk categories, and fosters the establishment and maintenance of an effective risk culture throughout the bank.
- b) Ensures timely review and implementation of risk management policies
- c) Ensures establishment of risk appetite for the bank
- d) Reviews the Integrated risk management strategy of the bank, and issue guidance based on review of risk profile and ensure that an effective and sound internal control system in the bank.
- e) Implementation of sound fundamental risk governance principles that facilitate the identification, assessment, monitoring, controlling and mitigation of various risk
- f) Ensures the responsibilities and accountabilities at all levels of the staff with adequate number of resources having requisite level of qualification, experience and training in order to effectively manage risks
- g) Oversees the adequacy of control processes in respect of implementation of Risk Management systems in the Bank
- h) Ensures review of the framework regularly to ensure that the bank is managing various risks arising from business environment as well as risks in new products, activities or systems which can have material impact on the risk profile of the bank.
- l) Reviews the scope and frequency of the independent review program to ensure its continued effectiveness.

Operational Management

Business unit management ensures that internal controls and practices within their business lines are consistent with bank-wide policies and procedures to support the management and measurement of the various risks of the bank. Implementation of the Integrated Risk Management framework within each business line reflects the scope of that business and its inherent operational complexity and overall risk profile of the Bank.

In particular, following are the responsibilities of each risk entity / business unit:

- Ensures implementation of bank's integrated risk management framework and corresponding policies and procedures.
- Risk identification and assessment procedures as planned and scheduled by Risk Management Department.
- Recordings and reports loss data and near-miss in a timely and

accurate manner.

- Implements corrective action plan as per agreed timelines.
- Provides all information and data to Risk Officer and / or Risk Management Function required for the purpose of implementation of IRM Framework.
- Any other information which risk entity / business unit deem necessary for Risk management.

Key Corporate Governance Risks

The current identified Key Corporate Governance Risk including (a) Operational (b) Market risks (C) Occupational Health and safety risks and (d) Environmental risks identified by our bank are:

- a. Liquidity Risk
- b. Concentration Risk
- c. Securitization Risk
- d. Interest Rate Risk
- e. Capital Risk
- f. Reputation Risk
- g. Residual Risk
- h. Business Risk
- i. Strategic Risk
- j. Settlement Risk
- k. Interest Rate Risk in Banking Book (IRRBB)
- l. Pension obligation/people risk
- m. Legal Risk
- n. Compliance Risk
- o. Country Risk
- p. Model Risk

Fraud Risks and Policy & Process for prevention

The fraud risks in banks arising out of both system and human failures which are grouped into 4 categories namely;

1. Frauds committed by employees.'
2. Frauds committed by employees in collusion with outsiders who may or may not be the customer of the bank.
3. Frauds committed by outsiders / customers with insider support/ involvement.
4. Frauds committed exclusively by outsider who may or may not be the customer of the bank.

The purpose of the fraud risk management policy is to create a proactive framework addressing the occurrence of frauds in the banking system covering early detection, prevention, reporting, monitoring, recovery and follow-up of frauds.

The processes for enabling prevention, early detection and remediation of frauds are as follows:

A. Detection mechanism:

Systems and procedures prescribed by the Bank adequately facilitate timely detection of frauds. Some of the sources which could help in unearthing the fraud are as follows:

- a) Internal/Concurrent audit
- b) Executive visits from Regional Offices / Head Office
- c) Surprise inspection
- d) Customer and transaction details through centralized data base, especially by the Offsite Monitoring Cells at Head Office and Regional Offices.
- e) Prompt reconciliation of Inter Office Accounts.
- f) Various audit / inspections both by internal and external agencies.
- g) Periodical changes in incumbencies (Job rotation / Transfer / posting etc.)
- h) Complaints from customers / alerts from investigating agencies
- i) Electronic / Print Media / other sources.
- j) Anonymous / pseudonymous complaints with verifiable facts.

B. Remediation of frauds:

Investigation into fraud is brought out in the modus operandi, lapses, and the persons accountable for the loss to the Bank. Procedural irregularities / Shortcomings, which facilitated the frauds, pointed out by an investigating official are duly deliberated in the ORMC/CRMC and shortcomings in the existing systems and procedures are plugged by introduction of new control measures.

Risk Management Process

Risk Management process defines the sequence of activities and decisions involved to manage various risk. The key elements in the Risk Management process in the Bank would include:

1. Risk Identification
2. Risk Measurement
3. Risk Mitigation & Monitoring
4. Risk Reporting

Risk Identification

Bank's internal risk rating system is responsive to indicators of potential or actual deterioration in credit risk eg. Financial position and business condition of the borrower, conduct of the borrower's accounts, adherence to loan covenants, value of collateral, etc in order to facilitate early identification. Credits with deteriorating ratings are subjected to additional oversight and monitoring by Risk Management Department. Market Risk is assessed in the forex transactions taking into consideration the major environmental changes, business strategy, likely changes in the global economic environment, extreme supply conditions caused by wars, sanctions etc. This would be reviewed on a dynamic basis. To effectively manage the settlement risk, the Bank makes use of the credit ratings given by the global agencies on the international banking players apart from undertaking a separate analysis. Liquidity risk is the risk of potential inability of the Bank to meet its funding requirements or execute a financial deal at a reasonable price. The Bank reviews the liquidity profile regularly considering the current business environment. In the forex context, it is the risk of a bank not being able to exit or offset positions quickly at a

reasonable price. The Bank also identifies and assesses the operational risk inherent in all material products, activities, processes and systems. Bank also ensures that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subjected to adequate assessment procedures

Risk Measurement

On moving over to Internal Rating Based Approach (IRB), Bank measures credit risk via Risk components, Probability of Default, Loss Given Default and Exposure at Default. Bank conducts Risk Assessment for rating to arrive at various scores of rating. Any concentrations of risk within the credit portfolio are identified and the same is apprised to the top management. Sector wise and Industry wise exposure limits are fixed and the same is reviewed regularly. Market risk is measured by means of assessment involved in estimation of Value at Risk for various market portfolios. Bank uses Traditional Gap Analysis (TGA) to measure the Liquidity risk in the Bank's balance sheet and prepare the Structural Liquidity Statement (SLS) at intervals dictated by the RBI guidelines and the level of automation. The limits as prescribed are reviewed from time to time by the ALCO based on the market conditions and/ or directives of the Regulator. Bank has instituted a structured process for reporting operational risk incidents on a regular basis. Each Business entity must ensure that the Operational Risk Incident data are submitted to the Operational Risk Management System (ORMS) (system capable of collecting and processing data collected from various sources and reporting the same). The Operational Risk Management Function ensures that the required data meets all established standards for timeliness and integrity.

Risk Mitigation & Monitoring

Bank undertakes periodic monitoring of the credit portfolio. The portfolio quality are evaluated by tracking the migration (upward or downward) in the rating of borrowers from one rating to another. Bank is continuously monitoring to get eligible externally unrated accounts get externally rated within stipulated time. The industry scores from external rating agency is factored into the rating model so as to align risk assessments with prevailing business environment. Bank has also identified 31 Regional Risk Officer's and posting are made to all ROs to monitor and control risk management related work at all regional offices. The roles and responsibilities of the single point of contact for Risk Management function have been well defined. For market risk, the depreciation/ provision requirements in the treasury books is estimated and systems are in place to enforce adherence to exposure and cut loss/take profit limits as charted out in the Investment Policy. The operational limits charted out in the investment policy are monitored for reduction of losses. To effectively manage liquidity risks, internal prudential limits are fixed in respect of avilment of Purchased fund shall be bulk deposit, interbank deposits, call money borrowings, CDs (Certificate of Deposits), borrowings under LAF (Liquidity Adjustment Facility). Contingency funding plans are in place to address liquidity risks in each adverse scenarios. In case of management of Operational risk, based on the

RCSA exercise and other modes of risks analysis, the Bank proposes to set up Key Risk Indicators (KRIs) report which enables management to monitor regularly and mitigate risks.

Risk Reporting

Study and analysis on the movements of ratings have been conducted to evaluate the downgrades/upgrades, the results are placed before the top management. Similarly, Value-at-Risk both normal and stress is calculated and the same will be placed before the Chief Risk Officer (CRO) daily for a review. The backtesting and stress testing are conducted on a monthly basis and the results are placed before the subcommittee of risk management. The high risk events, near miss events are reported to Operational Risk Management Committee on a quarterly basis and the minutes of the deliberations of the subcommittee are escalated to the Risk Management Committee of the Board and Board of Directors for review.

Review & Identification of Risks

Internal audit function reviews the risk management processes and this aspect is covered in the risk management policy framework. Internal audit is treated as the last line of defense and the same is considered as important for the implementation and validation of risk management framework. The internal reviews of risk management process for credit risk, market risk, liquidity risk and operational risk is conducted annually. The findings of the internal audit are escalated to the Audit Committee of the Board (ACB) for review and further directions.

Key Risk Indicators

Key Risk Indicators have been identified for key risks/ risk areas. The list of KRIs for significant risks is attached as Annexure.

Alignment of risk process with ISO 31000

The Bank has adopted the risk management process in line with ISO 31000 which can be described in following steps:

- Step 1 – Establish the context
- Step 2 – Identify the risks
- Step 3 – Analyze the risks
- Step 4 – Evaluate the risks
- Step 5 – Treat the risks

Whistle Blower Policy

Bank has in place “Whistle Blower policy which accepts such complaints with responsibility of keeping the identity of the informer secret. This Policy is formulated on the guidelines issued by CVC as well as to comply with the Clause 49 of the Listing Agreement with SEBI effective from 1st October 2014. The SEBI guidelines requires to establish a vigil mechanism for directors and employees of the Bank to report their under specified concerns to the Chairman of Audit Committee in exceptional cases while providing sufficient safeguards to the informers.

Combining the guidelines of the two regulators viz. CVC & SEBI in tandem, the scope of the policy covers malpractices and events

include –

- a) Criminal offences e.g., fraud, corruption, misappropriation, theft etc. that have been committed/happened or likely to be committed/happen,
- b) Violation of code of conduct/ethics, Miscarriage of justice occurred/likely to occur,
- c) Bank funds used in an unauthorised manner,
- d) Abuse of authority at any level,
- e) Sexual or physical abuse of a member of staff, service recipient or service provider
- f) Discrimination against a member of staff, service recipient or service provider on grounds of sex, caste, religion or disability
- g) Deliberate concealment of information relating to any of the above.
- h) Any other form of improper action or conduct.

The protection given as per the policy is as follows:

- a) Ensuring confidentiality in the investigation.
- b) Protecting, as far as legally possible, the staff member's identity.
- c) Offering a staff member leave of absence while a matter is investigated.
- d) Relocating the staff member or other staff to a different work group or department

Strategy for managing Risks

The strategies adopted by the bank to manage risks are as follows:

- i. To protect the bank against unexpected losses and to contribute to income stability via independent identification, assessment and understanding of various risks.
- ii. To develop a risk map which will identify and rank all significant risks bank is facing and assist the achievement of the bank strategy through pro-active risk management.
- iii. To allocate clear roles, responsibilities and accountabilities for risk management.
- iv. To implement risk mitigation measures to address risks and provide sufficient capital to mitigate risks.
- v. To create transparent, objective and consistent information system of the various risks as a base for reasonable decision making.
- vi. To establish a structure that will help the bank to realize the connection between the business strategy and the operations on one hand, and between the purposes of risk control and monitoring, on the other.
- vii. To facilitate compliance with best practice in corporate governance, ensuring that the appropriate disclosure statement are issued within the annual Financial Statements
- viii. To raise awareness of the principles and benefits involved in the risk management process and to obtain staff commitment to the principles of risk control. ■